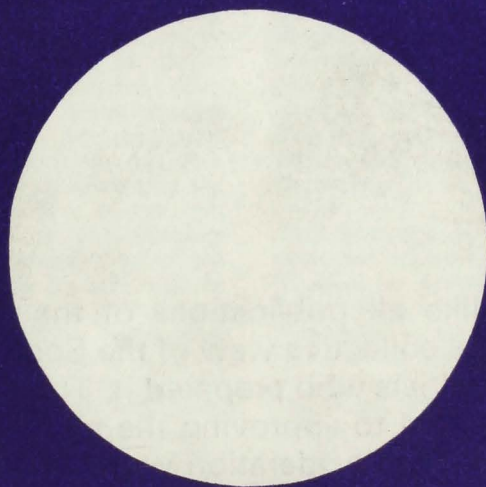


Europe: the price is too high

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I. introduction

The economic case against Britain's entry to the Common Market is so strong that a very substantial political gain would need to be shown to counterbalance it. Perhaps those who believe in entry for political reasons may be unaware of the economic objections, or may not have realised their significance. The economics of the EEC are less easy to grasp and less stirring than the politics, but the implications for people's welfare are so great that every politician or voter would find it well worth his while to make the effort to understand them. It is arguable that one of this country's major failings is that it has for far too long divorced its political objectives from economic reality.

What justification is there for discussing our entry at all under the present circumstances? After all, it could be argued that we will not be allowed in during de Gaulle's lifetime. Why not therefore forget the whole thing until it becomes relevant again? There are two answers to this. The first is that de Gaulle, whatever he may believe, is not to be equated with France. The French people, particularly the peasants, stand to gain considerably from British membership of the EEC (although admittedly most of them have not yet realised this fact). Faced with a choice between some £200 million per annum and any amount of "gloire" within the councils of Europe, they are understandably likely to choose the former. Before this happens, however, it is vital that we know enough to decide under what circumstances and with what conditions we are prepared to enter. If we stop discussing the Common Market there is a danger that we will feel towards it like children locked out of a sweet shop; when the door is opened a crack we will rush in with shrieks of infantile joy. If this happens we are likely to receive the nastiest shock since Hansel and Gretel, in rather similar circumstances, discovered that gingerbread houses are not all they seem. Secondly, in numerous situations where our political or economic interests clash with those of some or all of the Six (as they did in the Kennedy Round, and as they do in enforcing the blockade of

Rhodesia and maintaining an army in Germany) our diplomatic position is enormously weakened by the knowledge that we are simultaneously pleading to be allowed, sooner or later, to enter the EEC and must therefore offend no one. It is difficult to negotiate effectively from a kneeling position.

All of these losses and indignities would be worthwhile if one were absolutely convinced that entry to the Common Market was necessary to our economic wellbeing. But this pamphlet argues that joining the EEC on any terms is merely one among a number of possible alternative economic strategies open to us, while joining on the terms we are likely to get (that is to say joining "unconditionally" as the Tories and Liberals advocate) will do this country great and probably permanent economic harm.

In one sense it is unrealistic to examine the consequences to Britain of joining the Common Market immediately and without conditions. The Government is committed to safeguards for various interests and all parties to the negotiations will insist on a transitional period. Analysing the consequences of entry without conditions is a way of determining those needed. The only concession that would undermine our case would be that the Common Agricultural Policy (CAP) should be abandoned or that it should not apply to Britain. This is simply not on. The British policy of buying in the cheapest markets would have to be abandoned. Concessions might be obtained to satisfy British farmers, but not British consumers.

The existence of a transitional period does not affect our conclusions at all. There is no evidence that a steady cumulative drain of £100 million a year for five years would in any sense be better in the long run than the immediate loss of £500 million suggested by the Prime Minister. Ultimately the £500 million has to come anyway, although the figure could be considerably larger than this. It might even be argued that the sudden sharp loss might force an adjustment, while the slower drain prevented it.

2. medium term economic effects

The institution of the Common Market which will do the most damage to our economy if we joined is the CAP. The name is misleading since it suggests that it is only of interest to farmers, whereas it affects us all: as consumers by increasing food prices, and as workers by causing severe difficulties to the balance of payments. The major features of this policy and its effects on us are relatively simple to understand although, like many EEC institutions, the details are intolerably complex. It may be that past attempts to explain the working of the EEC have anaesthetised people, thus explaining the torpor they fall into whenever the subject is mentioned.

Over one fifth of the labour force in the EEC is employed in agriculture as against 4 per cent in this country. All of these workers produce a wide range of food products much less efficiently than the farmers of Australia, New Zealand, Canada, or the United States, but for reasons that seem good and sufficient, all European governments feel it incumbent on them to shield their workers from the cold blasts of competition. Because she has so few farmers, Britain can protect them without forcing consumers to pay high prices for food. Food is sold in this country at the prices on world markets (that of New Zealand, Canada, and so on) and the difference between this price and that needed to keep British farmers in comfort is paid to them by direct subsidy. In Europe the combination of a large peasantry and an inefficient system for collecting direct taxation makes it impossible to subsidise agriculture in the same way. Instead tariffs are imposed on imported foodstuffs, thus forcing prices to a level high enough to keep the average peasant in business.

There is no possibility of the EEC coming over to our system of agricultural support, so if we joined we should have to adopt theirs. This means that our food prices would rise considerably. One might think that this would be a mere technical detail: we would have the money saved on supporting farmers (the direct subsidies) and, more important, the revenue from the tariff on our food imports. We

could use these funds to relieve the burden on those who are hard hit by the increasing price of necessities. Unfortunately this is not so. The terms of the CAP are such that, far from being able to use the money we get from tariffs to do anything in this country, nine tenths of it must be paid immediately into a Common Market fund; most of which finishes up in the pockets of French peasants.

In other words we have to pay large sums in scarce foreign currencies to the EEC for the privilege of being allowed to buy dearer food. This will increase the cost of living, which will in turn lead to wage increases. These wage increases will undermine the competitiveness of our exports—a competitiveness gained by devaluation. We will also lose the considerable advantages our exports still receive in a number of Commonwealth countries, a not unreasonable retaliation since we will be discriminating against them in favour of Europe. Prior to devaluation the Prime Minister estimated that the direct effect of the CAP would be a drain of £200 million a year on our balance of payments and that all the extra effects would increase the loss to about £500 million. Devaluation has changed these calculations. The direct cost will be some 8 to 9 per cent higher, say £220 million, and the total cost, on the most conservative estimates will be somewhat higher too, perhaps by £50 million. The final twist of the knife comes when you consider what an annual drain of this magnitude on the balance of payments will do to the economy.

As a result of our accumulated balance of payments deficits over the period 1964-67 and the speculation against the pound consequent upon them, we have incurred vast debts to foreign monetary authorities. To pay these off, as the Chancellor has made clear, we need an improvement in the balance of payments of £500 million in 1968 and an annual surplus of the same magnitude for a number of years thereafter. The competitive advantages given by devaluation might enable us to do this, providing we can hold down home consumption

and wage costs. Joining the Common Market would undermine our competitive advantage so painfully won and put us back to the sort of balance of payments position that we have experienced over the last few years. We would have to meet this either by further bouts of severe deflation and lost production from which we have been promised salvation, or by further devaluation. The consequences of this alternative course are almost too awful to contemplate; suffice to say here that it wouldn't work. Either way the poorest sections of the community suffer: precisely those people who have been most affected by the rise in food prices we have already discussed. These economic arguments are examined in greater detail below.

Agricultural policy

The British agricultural policy and the Common Agricultural Policy (CAP) of the EEC have the same aim—to safeguard the incomes of the farmers, but the methods adopted to achieve this are different. Less than 4 per cent of the British labour force is employed in agriculture and there is effectively no peasantry. The EEC, on the other hand, is largely self sufficient in agricultural produce and a much larger percentage of its workforce is employed in agriculture (over 20 per cent in France, about 10 per cent in Belgium, 12 per cent in the Netherlands, 15 per cent in West Germany, and 30 per cent in Italy) and it has a large and politically significant peasantry. Against this background the British agricultural policy makes sense for Britain and the CAP for the EEC.

The British policy is basically to import agricultural produce tariff free from the cheapest source and to protect the incomes of British farmers by subventions out of general taxation. This is done by fixing a "guaranteed price" for each agricultural product and paying farmers "deficiency payments" being roughly the difference between the guaranteed price and the world market price for the product. Guaranteed prices are fixed annually in negotiations between farmers' representatives and the Government.

AGRICULTURAL SELF SUFFICIENCY, 1964-1965

	EEC %	UK %
grains	87	48
beef and veal	86	72
pig meat	99	61
eggs	98	94
milk	101	101
butter	102	9
cheese	95	44
sugar	106	29

They are set at levels which are thought to give farmers a reasonable return for the labour and capital employed in farming. Desired adjustments in the structure of British agricultural output are obtained through adjustments in the relative levels of guaranteed prices for those individual products to which the system applies.

This is the basic principle of British agricultural policy. It does not apply to all products. In milk, for instance, the farmers return is ensured partly through restriction of output by the statutory monopoly of the Milk Marketing Board. Restriction of output is also important in the support of sugar beet, eggs and potatoes. Also some agricultural produce from non-Commonwealth sources pays low tariffs. Sugar imports are subject to a quota system (this is coupled with favoured prices for overseas suppliers) and tariff quota arrangements protect horticultural producers from seasonal fluctuations.

The guaranteed price system is only part of the British agricultural policy. Farmers also receive a number of fixed subsidies aimed basically at improving the structure of agriculture and eliminating the smaller holdings (improvement grants, ploughing subsidies, and so on). The guaranteed price system has involved the Government in an indefinite and open ended commitment in the sense that any fluctuation in world agricultural prices has been reflected in the amount of deficiency payments. Because of this, recent policy has laid more stress on grants to improve agricultural efficiency and less on guaranteed prices. But changes have

so far been small. The cornerstone of British agricultural policy is still the deficiency payments system. Any suggestion that Britain is moving naturally towards the Continental system and that this reduces the problems of entry (see T. K. Warley, *Agriculture: the cost of joining the Common Market*) is optimistic in the extreme.

The basic principle of the CAP is that the farmers' income should be obtained from the market. To achieve this a target price is set for each product at a level which will provide an adequate return for the less efficient producers within the community. Any imports into the community pay a levy or a tariff (or a combination of the two) equal to the difference between the world market price and the target price. In addition to this protection from external competition there are two other provisions for keeping up prices. An intervention price is fixed a few per cent below the target price and if prices within the community fall to this intervention level the agricultural authority of the community, FEOGA (Le Fonds European d'Orientation et de Garantie Agricole) initiates support buying operations. The very high level of target prices set carries the danger of over production and, indeed, there is provision in many products for what, in the strict economic sense, must be called dumping. From the point of view of the non-EEC agricultural producer this provision is nothing short of scandalous. Not only is he excluded from a major market in favour of people who are often less than half as efficient, but prices in the markets that remain to him are forced down by subsidised exports from within the EEC; in this way overproduction by the over protected and inefficient EEC producers is used to further reduce his income.

This is the general pattern of support arrangements under the CAP. The details vary considerably between individual products. In some cases the dumping provisions do not apply and in others there are no intervention arrangements. In some products, notably pig meat and eggs, arrangements are not yet fixed. In

only one product, sugar beet, where the extreme protectionism has met with serious international criticism both within and without the EEC, is there a system of production quotas.

In addition to these protective arrangements FEOGA also disburses grants and subsidies for the improvement of the structure of agriculture in the member countries. Funds available for this purpose are limited to £115 million per year until 1969, when the CAP comes up for review. The main emphasis of the CAP is on the price support arrangements.

The finance for the CAP comes from two sources; the revenue from the levies and tariffs on agricultural imports and, since this is inadequate, by direct budgetary contributions from the member countries on a scale roughly proportionate to the benefits they derive from the CAP. The operation of the policy is the responsibility of FEOGA. For this purpose it is divided into two sections—a guarantee section to run the support provisions and a guidance section, to control the improvement grants. Member countries pay 90 per cent of the proceeds of the levies and tariffs to FEOGA. It has been agreed that all the proceeds of the levies and tariffs will be paid to FEOGA as from 1970. This is not negotiable.

The two systems can be contrasted quite simply: Britain follows a cheap food policy, the EEC a dear food policy. The cost of agricultural support in Britain falls on the Exchequer, and this comes out of general taxation. Since taxation is progressive, the burden falls most heavily on the rich. The cost of agricultural support in the EEC falls largely on the consumer and, since food is a necessity, is inevitably regressive. The British system makes sense for Britain. The EEC system makes sense for the EEC. In the main the poorest sectors of the European communities work in agriculture. Hence in Europe the poor benefit as producers from the high price of foodstuffs. In Britain the poorest section of the community are not in agriculture, or if they are, they are workers and not proprietors. Hence they would suffer from high agri-

cultural prices. For a country in Britain's position the CAP would be not merely inappropriate but socially malicious.

cost of living

Adopting the CAP therefore would lead to rises in food prices. The extent of price rises to the consumer is uncertain even on the assumption that we get no concessions. This is partly because trends in world food prices are uncertain, partly because support arrangements for some products are not finalised, and because the reactions of retailers to rises in the prices of the products and of food processors to price increases in their raw materials are unpredictable.

The British Government, on some fairly conservative assumptions, puts the rise in retail food prices at 10 to 14 per cent, which represents about $2\frac{1}{2}$ to $3\frac{1}{2}$ per cent in the cost of living as measured by the cost of living index. How much these calculations are affected by devaluation is not clear. For those products where our food producers devalued with us, the rise in prices, if we joined the EEC, will be greater than this figure; where our suppliers did not follow our devaluation the original estimate will be unchanged, since devaluation has done nothing to alter the relative inefficiency of EEC agricultural producers. Hence the expected rise in food prices and hence also in the cost of living post devaluation is higher than pre-devaluation. A (crude) revision of the estimate would make the rise in food prices 12 to 15 per cent and the rise in the cost of living 3 to 4 per cent. This strengthens the argument against entry and it should be remembered that the figures quoted below are on pre-devaluation prices and quantities and are therefore consistently underestimating the harmful effects of the Common Market.

The extent of the rise would vary between products. The only reductions to be expected are in fruit and vegetables. The largest rises are to be expected in products that are of the greatest importance to the poorest families. Butter,

sugar, bread, beef and, with less certainty, pork will be among the hardest hit. Butter prices should double and the others should go up between 15 per cent and 40 per cent. The rise in the cost of living of the poorest sections of the community would be much more than $2\frac{1}{2}$ to $3\frac{1}{2}$ per cent, since they spend a greater proportion of their incomes on food. A family of two adults and four children with a household income after tax insurance, etc. of £15 per week would be approximately on what is generally regarded as the poverty line. Extrapolating from the figures in the 1964 family expenditure survey, and adjusting for rises in food prices that have occurred since then, this family could be expected to spend about £7 2s a week on food. For a family of four children, the National Farmers' Union estimates the rise in the weekly food bill to be of the order of 25s (NFU, "British agriculture and the Common Market", *Information Service*, November 1966). This would represent a rise in the weekly food bill of $17\frac{1}{2}$ per cent and on the assumption that the family spends all of its income, a rise in their cost of living of 8 per cent. If food prices rise only by 10 per cent (the lowest of the Government's estimates) this would mean a rise in their cost of living of about 5 per cent. Against these rises must be set some unknown falls in the prices of other products notably of consumer durables and, perhaps, leather goods. Taking the most generous definition of the categories affected by tariff cuts, expenditure on them by such a household would be about £3 a week. So their prices would have to fall by about 12 per cent to offset even the smallest of the possible rises in the cost of living of the poor through higher food prices. At best, a 1 per cent or 2 per cent fall from trend in these items would be just possible.

This extra cost for the consumer would be coupled with a saving to the Exchequer from the abandonment of the existing British system of agricultural support, and it has been often argued that this saving could be used to offset the rise in the cost of living. The total amount available is open to some diverse

estimates and some uncertainty. The total amount involved in deficiency payments would be saved.

The amount of these payments fluctuates considerably from year to year; the present value is about £150 million. There would also be some savings from structural grants though the amount involved here is not clear. Some payments would be coming to Britain from FEOGA, but some Exchequer grants to farmers would still be allowed under the CAP. Geoffrey Robinson (*Europe: problems of negotiation*, Fabian Research Series 263) suggests the total savings to the Exchequer would be £200 million; T. K. Warley (*Agriculture: the cost of joining the Common Market*), PEP, European Series no 3) estimates that if Britain stays out of Europe the annual cost of deficiency payments and calf, hill cattle and sheep subsidies will be £190 million in 1970 and that "if the whole of this sum were applied to reduce indirect taxation on items entering the cost of living index the rise in the retail price index would be reduced from 2.5 to 1.5 per cent". If the expenditure were aimed at the lowest income groups in the form of reduction in taxation of essentials and in increased income supplementary grants, then some but not all of the hardship could be alleviated without any rise in Government expenditure. Whether this would be done is doubtful. A constraint would be imposed by the deficit on the balance of payments and the Government might welcome any reduction in food imports stemming from generally higher food prices.

Cutting consumption demands that the poorest should suffer. British governments have traditionally placed the problems of poverty much lower on their scales of priorities than the problems of the balance of payments. The feeling has generally been that poverty can be dealt with when the temporary balance of payments difficulties are overcome. But the temporary difficulties have tended to become permanent. The temporary deficit on entering the EEC, if we join in 1970 or before, will follow too many other temporary deficits and will come at a

time when a temporary surplus is vitally necessary.

the balance of payments

Entering the EEC will have a severely detrimental effect on our balance of payments for a number of reasons. First, the operation of the CAP will mean either that we continue to import food from our present Commonwealth suppliers, raise levies on these imports and pay the bulk of the proceeds (if we enter after 1970 all of the proceeds) into Europe, or that we substitute food imports from Europe for imports from the Commonwealth and Latin America and pay for these at target prices. *Either way our balance of payments suffers by the difference between our food bill at EEC and the world market prices.* If the effect on the balance of payments is not this great then it is either because people are eating less or are eating cheaper food, or because our farmers expand their output. If they expand their output (as the Prime Minister expects) they do so at the expense of our present, more efficient, suppliers and, since we pay for the difference in efficiency, ultimately at the expense of the British consumers. Further, since an increase in agricultural production will require a shift of scarce manpower and capital into farming, such an increase will also take place at the expense of our other industries, including export industries. If we do not change our suppliers then it might be thought that we could negotiate to keep more of the proceeds of the levies. The Government has, however, already promised to do nothing so troublesome to our European friends. In practice it seems likely that we will change to continental sources of supply. Overproduction is already a problem in some products and most of the expenditure under the guarantee section of FEOGA has been devoted to dumping surpluses. If EEC prices stay between the intervention and target price then EEC producers will have a competitive (a strange word to use in the circumstances!) advantage over outside producers whose prices are automatically forced up to the target price.

f they do gain the British market then his will save the British Government the political embarrassment of passing on the levies to Europe. In addition to the burden of a higher food bill there will be a direct balance of payments loss from the budgetary contribution to FEOGA. The level of this is a great unknown and one of the Government's few possible bargaining points.

The anticipated rise in the cost of living will lead to rises in wages. This will in turn lead to a rise in prices for British manufacturers. Since this will occur at a time when the tariffs on trade with Europe are removed, the initial balance of trade will be unfavourable to Britain. Also we can expect to lose our preferences in Commonwealth markets since we will have to end Commonwealth preference in Britain. In general Commonwealth preferences in the British market are higher than British preferences in Commonwealth markets. But since Britain has a large favourable balance with the Commonwealth in non-agricultural products, is facing severe European and Japanese competition in several Commonwealth markets and is failing to hold her own despite preferences, the loss of Commonwealth preference will have a further unfavourable effect on the British balance of payments.

A final point is that in manufactures the Common External Tariff of the EEC is in general perceptibly lower than the British tariff. Hence again on this score British manufacturers will be meeting increased foreign competition at a time when they will be faced with rising costs. The net effect on all of these factors on the balance of payments has been variously estimated.

From adopting the CAP alone without allowing for repercussions of the cost of living on manufacturing prices, Warley (*op cit*) puts the cost to the balance of payments at £212 million. In this calculation he assumed that diversion to European sources of supply would be only marginal".

Taking all factors into account the Prime

Minister's conservative estimate of the deficit is £500 million (equals £550 million post devaluation). This assumes a considerable expansion of output by British farmers without this having any effect on our export industries. Depending on one's assumptions the range of possibilities is from £500 million to £1,000 million. A sound central estimate is that of Wilfred Beckerman (*Times*, 8 January 1967) of £800 million.

A deficit of even the lowest of these estimates presents a gloomy prospect. A swing of £500 million in the balance of payments means, as the French have pointed out, another severe sterling crisis. If we enter the EEC any time before 1972 and indeed, on our present form, any time after it, we will still have debts left over from the 1966 and 1967 crises. The deficit will have to be met either by more deflation, in which case unemployment will be added to the rise in the cost of living so that the consumer will see his income fall when the prices of necessities rise, or by further devaluation, entailing further rises in the cost of living. The measures taken to overcome this deficit will damage British growth prospects for some years after entry. The outlook particularly for the poorer classes is bleak.

balance of trade

The most widely publicised consequences of Britain's entry to the EEC is that the tariff walls between us will disappear and we will acquire overnight, a home market of 250 million people. It is this alluring prospect which explains much of the enthusiasm of industrialists and politicians for the whole project. A market of 250 million surely provides five times as many sales opportunities as one of 50 million, and therefore, many say, the increase we may expect in our exports should soon outweigh any problems posed by the CAP. Economics can be a complicated subject and it is often very difficult to spot the fallacies in a long train of reasoning. Luckily, in this case the fallacies are obvious.

Firstly, if we are to define a home market

as the market over which we meet no or low barriers to trade, then our present market is considerably in excess of 50 million; we have free access to the markets of EFTA and what is virtually free access to large parts of the Commonwealth. If we join the EEC then we lose our Commonwealth preference, and, unless all of EFTA joins with us, which it will probably not do, our free access to EFTA markets. Our present home market may be put at about 120 million. Joining the EEC will thus lead only to a doubling of its size.

The second fallacy is more serious. The same thunderclap which opens the markets of the six to our exports opens our markets to the industries of Europe. Undoubtedly trade between us and Europe will increase, though some of this will be at the expense of trade with the Commonwealth, EFTA and other third countries. It is extremely likely that our exports to Europe will increase and that some of this increase will represent an increase in our total exports. But, at the same time that we increase our exports to Europe, Europe will increase its exports to us. The vital question for our balance of payments is which of these two quantities will increase more.

There are a number of reasons why it is impossible to make any definite forecast as to the extent of the gains and losses on trade in the absence of tariffs between Britain and the EEC. Britain has never been in such a position before, and it is theoretically possible that the increased opportunities and enhanced competition will suddenly turn all our industrial geese into swans, all our sleepers into thrusters, although it should be said that there is absolutely no reason to believe that this will happen, and a number of historical precedents suggest that it will not.

In practice the relative success of our exports against those of the Six will depend on three factors: the amount of protection each side gives up, which depends on which side has the higher tariff wall at the moment; the general trend of export competitiveness of the two sides; and the

relative economic growth, or deflation of Europe as against Britain.

Tariffs: There is no doubt that the present British tariff level against European manufactures is in general higher than that of Europe against Britain. The exact degree to which British industry is more protected is a matter of some dispute, but on the usually accepted weightings our tariffs on manufactured goods average about 4 per cent higher than those of the Six. Thus there is an immediate presumption that when all tariffs between us and the Six are dismantled, the export industries of the Six will do better than ours since tariffs will have fallen farther for them than for us.

General competitiveness: There can be little doubt that at the pre-devaluation exchange rate we were not able to compete effectively against the countries of the Common Market. This can be seen from the table below, which shows the decline in Britain's share of exports to different parts of the world between 1955 and 1965. In all cases EEC countries were taking a larger share of these markets and Britain a smaller share. These trends were in evidence long before the Treaty of Rome was signed. The attempts that have been made to compare the relative efficiency of Britain and Europe corroborate this evidence (Sidney Wells, *A trade policy for Britain*, Chatham House Essays, p12). There were very few products in which Britain had a comparative advantage at the previous exchange rate, and the products in which we did have an advantage represented a very small percentage of our exports.

It is to be hoped that devaluation has changed this picture. If it has not then it has been inadequate and has failed. We might therefore hope to compete effectively with the EEC, on equal terms, at our new exchange rate. But we will only remain competitive with the EEC and with every other country if our industrial costs rise no faster than do theirs. This is the Government's justification for the imposition of statutory wage control. Cost rises must not be allowed to undermine our new found competitiveness. But

WEST EUROPEAN EXPORTS

All exports	rest of		
	EEC %	UK %	EFTA %
1955	53.7	23.5	16.2
1960	57.7	19.8	16.1
1965	60.6	16.7	16.3
Exports to USA			
1955	48.5	24.3	18.4
1960	54.1	24.2	14.7
1965	55.3	22.6	15.2
Exports to Western Europe			
1955	58.7	13.5	20.1
1960	62.2	11.4	19.5
1965	65.5	10.6	18.1
Exports to EFTA			
1955	55.9	11.3	22.9
1960	59.1	9.8	21.7
1965	57.2	10.0	24.4
Exports to Australia and New Zealand			
1955	14.6	78.8	6.0
1960	21.0	70.7	7.3
1965	22.9	66.5	8.8

Source: UN year book of international trade statistics.

Adopting the CAP with the wage increases that are sure to follow, will lead to just such a rise in industrial costs and hence undermine our competitiveness. We could compete in the EEC if we didn't have to take on the CAP. But taking on the CAP is going to damage our ability to compete. We cannot expect therefore that an export boom will compensate us for the losses imposed by the CAP. Rather any post devaluation export boom could be brought up with a nasty jolt. It must be remembered that a large balance of payments surplus is required to pay off our outstanding debts. Adopting the CAP will rob us of this surplus. We cannot expect a further rise in exports to fill the gap.

Devaluation through deflation: If the EEC countries grow much faster than we do then our balance of trade position in the short run may not be as bad as expected. But this will not be because our exports will have grown faster, but because our imports, and our overall rate of growth will have been cut back. If stop go has shown nothing else, it has proved that we can improve our balance of payments

position by ceasing to grow. Our balance of payments problems will not be mitigated, or are most unlikely to be mitigated, by an export led boom. In holding that export growth will perform this miracle the PM is being, not for the first time, somewhat optimistic.

Free trade between Britain and the EEC is highly desirable and it should and probably will come, more so now that Britain has adopted a more reasonable exchange rate. But we are opposed to free trade in industrial goods, coupled with increased protection in food products, particularly as this protection is to Britain's disadvantage.

will devaluation help?

Even at our new rate of exchange there is every prospect of our entry to the EEC leading to a balance of payments deficit. Pro-marketeters may be tempted to argue that this is no objection to our joining the Market, since all we have to do to restore the position and attain our pledged surplus is to devalue again. Prior to the November devaluation the belief that the economic objections to joining the EEC could be overcome by devaluation was widespread. There is undoubtedly a temptation to believe that the remedy still holds. Hence it is worth examining closely what is likely to result from a combination of our joining the EEC and devaluing.

Devaluation is not a soft option. It is an instrument of policy used to cure a persistent balance of payments deficit and it works only if it brings a cut in the average person's standard of living. It does this by causing prices internally to rise while, it is hoped, wages are held relatively stable. One supports it not because it is desirable *per se*, but because, under some circumstances, it is the least evil of available options. However, the greater the devaluation, the greater the decline in people's standard of living, and therefore it is desirable to keep any devaluation to the minimum compatible with restoring the country's competitive position in international trade.

To overcome the unfavourable effect of the CAP on our balance of payments would require a devaluation of the order of 10 per cent. In other words, if we joined the EEC, a devaluation of this size would restore us to our present (post devaluation) position. A devaluation works only if most of our competitors retain their currencies at the same value as previously. However, if we devalue again, the chance of other countries devaluing with us is greatly increased. At the time of our November devaluation it was generally accepted that our prices were fundamentally out of line with the rest of the world and our competitors did not follow our devaluation. If we were to devalue again it is less likely that this would be accepted. Some countries would be tempted to follow us, thus reducing the chances of success. A series of competitive devaluations could well bring about the collapse of the world monetary system. But whatever happens to the world monetary system, a further devaluation would certainly bring about another large scale withdrawal by overseas holders of sterling. With our present ratio of reserves to liabilities we would again be forced to resort to large scale borrowing, thus further mortgaging our future growth prospects to the tender mercies of foreign central bankers.

Last November's 15 per cent devaluation should not increase the cost of living by more than $3\frac{1}{2}$ per cent. One reason for the relative smallness of this figure is that a number of our food suppliers (such as New Zealand, Denmark) were so closely linked to us that they devalued with us. This helped to keep down the price of our necessary imports without harming our industry, since these countries are not major industrial competitors of ours. Inside the Common Market, if we had to devalue again, our main food suppliers would also be our main industrial competitors (the Six) who must not devalue with us, or we would make no competitive gain. Thus the increase in the cost of living due to a devaluation, if we got away with it, would be considerably greater in the EEC than out of it. The extra 10 per cent devaluation caused by our entry would probably

raise the cost of living more than our 15 per cent devaluation where we are able to stick to our traditional food suppliers. But the mere fact of entry to the EEC will in any case increase our cost of living by at least $3\frac{1}{2}$ per cent due to higher food prices. Further, this increase is quite independent of the CAP's effect on the balance of payments, and therefore will have to be added to the cost of living increase that would result from the extra 10 per cent devaluation. So, after a 10 per cent devaluation inside the EEC, the wretched British consumer would find himself saddled with an additional cost of living increase of the order of 7 per cent.

However, the consumer, wearing his other hat, is also the producer or wage earner. The success of a devaluation relies on the chance that the workers' wages can be held relatively static while prices rise. Where a $3\frac{1}{2}$ per cent rise in the cost of living could solve our problems, there seems at least a sporting chance that increases in wages could be held within bounds (although many people doubt even this; strangely enough often the same people who support our entry to the EEC). However, when we have so added to our problems that it requires an additional 7 per cent rise in the cost of living to solve them, we are faced with a quite different situation.

It is rather straining credulity to believe that such an increase in our cost of living would not call forth very considerable wage demands, which would quickly wipe out our competitive advantage. This is especially so when it is remembered that the same percentage increase in wages in each of the two cases mentioned would lead to the same loss in competitive advantage. But for instance a $3\frac{1}{2}$ per cent wage increase in one case would be equal to the whole extra rise in the cost of living while in the other it would be about one half of that rise. The prospects for a devaluation accompanied by an increase in the cost of living of the latter magnitude can hardly be sanguine, especially when it comes after our present devaluation when the force of exhortations to the trade

unions, and demands for one final sacrifice will have worn a trifle thin.

capital movements

International movements of capital, particularly short term capital, so called "hot money", are by nature volatile and difficult to predict. Such movements have been a major factor in all the sterling crises of the last decade. The effect of our joining the EEC on movements of "hot money" cannot sensibly be discussed because reasoned prediction is impossible. The situation is a little clearer if we confine ourselves to movements of longer term capital, that is to say, to international investments, directly in industry, in industrial stocks and shares and in long term government bonds and stocks, though some of the latter may be better classified as "hot money". Free movement of capital is a provision of the Treaty of Rome and, in theory at least, it exists between the countries of the Six. There is also virtually no control of capital movements between the EEC and the rest of the world. This is in contrast to Britain, where there is almost total control of capital movements by residents, except to the undeveloped sterling area. Hence, joining the EEC would mean that British capital was freed of some onerous and effective controls.

In the long run, private capital formation in any country is largely a function of investors' expectations about future opportunities for profit. This, in turn, depends to a large extent on the country's present level of prosperity. If this is so, Britain by itself will hardly be likely to act as a magnet for overseas funds looking for a profitable home, when it is in the process of coping with the troubles created by the CAP and its trade deficits with Europe. There is, however, another side to the coin. Britain has by far the most highly developed and efficient capital market in Europe and, with free movement of capital assured, it would be surprising if Europeans seeking funds and those with funds to invest did not make increasing use of the London capital market. These hopes help to explain why

the City is so much in favour of our joining the EEC. But the gains to this country from such an entrepot trade will probably not be very large. The City would take a certain small cut out of the money which went through, but its whole *raison d'être* and future success would be based on finding the most profitable market to invest these funds, and there is every reason to believe that the most profitable market will not be in this country. The relationship between gains by the City of London and gains by the country as a whole has always, in spite of much propaganda to the contrary, been a tenuous one.

There is a further stage to the argument about Britain's attractiveness to capital when it joins the EEC. It is often suggested that when once the whole EEC market is open to products made in Britain, there will be a great inflow of investment, particularly from America, of firms which want to break into Europe, and are delighted to do so from an English speaking base. The most one can say about this argument is that it may be true, but there are reasons to doubt it. If nearness to major and growing markets is important, there is every likelihood that firms would set up on the continent and serve the stagnant British market from there. The whole paraphernalia of investment grants, IDCs and so on, which we have set up to force and bribe firms away from the prosperous Midlands and South and into the slowly growing development areas suggests that there is a natural pull of new investment towards areas of high prosperity. This might suggest that joining the EEC could even lose us some overseas investment, since firms which had to set up in this country to overcome our present tariff barriers might then choose to centralise their activities in prosperous Europe.

Thus joining the EEC would cause a certain inflow of foreign exchange to the City of London, in the form of fees for its services as an entrepot market, and a possible, although perhaps unlikely, increase in American investment here. What do we have on the other side of the ledger as the likely capital outflow?

Here again we can only rely on guesswork, since this country has never before been in a situation remotely like that of joining the EEC. However, the present relative attractions of investment in this country and overseas to British owners of capital can be gauged by the enormous precautions which our Government takes to forbid or impede the transfer of British capital overseas. Ever since the war, investments outside the sterling area have required permission from the Bank of England, which of late has been given reluctantly, if at all. Since Labour came to power, this restriction has also been imposed on the developed part of the sterling area, so that the only area to which capital can, in principle, be exported freely is the underdeveloped sterling area, and this is only permitted because not many people want to invest there.

It can be assumed that the Treasury and the Bank of England would not go to the trouble of maintaining this extremely complicated machinery and earning a great deal of odium from industry and the City without reason. The strength of the disincentives on overseas investment both for individuals and firms are so great and their coverage so wide, that we cannot but believe that there is a great pressure of demand by British owners of capital to invest it in almost any developed country overseas in preference to this country (Susan Strange, *The sterling problem and the Six*, pp24-27).

An indication of this pressure, although one to be taken with some qualifications, is the premium on buying dollars for investment in America. This is now approaching 40 per cent and still rising merrily. In other words, people are prepared to lose one third of their capital merely for the privilege of being allowed to invest it in the US.

Another is the CBI study of the prospects for British industry on entering Europe, where freedom of capital movements was singled out as a major benefit. It is no wonder that owners of capital are usually so much in favour of us joining the EEC.

They almost alone of people in this country will reap genuine unalloyed benefits from our entry, by the simple means of getting their capital off the sinking ship while they still can.

the developing world

It is impossible at this stage to give a definite answer as to how much the Commonwealth and other developing countries (for instance in South America) would lose or gain if we entered the EEC. At one extreme, if all such countries had the same rights to sell to the whole expanded EEC that they have to Britain now, their position would obviously be greatly improved, since the EEC is far more restrictive in its imports of most agricultural products and of simple manufactured goods than we are. At the other extreme, if we simply adopted the EEC system, the position of many Commonwealth countries would be grave while the consequences for some would be little short of catastrophic. The question is which of these extremes is likely to be closer to the truth, and, unlike the CAP on which the EEC's attitude is completely firm, their views on this problem can best be described as vacillating. In principle, the EEC, like us, is pledged to help to improve the economic position of the developing world, which clearly will not be done by limiting their already restricted export markets still further. On the other hand, like us again, only to an even greater extent, the Six have a tendency to forget good principles which conflict with their political or economic interests, and unfortunately, many of the Commonwealth's most vital interests do precisely this. The fate of the Commonwealth depends on the Government's willingness to negotiate toughly point by point before agreeing to join the EEC.

Commonwealth producers of tropical agricultural products should, in general, experience little economic difficulty if Britain joins the EEC. Many of the countries are in Africa and, whether we join or not, they are likely to be seeking at some time, associate status with the EEC as Nigeria has already done. The fear

that association means "neo-colonialist exploitation" has justly diminished. Any country which could stand membership of the Commonwealth has nothing to fear politically from association with the EEC. Both Britain and the EEC permit the import of tropical produce virtually tariff free. The EEC has more non-tariff barriers to trade, such as quotas and internal revenue barriers, than Britain, but there is nothing in the Rome Treaty to make Britain adopt these, indeed practice varies among the Six themselves.

The prospects for the remainder of the Commonwealth are not so good. Those dependent on sales of temperate agricultural produce will lose their markets. This will hit New Zealand particularly harshly and its chances of finding alternative markets seem slender as it has always specialised in catering for the British market. There is little prospect of the UK reaching an "acceptable arrangement" with the EEC on temperate agricultural produce. The most that can be hoped for is a transition period during which the Commonwealth producers are displaced in an "orderly way" by French peasants. Association is out of the question. Non-Commonwealth temperate producers who supply the British market such as Argentina, will suffer similarly.

The position of the Commonwealth sugar producers deserves special mention. These are mainly poor, underdeveloped, and highly dependent for export earnings on sugar and the British market. Mauritius is about as near to an export mono-culture as it is possible to get, and a number of the West Indian producers are almost as restricted. Australia is the only developed producer. At the moment they enjoy quota entry to the British market at a negotiated price which is generally above that prevailing in the world market. The EEC produces a sugar surplus, achieved in the usual way by extreme protectionism. This surplus is a source of embarrassment to them, since it involves them in dumping surpluses on an already glutted world market. The UK market would provide an admirable outlet for these surpluses. The entry of cheap sugar, whose price has not been

raised to astronomical levels by protective devices, into the UK market, if we joined the EEC, would be resisted not merely by the continental sugar growers, but also by the makers of sugar products, since this would represent "unfair competition". Hence the Commonwealth producers would see the loss of the main market for their main export.

The other sufferers would be the exporters of manufactures. The "developed" Commonwealth would lose its preferences in the British market, but more important the underdeveloped exporters of manufactures such as Hong Kong and India would suffer more severely. The EEC has a very restrictive approach to the import of manufactures from developing countries. In the EEC non-tariff barriers are more important than tariffs. If the UK came into line with the EEC on non-tariff barriers then these countries would suffer severely. There would be pressures for such a unification. The plight of French textile producers is worse than those of Britain, and Italy and Germany have fears of cheap electronic goods and some semi-manufactures. If Britain did not follow suit then these products might find their way into Europe by re-export from the UK. As with sugar, some of the poorest nations would be among the hardest hit by this. For example, it is estimated, on conservative assumptions, that Britain's unconditional entry into the EEC would cause India's exports to decline by 9 per cent (Dharma Kumar, *India and the European Economic Community*, Asia Publishing House, 1966). Furthermore, since economic development is tied up with the growth of manufacturing activities, other underdeveloped members of the Commonwealth are likely to have their growth prospects damaged by Britain's entry.

other issues

There are a number of issues about which a great deal has been written, but which are really secondary to the main economic problems of entering Europe. These may be of importance to particular groups and interests and they may

become important at some time in the future.

Balance of payments: According to the Treaty, policies to cure balance of payments deficits require the approval of the Monetary Committee, and if, as can happen, the deficit country is receiving credit from the other members, then these member countries will have a say in what corrective measures are to be used. As the recent German and French depressions have shown, these countries are even more conservative and "orthodox" in their approach to budgetary policies than are British governments. The European response to balance of payments difficulties will be deflation, which on past experience should suit Britain fine. Should more rational and radical measures be sought, however, Europe will place some limitations on our freedom of manoeuvre. Import controls will be inadmissible and exchange controls and tariffs will only be possible for very short and pre-determined periods.

Regional policy: It seems possible that both the Regional Employment Premium (REP) and the control of location through the Industrial Development Certificates (IDCs) would be inadmissible within the EEC. Both are apparently in contravention of the Treaty of Rome. It is true that all of the Six pursue active regional policies themselves, but the methods used are those of grants and tax inducements to firms who move to development areas. Tax inducements are of the form of accelerated depreciation, not employment subsidies. The position on regional policy is really far from clear, although the Prime Minister on his grand tour of European capitals, claimed to have received the assurances on regional policy that he sought.

Even if this is so, it might still be argued that joining the EEC would reduce the effectiveness of both IDC policy and REP, even if the policies themselves were maintained. If you were refused an IDC in London then you would in the Common Market be free to set up anywhere in Europe, and if you were seeking cheap

labour, then you would go to Italy, not to Scotland. There is obviously something in this; British regional policy, insofar as it has worked, has done so because the Board of Trade has actually been able to limit the number of areas where new developments were permitted. With a free flow of capital to Europe it could not do this. It might also be the case that with a European market, the development areas would become even less attractive. Certainly, this country's economic focus would seem likely to shift even more to the South East than is the case now. Finally, if we are forced into the sort of deflationary position which the working of the CAP makes almost inevitable, it will, as always, be the development areas which are hardest hit, only this time there would be less money than usual available to alleviate their position.

Economic planning: Although the EEC is in favour of planning in principle, and produces a great deal of paper on the subject, at Community level almost nothing of practical importance is achieved. The countries of the Six tend to retain the attitudes towards planning they had before the Treaty of Rome was signed. Since this country also favours planning in principle but in practice often acts purely out of expediency, there is no reason to believe that we would not fit perfectly well into the EEC planning set up.

British farmers: British farmers are one of the most pampered sections of the community. Without elaborate support sections of the industry would scarcely exist. It is probably impossible to justify their existence economically and the non-economic defences of the farming community are largely unsound. What matters therefore is not whether British farmers will continue to be kept in the manner to which they have grown accustomed, but whether it is going to cost the community more to keep them. The White Paper on *The common agricultural policy of the European Economic Community*, (Cmnd 3274) concludes that in aggregate, net farm income will not be much affected. There will be some

marked changes in output patterns through changes in profitability of individual products. Cereal growing should become much more profitable. Beef production would also become more profitable. Other livestock production is more doubtful; prices should rise, but the prices of foodstuffs will rise also and the net effect is unclear. Sugar beet production will become more profitable but quota limitation of output will probably apply. The main declines in profitability will be in dairying, in egg production and possibly in horticulture. Joining the EEC should favour the cereal areas and the beef growers against the dairying areas. Coupled with this it should tend to favour the large farmers over the small.

The hill farmers and the horticulturalists seem likely to be the main sufferers, though the fate of the former group will depend on what happens to the various direct grants that they at present receive. If they are discontinued they may be replaced by subsidies from the guidance section of FEOGA.

Taxation: The Treaty of Rome envisages the equalisation of tax arrangements within the economic community. The basic difference in taxation systems between Britain and the Continent is that the British purchase and corporation taxes are replaced by a turnover tax. In practice this has had a high incidence on consumers, as businesses have been able largely to pass it on in high prices. This turnover tax was one of the chief benefits seen by the CBI in their assessment of prospects for them in the EEC when they mentioned a system of taxation "more conducive to enterprise and initiative . . ." It seems highly probable that if we went into the EEC we would eventually adopt a turnover tax and that this would be more regressive than our present system of business taxation.

However, this is a long term issue, since it is quite noticeable that, despite much discussion and resolution passing, tax harmonisation within the Six is advancing at a snail's pace. Since the practices of each member of the Six tend to be more similar to those of the other EEC

countries than ours are to any of theirs, it is probably a good working generalisation that aspects of harmonisation that are difficult to achieve without our membership, would be more difficult still if we were a member. The EEC's taxation policy cannot therefore be considered as a major barrier to our entry.

Sterling: The French have been saying that membership of the Common Market is incompatible with the continuance of sterling as an international currency. This does not seem to us to be true, or, if it is so, then it is because the continuance of the international role of sterling of itself is impossible. It will be interesting to see how, if at all, our devaluation will affect this role. If the Government is determined to limp along under the burden of its past glory, then there is no reason why it should not do so as well within the Common Market as without. The countries of the Common Market have played an important part in propping up the pound. Because of this they have had a considerable say in the formulation of British economic policy. Things could continue without any fundamental change if we were within the Market.

3. long term economic effects

There are so many unknown factors determining the long run growth of economies that it is impossible to be absolutely certain of anything. Consequently, any quantification of the gains and losses is of doubtful value: the margin of error will be very high and even the direction of the balance itself is in doubt.

In view of the uncertainty which attaches to any prediction, expected long term benefits would have to be very large to make entry, with its certain and serious short term costs, a rational course of action. Even if one accepts the view of the proponents of entry that the balance is positive—that entering the EEC will be of some long run benefit to the British economy—the expected benefits are small and uncertain and that, therefore, far from being a worthwhile and calculated risk, entry into the EEC amounts to an irresponsible gamble.

It is not easy to discover what the economic arguments in favour of joining the EEC are. This is because writers on the subject rarely consider the arguments to have an independent existence. A frequently recurring theme is that joining Europe must be coupled with a new attitude on the part of the entire British people.

British industry must become more dynamic, technologically minded, export orientated and so on. Out dated insularity and nationalism, the cobwebs of a past imperialism, must vanish. Britain must face up to the future. It is never clear whether joining Europe is supposed to be a cause or an expression of this change of attitude. We are told that joining Europe is not enough, yet we are not told what is enough. Old habits and attitudes must go, but it is not clear how they are to be driven out, or that entry to Europe is either a necessary or a sufficient condition for this change of attitude to come about.

Reading between the woolly expressions of hope and confidence, three main lines of argument can be detected: the competitive shock; the advantages of in-

creased size of markets; and the benefits of international specialisation.

the competitive shock

The argument is that British industry has been allowed to become fat and lazy by being protected by high tariff walls. If these walls were removed, and our firms were at the same time stimulated by free entry to the EEC market, this combination of stick and carrot would miraculously bring about an enormous improvement in their efficiency and competitiveness. Of course, such an assertion cannot be categorically disproved, but it can be shown that the whole idea of a competitive shock therapy is probably false, and that even if it were true, it is highly unlikely that joining the EEC is the best means to achieve it.

It should be remembered that British industry has had more shocks over the last few years than almost any other. Each stop period imposed by successive governments has been announced as a sure way to make our industry efficient, and each stop has had precisely the reverse effect. Any tendency towards greater efficiency which might have been fostered by the greater difficulty in selling one's products at home, has always been more than counterbalanced by the disincentive to investment produced by the greater uncertainty. Further, the loss of investment has a cumulative effect in impairing our efficiency, so there is every reason to assume that if we are uncompetitive in the short run, we will be still more so in the long run.

If we once overcome our masochistic urge to seek painful shocks and cold showers, we find that this argument resolves itself into a variation of the hypothesis that generally lower tariffs and wider markets are conducive to efficiency. We would not argue with this in general, but it is then worth asking what is the advantage of joining the EEC, with its high tariffs on imported agricultural produce, when we stand a very good chance of getting international tariff reductions through such mechanisms as the Ken-

edy Round without having to lose £500 million or more per year for the privilege.

Increased size of markets

It is argued that the home market is too small for the optimum size of plant in some industries. If we joined the EEC the market size would be larger; "economies of scale" could be realised and hence prices would fall. This is clearly not true for many British industries and indeed the argument is generally claimed to apply only to industries based on the "new technology", where "mass production of complicated products" is important. Uwe Kitzinger lists the industries to which this argument applies as being: "aircraft production, the car industry, the large consumer durables like refrigerators and dishwashers, office machinery and electronics" (*The challenge of the Common Market*, 5th edition, p107).

It is further argued that these industries have a greater importance than their present contribution to total output and exports would suggest, because these are the products of the future on which any future growth of the British economy must depend.

For a restricted range of industries it may be true that our home market is too small: there is some evidence for this. But joining Europe need not do anything to improve this situation. The result of removing tariff barriers may well be merely that European firms increase their markets at the expense of British firms and not vice versa. Clearly which way the advantage will go depends in the first instance of the relative efficiency of British and European firms and, over time, on the movement of relative costs between Britain and the continent. The act of joining the EEC will not in itself lead to costs moving in favour of British industry because, in all of the industries in Kitzinger's list, British tariffs are higher than continental ones. Hence, all of these industries will lose more than they gain. The firms concerned may believe that their increased sales to Europe would more than compensate for the

increased competition in their home market, but in view of the higher costs imposed on this country by the CAP it is hard to believe that this would happen.

The whole question of what is meant by a "home market" is far more complicated than it appears. For instance, even if we were within Europe, fiscal changes or deflationary action by other members of the EEC could have an effect on our markets very similar to that of a tariff increase. Equally, whether we join the EEC or not, the effects of the Kennedy Round and the general trend of world trading policy seem almost certain to bring about a general lowering of tariff barriers, and therefore an increase in the market open to our penetration. The important point to grasp is that there is no simple choice between a "home market" of 80 million (EFTA) and one of 250 million (EEC). Instead there is a vast series of gradations, depending on the tariff, fiscal and economic policies of almost every country in the world, which together determine the markets in which we can sell our goods. When this is understood, the simple equation, "We accede to the EEC to increase the size of our home market" can be recognised as the sham it is.

benefits of international specialisation

This is the most general and most important of the alleged gains. It is the basic economic gain from free trade arising where countries specialise in the products they produce most efficiently, exporting these and importing the specialities of other countries. This has been an important source of economic growth in post war Europe where, as a result of the removal of tariffs and quantitative restrictions, trade has grown at a faster rate than domestic products.

Britain would derive this benefit from joining the EEC, if joining was a move in the direction of free trade. It is, however, far from clear that joining does constitute a move in this direction. Undoubtedly, joining would involve the removal of tariffs against many of our exports in

a major market. Furthermore, the EEC external tariff in most manufactured products is lower than the British tariff, so that on the average these gains within the EEC are not counterbalanced by increased discrimination against the rest of the world. But the EEC is most protectionist in just those products—textiles and simple manufactures that are produced by developing countries and temperate agricultural produce (food) where comparative advantage most decidedly does not lie in Western Europe. In these products, most notably in agricultural produce, the British system is more liberal. Hence against any gains from freer trade in many manufactured items must be set the losses resulting from greater protection against the products of developing countries and from discriminating against the low cost food producers. If our joining the EEC leads to an expansion of output by British farmers this will be far from the unqualified gain most people seem to imagine. The manpower and other resources we are forced to shift into agriculture could be more efficiently employed elsewhere, while we continued to buy our food from the most efficient food producers, such as Canada and New Zealand. Insofar as joining the EEC does give gains from freer trade, these can be obtained in other ways without the accompanying disadvantages.

the technological revolution

The Prime Minister has claimed that joining the Common Market will lead to a technologically based revolution in British industry. This sounds fine but it does not mean much. The two most feasible interpretations that can be put on it are that joining Europe will lead to a rapid growth of the industries based on "modern technology" such as those in Kitzinger's list quoted above and that joining Europe will lead to a more rapid growth in productivity in industry generally. The first probably stems from the size of the market argument already considered or that coupled with the "competitive shock" one. The second has no apparent rationale at all. The extent to which we advance our technology de-

pends on our rate of investment. This in turn depends on, and influences, our rate of growth. We know that productivity would be higher and techniques more advanced if we grew faster, but there is no reason for thinking that joining the EEC would make us grow any faster.

save us from the Americans

Political anti-Americanism is an important motivating factor explaining the support of a number of people on the far left and the far right for our joining the EEC. We do not wish to comment here on this aspect of the case for the Common Market, but there is a parallel economic argument which is current in some quarters, and which deserves examination. The argument is roughly as follows: "America's technical superiority, based largely on the size of its home market, is so great that unless Britain enters Europe, American firms investing in Britain will increasingly take over key sectors of British industry, thus eroding our scope for taking politically independent action and eventually turning us into an American colony." There are two basic assumptions here: that American investment in this country is a bad thing, and that our joining Europe would stop it. The first of these is, to some extent, a matter of taste, but it can be shown that there is in practice little danger of increased American investment in Britain having the political consequences predicted by the anti-Americans. Any strong and stable government (as opposed to those in the banana republics of central America, which are the examples always brought forward in argument) holds all the cards in any dispute with a private company in its territory. Companies, knowing this perfectly well, usually go to great lengths to avoid offending overseas governments of countries where they have large investments. If anyone is in doubt on this point, they should remember the economic stake this country has in South Africa, and our inability to influence apartheid policy. Further, those American firms which invest here are usually more efficient than their average British competitors, and they do a great

deal both to increase our exports, raise our standard of living and make our economy more competitive—all matters which are supposed to concern pro-marketeters.

In any case, as far as EEC entry is concerned, it matters relatively little whether one is in favour of American investment or not, since there is absolutely no reason to believe that our entry would do anything to diminish American investment in this country. In fact one of the gains from our joining the EEC is supposed to be that more American firms will be encouraged to set up in this country so as to get a foothold in the Common Market. Those who are against American investment should be agitating for Government action to prevent Americans acquiring assets here, not agitating for the quite irrelevant move of joining the EEC.

the EEC is good for you

One of the oldest logical fallacies is the *post hoc ergo propter hoc* argument, that is to say the assumption that merely because one event follows another it is therefore caused by it. A fine example of this fallacious argument goes as follows: "Italy, Germany and France all grow faster than Britain. Italy, Germany and France are all members of the EEC. Britain is not a member of the EEC. Therefore if Britain joined the EEC its economy would grow faster." Many people seem to hold this as an article of faith and will therefore not be affected by mere logical argument. Nevertheless a few facts might do something to shake the certainty of those whose minds are not completely closed.

It is true that our economy has grown far more slowly than that of Germany, France or Italy. It has also grown far more slowly than that of most developed countries, inside or outside the Six. For instance, Portugal, which is in EFTA, and Japan which belongs to no trade grouping, have both been growing faster than Britain, and also faster than most of the Six. Equally, those members of the Six

GROWTH IN INDUSTRIAL PRODUCTION 1950-1958 (1950=100)

country	1952	1954	1956	1958	growth
					%
Germany	126	156	193	211	111
France	110	122	144	165	65
Italy	117	140	164	181	81
Belgium	109	114	132	124	24
EEC	118	138	165	190	80
UK	101	121	121	121	21

source: OECD general statistics

which have been growing faster than us since the formation of the EEC were also growing faster long before the Treaty of Rome was even signed. It would be difficult to ascribe the extremely rapid growth of Germany or France in the fifties to the Common Market, and therefore it is not entirely clear that the (slightly less) rapid growth enjoyed by these countries since 1958 can be so ascribed.

In fact nothing can be deduced about the effect of the EEC on the performance of its members merely from crude comparisons of growth rates. A large number of things determine a country's growth rate and among these the particular tariff structure that it faces is at most of minor importance. Before it can be decided whether the EEC has had any effect the influence of these other factors must be eliminated. The influence of what is clearly one of the most important—the economic policies pursued by the country's governments is particularly difficult to evaluate. The other factors also present problems when one is forced, as one is, to make comparisons between countries—statistics are rarely truly comparable.

GROWTH IN INDUSTRIAL PRODUCTION 1958-1966 (1958=100)

country	1960	1962	1964	1966	growth
					%
Germany	130	146	162	174	74
France	111	124	139	151	51
Italy	125	152	166	193	93
Belgium	118	134	156	162	62
EEC	122	141	156	173	73
UK	115	115	130	136	36
Portugal	120	136	167	180*	80

source: OECD general statistics, 1965

It is not our intention to attempt the exercise ourselves. There have been a number of detailed attempts at assessing the impact of the EEC and none of them has succeeded in showing positively that it has had one, although some of the authors started with the belief that it might have had. (See for instance, Lamfalussy: *The UK and the Six*; A Madalison, *Economic Growth in the West*; B. Balassa, *Trade creation and trade diversion in the EEC*). At the present the EEC has probably not been in existence long enough for one to be certain about it. But if the EEC is good for its present members then its beneficial effect must be very small and slow to appear. Certainly it does not provide us with a reason for making the painful sacrifices of joining. The only sector where the formation of the EEC definitely has had an impact is on agricultural output—at the expense of the consumer.

the EEC in perspective

It is a common misconception that British industry is faced with the choice between perpetual exclusion from the European market by prohibitive tariff barriers and cosy protection within those barriers. This is simply not true. We have already noted that the common external tariff of the EEC is in general lower than the British tariff. Furthermore the Kennedy Round of tariff negotiations has led to a marked fall in this tariff. This in itself should provide a stimulus to trade for some time to come. The Kennedy Round will, in fact, reduce the value of the Common Market to its members. It is not likely that EEC barriers against British trade will become more important in the future, rather there is a good chance that they will become less so. The trend since the war has been for constraints on trade between industrial countries to fall and there is no reason to expect that this trend will not continue. The countries of the EEC have visibly benefitted from this trend, and they are unlikely to be so short sighted as to reverse it. Furthermore they have exhausted the possible benefits amongst themselves (as internal tariffs are now

zero) and if they are to continue to derive benefits from freer trade they must cut tariffs with third countries. Under GATT rules Britain will be a beneficiary. If most favoured nation clauses are circumvented, Britain is an obvious candidate for mutual tariff cutting. With regard to Britain, it must be remembered that the EEC is an important source of supply as well as an important market. The continental countries gain equally with Britain from reductions in tariffs on industrial goods. They will gain at Britain's expense if we adopt CAP; in other products gains are mutual.

Where tariff cutting has lagged since the war has been in the field of agricultural products. Almost alone in Europe, Britain has maintained a policy of free entry for food and raw materials. The beneficial effect of this policy on our industrial costs, even taking into account agricultural subsidies, has done something, although not enough, to counterweigh the expensive luxury of our Government's pretence that we are still a first class military and financial power. By acceding to the Common Agricultural Policy we would lose our only remaining advantage, and at the same time be exposed to fiercer industrial competition. Increased competition may be salutary, but less so if we give ourselves a large handicap before the game starts.

Britain will gain, in the long run many of the benefits of freer trade with the continent even if she stays out of Europe. If she stays out she will not incur the disadvantages of an agricultural policy designed for nations of peasants. If freer trade is desirable, and we accept that it is, then Britain should work for it. Joining the EEC is not a sane way of doing so.

4. anatomy of pro-market opinion

Among the opinion formers in this country, the people who class themselves as the intellectual and social elite, the general feeling in 1967 was running strongly in favour of joining the EEC. But why should so many informed and educated people support a project which has the sort of consequences that we have outlined? This is a question which anti-marketeters must answer if they expect the uncommitted to listen to their case.

political benefits

It is possible to advance a coherent pro-market case on the grounds that, whatever the economic disadvantages, the political gains from entry justify this burden. An examination of the political case for entry would require another pamphlet as large as this one; and this one is confined specifically to economics. Several points, however, do need making. The economic losses of entry are both great and certain; there must therefore be very strong and certain political gains if these are to be worth enduring. We are often told that such gains exist, but there are serious differences of opinion as to their nature. To some people, the attraction is independence from America and the ability to form part of a third force; to others it is the opportunity to act as a bridge between the US and the Six. Some are in favour because it is an anti-communist grouping, others because Britain could help to integrate Eastern and Western Europe. All three main political parties are in favour of joining Europe. They are all, in their several ways, interested in the country's economic welfare, but they often have quite contradictory objectives and attitudes in foreign policy. They cannot all be right about the political gains to be made by joining EEC.

psychological blocks

It seems likely that many of those who support Britain's entry on political grounds are simply unaware of the economic consequences of their policy. Ignorance of economics is no new thing among

our political and social elite. To non-economists the prospect of a direct payment of £200 million a year to FEOGA may not seem daunting; its significance and consequences may not be appreciated, particularly by those with a strong emotional commitment to Europe. We are often told that the EEC is not just an economic union. The answer to this is that, whatever people may wish it to be it *is* an economic union and at present little else. It is the economic union that has the most obvious and foreseeable consequences for Britain.

There was probably a good case for attempting to enter Europe in 1958, and perhaps a case though a much weaker one, in 1962. Sadly, many advocates of entry on those occasions are not prepared to allow changed circumstances to alter tried and tested slogans. This is probably particularly true of the Liberal Party. It initially advocated joining Europe because it was a move in the direction of free trade; it continues to support Europe even though this argument is no longer valid. The basis of their support for Europe may have changes; if so, no one has yet admitted it.

A pro-market argument of little logical but much psychological weight is the argument from despair. Over the last decade the British economy has gone from bad to worse. The desire to alter the trend was probably a major cause of the election of the Labour Party to office in 1964, but far from improving, the situation got worse. It is very tempting to go on from there to say that all expedients have been tried and have failed and therefore joining the EEC is our last hope. The rhetorical "What alternative is there?" is an oft used substitute for argument. The obvious alternative is not joining; and it is the better alternative.

economic arguments

There are a number of people and groups in Britain who would certainly gain economically by our entry to the Common Market, and there are even more

who mistakenly think they would. It is our contention that far more people in Britain would lose than would gain, but it is significant that the gainers tend to include the rich rather than the poor, and the producers rather than the consumers, the lenders of capital rather than the borrowers; in short, precisely those who are most capable of forming and financing efficient pressure groups. When we hear the spokesman for some interest group or other expatiating on the benefits to the country (never, of course, the benefits to himself) that would accrue from our entry to the EEC this thought should always be with us. It might be cynical to question the disinterestedness of, for instance, the CBI, but it would be remarkably naive not to do so. Economic reasons for our joining the Six can be classed as follows:

Benefits to the rich: Any major change in economic policy tends to entail some shift of resources from one section of the community to another. Most of the changes which are certain to follow our unconditional entry to the EEC will tend to shift resources from poor to rich. The large increase in food prices is, of course, regressive in the extreme—the poor proportionately already spend a much greater proportion of their incomes on food than do the rich. But oddly, the increase in food prices will bear particularly on necessities, some luxury foods will be cheaper. It will be of little comfort to the man earning £15 a week who finds his bread and meat dearer to know that hocks and clarets will now be available much more cheaply. The changes in taxation policy should also assist the rich. The Six rely rather more on indiscriminate indirect taxation than we do, such as a turnover tax, while we tend to tax luxuries. Once again, the more we adapt ourselves to the practices of the Six, the greater the shift in resources.

However, this shift in favour of the rich is relatively not of great importance to them, although desperately so to the poor. It merely helps to explain why the dearer food arguments make so little impact on so many "opinion formers" of all parties. Of far greater importance is

the freedom to move capital out of this country, which would almost certainly follow from Britain's entry to the Common Market. The likely effects of this have been discussed above, but it is worth repeating that, at a time when demand and, therefore, in the long run, company profits in this country are likely to be depressed for the foreseeable future, the freedom to invest abroad, where yields are higher, is an extremely valuable one for owners of capital. It is scarcely surprising, therefore, that the CBI is constantly referring to the necessity of freeing capital movements, and pointing this out, a trifle artlessly perhaps, as one of the major advantages of our joining the EEC (*Britain and Europe*, p12, CBI).

Benefits to industries: A number of industries would benefit directly from our entry to the EEC. These include export orientated industries, such as commercial vehicles, which could expand their markets abroad, and industries more highly integrated and efficient than their competitors in Europe, such as the great newspaper combines. These industries would do well if we entered, and the improvement in their profits would be at the expense of Europe, not this country. Such industries therefore have every right to support our entry.

Other industries which would benefit from our entry to the EEC would do so at the expense of the people in this country. For instance, the makers of margarine would gain from an approximate doubling of the price of butter (need one ask where Unilever stands on the Common Market?), but this gain would be at the expense of the consumer, who would be buying more margarine simply because butter was so expensive. The fishing industry has similar high hopes from increases in meat prices.

Finally, there are some industries whose competitors are mainly outside the Six, and who hope to gain extra protection if we join. The cotton industry is the obvious example here, but jute would be in a similar position. Here the British consumer loses again, as he would be faced by higher prices, and severe damage

might well be done to countries a great deal poorer than either Britain or the Six.

There are also a great many industries which think they come into one of the categories mentioned above, but are probably mistaken. For instance, it is not enough for a British industry to be able to increase its export market to be sure of gaining from Britain's membership of the EEC. Increased imports from the Six might well make such an industry lose more on the home market than it gained in export markets. The car industry is very likely to find itself in exactly such a fix. It might appear surprising that industries could make gross and simple errors in their demand forecasting, but by now, this has happened so frequently that it should hardly cause comment. Nearly every industry or major firm which has been asked to forecast publicly its growth rate or market share has tended to exaggerate shamelessly, whether by intent or ignorance is of course another matter. Too much weight should not therefore be attached to all expressions of confidence we hear from industry.

There is an additional reason for doubting industries' estimates of future demand if we enter the Common Market. Nearly all of them contain some assumption that future demand in this country will be expanding at roughly the same rate that it has in the past. However, if we are to lose more than £500 million per annum on the balance of payments, this assumption becomes extremely unlikely. This suggests that even those industries with most to gain from Britain's entry to the EEC might find that the future does not live up to their expectations, while the more marginal cases and especially those with a large stake in the home market, could well find themselves in severe difficulties.

It can be seen that there are a great variety of arguments influencing people in favour of Britain's entry to the EEC. These vary from the most altruistic and idealistic to the lowest pursuit of sectional advantage at the expense of the rest of the community. None of the argu-

ments carry much weight objectively when measured against the known severe economic losses that would result from our unconditional entry; but subjectively their strength can hardly be overrated. In an atmosphere of general doubt and despondency nurtured by many years of economic crisis and political failure, almost anything which looks like a new initiative will find supporters.

Thus, although it is on the logical plane a perfectly sufficient condemnation of our unconditional entry to the EEC to show, as we have shown, that this would do great positive economic harm to Britain as a whole, in the short term, and little good in the long term, this does little to shake the emotional attraction of the Common Market. In order to do this, it is necessary to move from the negative aim of describing the disadvantages of EEC membership for Britain, to working out the positive alternatives which are open to us if we do not sign the Treaty of Rome as it stands.

5. the way ahead

It has become almost a ritual to end an argument advocating Britain's entry to the EEC by saying that in any case, we have no alternative. All arguments along these lines are logically most peculiar. "There is no alternative to joining the EEC if we want to pay £200 million a year to inefficient French peasants" is probably true. "There is no alternative to joining the EEC if we want economic growth and expanding export markets" is patently false. At the lowest level there is one alternative to joining the EEC, namely, staying out. Although this pamphlet is confined to alternative economic strategies and their consequences, it should be said of the political consequences that those who argue that Britain cannot be a great power outside the EEC are quite right. Their mistake lies in believing that Britain can be a great power by joining the Six. Even if political integration were achieved by the EEC, which with or without Britain's membership appears increasingly unlikely, we should form only a relatively small part of a potentially major power, and a part which, due to our economic difficulties, would probably not exercise great influence. In the more likely event of political integration failing, Britain in the Market would play exactly the same political role as now except that our straitened circumstances due to the loss of more than £500 million a year would limit our power still further. We have no alternative to becoming a second class power, however we should ensure that we are a prosperous and therefore potentially influential second class power.

economic strategy

Our consideration of the economic arguments for joining the EEC showed that there were two basic types—those that stressed the favourable impact of freer trade, larger markets, and so on, on the performance of the economy, and those that stressed the impact of entering the EEC on British economic policy. Joining the Common Market is in no way a substitute for good economic management. Some people have seen the EEC as a panacea for all economic ills, but inso-

far as our economic ills stem from inappropriate government policies, joining the EEC or any other trade strategy is simply irrelevant, except insofar as joining the EEC means a greatly increased deficit in the balance of payments.

Many economists believe that bad economic management by successive governments has been more important than tariff barriers, indolent workers, incompetent managers, or any other factor in accounting for our poor post war growth performance. Continual rounds of stop-go have damaged investment and have distorted the responsiveness of the economy to economic stimuli. If there is any truth in this view then the EEC is a red herring serving to distract attention from the real problems of how the economy should be governed. There can be little doubt that we would be better off without stop go, whether within the EEC or not. We further believe that the abolition of stop go *would* do much more for our growth performance than any extension of free trade or competition.

same as before

The Government's attempts at deflating us all to prosperity, like those of the Tories, have failed. Devaluation has given us a breathing space. One hopes that in future we will attempt to achieve prosperity through growth rather than through the purge of fire, an approach more satisfying to the rational mind if less so to the puritanical soul.

The gloomiest economic prospect would be if the benefits of devaluation were frittered away in the continuance of inappropriate economic policies. The abolition of stop go and a conscious decision not to try to act like a first class military, financial and political power now that our resources are inadequate for these roles, would do much to aid our growth rate. The cut backs in military expenditure already announced are steps in the right direction, although it remains a mystery what it is thought can be gained by continuing to play at soldiers in Germany. The key question is whether

measures already taken are adequate to maintain into the seventies the export gains arising from devaluation. The odds are favourable, but, in case things turn out badly, it would be nice, if difficult, to believe that contingency plans had been prepared to cut out further expenditure on luxuries such as overseas military establishments and our aircraft industry. What must be avoided at all costs is yet another round of tough gritty measures imposed by stern unbending chancellors, leading to yet another collapse in our growth rate.

But any improvement in our growth performance would be negated by our entry to the EEC. A £500 million balance of payments loss would invalidate the beneficial effects of good economic policy. With the continuance of bad economic policy the consequences could be catastrophic. It is worth remembering that the July 1966 measures were taken to eliminate a balance of payments deficit that looked like reaching £300 millions by the end of the year. It is frightening to contemplate what measures would be devised to deal with a balance of payments that looked like falling more than £500 million short of the needed surplus.

Towards free trade

For a "little Englander" the adoption of a sensible political and economic strategy would be enough. However those, like the authors of this pamphlet, who believe that an increase in world trade is conducive to general economic efficiency and well being should favour further initiatives in Britain's trading policies. All the anti-Europeans are of course frequently accused of being "little Englanders". This is about as reasonable as accusing us all of being freemasons or having red hair. Some anti-Marketeers are little Englanders, many more are not, and, as we show below, those who are not, can suggest various schemes which are, at the lowest estimate, exciting and not completely unrealistic. On the other hand, anybody who favours Britain's unconditional acceptance of the EEC's Common Agricultural Policy can only be described as a

"little European". This policy is protectionist in the extreme. It furthers the interests of Europe's peasants at the expense of the rest of the world's agricultural producers regardless of their efficiency or their poverty. It is hard to find anything more inward looking than this! The EEC is particularly protectionist against the poor nations, those that have the most need of the benefits of free trade but the least bargaining power. Since joining the EEC is no strategy for a rational free trader, what then are his alternatives?

bigger and better Kennedy rounds

We have discussed elsewhere the importance of the Kennedy Round to the future of Britain's trade patterns. The great resistance building up in the US Congress to a general lowering of tariffs shows that its importance has not escaped the attention of numerous pressure groups in that country and also illustrates the hazards following on negotiations of this kind. It is possible that this sort of pressure may erode some of the benefits to free trade arising from the Kennedy Round, but there is no doubt at all that the bulk of these benefits will remain. Adjusting to the new order of international trade will occupy everybody's energies at least until 1970, but after that, when the benefits of this round of tariff cutting are beginning to be felt, it is quite likely that moves towards still greater reciprocal tariff cuts will begin again. It is to be hoped that a Britain outside the Common Market would take a lead in initiating and supporting such negotiations.

One more round of tariff cutting of the same magnitude as the Kennedy Round would virtually eliminate tariffs as a barrier to world manufacturing trade; the average level of tariffs would then be about 5 per cent. One would hope that the UK outside the Market would continue to work for free trade in agricultural produce as well. It is true that, at the earliest, efforts in this direction could not reach consummation before the mid-seventies. However, pro-Marketeers who

talk about us beginning a five year transitional period of entry to the EEC in about 1970 can hardly regard such a timetable as too distant to be of practical interest.

NAFTA

A number of potential regional groupings have been suggested as alternatives to our joining the EEC. The one which has received most discussion is the North Atlantic Free Trade Association (NAFTA) which is a union of the present EFTA countries with the US and Canada in an association where internal tariffs in manufactured goods are nil, but every country is free to set its own external tariff, that is to say, it is an extension of the existing EFTA system. This would give Britain a "home" market slightly bigger in population and considerably richer than the EEC without requiring us to increase our food prices and cripple our balance of payments in order to join. Further, if such an association were formed other countries could be expected to join, the developed Commonwealth and Japan being the most obvious possibilities.

Two, mutually contradictory, arguments tend to be advanced against our pursuing the idea of NAFTA. The first is that the whole idea is illusory as the Americans are basically protectionist and would not dream of entering into such an arrangement with us. The second is that if we formed a free trade area with America we should be swallowed up, lose our individuality and become the 51st state. The first point can be rapidly dismissed. If the idea of NAFTA is desirable, it is worth following up; after all, no influential person in America has displayed anything like the opposition to the NAFTA idea that President de Gaulle has to our joining the EEC. It is something of a mystery to us why the same people who are loudly and fatuously proclaiming that they will not take no for an answer from the EEC are not even trying to get yes as an answer from the USA.

The idea that when countries of a differ-

ent size or a different level of technology join in a free trade area, the larger and more advanced swallow the smaller and weaker is to say the least, difficult to substantiate. Portugal with 9 million people and probably the most backward technology of any country in Europe has been a member of EFTA since the organisation was founded, but so far there is no suggestion that it is going to be made a part of the United Kingdom or be forced to follow our policies. It may be argued that there is no analogy here, since America's economic and political hold on this country is a function of a common language and of the great stake which American companies hold in British industry. *If this is so, then the question of NAFTA is irrelevant to our future absorption into the American way of life.* What we should consider instead is a ban on all American investment in this country. Failing the adoption of this ludicrous course of action, we must simply accept that the US cannot avoid exerting a large influence on us, whether we are in or out of NAFTA or, for that matter, in or out of the EEC.

Any reasonable government, conscious both that our entry to the EEC might well be hopelessly blocked and that if we entered unconditionally the economic cost could almost ruin us, should be actively engaged in discovering all it can about alternative and perhaps preferable strategies such as NAFTA. Of course it is not impossible that such diplomatic probes are being conducted by our Foreign Office at this moment; merely very unlikely.

association with the EEC

We all know that President de Gaulle has offered to discuss our association with the EEC instead of full membership and that this offer has been indignantly rejected without any specifications being asked or given. What is less clear is why this attitude was adopted. Admittedly it is possible, perhaps even likely, that de Gaulle's offer would have contained the worst of all worlds, the full economic drawbacks of joining without any form

political voice in the EEC's operation. In this case the offer could and should be rejected. But it is surely worth finding out what the French have to offer, and it is just possible that de Gaulle would be willing to trade the Common Agricultural Policy for a veto on British political participation. After all, de Gaulle's interest in and knowledge of economics is, if anything, even more rudimentary than that of our Government, and he might be prepared to pay a stiff economic price to ensure, as he sees it, future French political hegemony among the Six. In any case, we have nothing to lose by trying. If we succeeded, we should have all the advantages of market size, for what they are worth, which the EEC has to offer, without having to ruin ourselves for the privilege. If we failed we should be exactly where we were before.

An eventual idea to be aimed at (although very possibly never achieved) would be an association of an extended AFTA grouping with the EEC. This would extend the benefits of free trade about as widely as possible in the developed world. If our pro-Marketeters really believed in free trade or even understood what it meant, they would press for this grouping rather than for our joining the inward looking EEC as it stands.

To sum up, Britain has a considerable number of possible alternative economic strategies open to her, of which some are obviously better than others. Of all of them, joining the EEC unconditionally is the one which would produce the most undesirable results. It is typical of the Conservative Party's death wish that its leaders should be urging the Government to choose this course of action.

CONCLUSIONS

1. If we join the EEC unconditionally or with the sort of conditions we can expect to get, we will pay out something above £200 million a year directly in foreign exchange for the privilege of participating in the Common Agricultural Policy. The indirect effects of the CAP

would add between £330 and £600 million to this bill, giving us a total loss in foreign exchange of between £550 million and £800 million a year. Even the smallest possible figure would largely vitiate the anticipated benefits of devaluation and put us back with our traditional balance of payments crisis.

2. The CAP will also produce a sharp rise in the cost of living. Since this will result mainly from rises in the prices of necessities, it will have a disproportionate effect on the standard of living of the poor.

3. To deal with the balance of payments crisis we could either deflate again or devalue again. Either way the poorest sections of the community will suffer. In the former case there will be large amounts of unemployment on top of the rise in the cost of living, in the latter further rises in the cost of living and a greatly increased strain on the shaky international monetary system.

4. The changes in farm support arrangements will not release quantities of Government funds to compensate the poor for rises in their cost of living. The balance of payments situation will probably mean that there will be no funds for income compensation at all.

5. There is little prospect that these difficulties will be overcome by an export led boom. We are likely to lose all the advantages we have gained from devaluation since our exporters will be faced with sharply rising wage costs. The balance of payments situation will lead to deflationary measures which will again place constraints on necessary investment.

6. Arguments supporting our entry to the EEC based on a prospective "technological community" or an attempt to check American economic domination, are either incoherent or inaccurate. The mere fact of our entry would do nothing to produce the former state of affairs nor to prevent the latter.

7. The only coherent economic argument that can be sifted from the mass of irrele-

vances and confusions that constitute the writings of proponents of the Common Market is that joining will give us the benefits of free trade.

8. But this argument ignores the fact that the EEC is not remotely a free trade area. The benefits in efficiency produced by freer trade in manufactures would be counterbalanced by loss of free trade in agricultural produce.

9. The demise of our policy of free trade in agricultural produce would severely harm a number of other countries. New Zealand's case is well known, although often brushed aside by socialist pro-Marketees, perhaps because New Zealand is a developed country. A number of developing countries are also liable to suffer; notably the Commonwealth sugar producers and South American meat exporters. In addition developing Commonwealth countries producing simple manufactures, such as India and Singapore, are likely to be excluded from part of their British market.

10. The Kennedy Round will in any case give us a considerable freeing of trade with the EEC in manufactures and we will get this without the loss of free trade in food.

11. Outside the EEC we can and should work positively for further Kennedy Rounds and for larger free trade groupings. The prospects for success in each case are at least as good as the present prospects of entering Europe.

12. After the full effects of the Kennedy Round tariff cuts have been felt, tariffs within the developed world are likely to become relatively unimportant hindrances to international trade. Insofar as there would still be further benefits for the EEC to gain from freer trade, this could only be done by lowering tariffs against third parties. Thus outside the EEC we are likely to receive the advantages of free trade with the EEC without the serious and continuing losses imposed on us by the CAP.

13. Certain sectors of the community

would benefit economically if we joined the EEC. Prominent among them are the rich, who could invest their capital freely abroad and some industrialists, including the owners of the great newspaper kingdoms. The main losers from our entry would be the ordinary consumers, particularly the poor. The beneficiaries of entry are much better at organising, publicising and financing pressure groups than the losers. Their connections with senior politicians and "opinion formers" are also much closer. In the light of this the enthusiasm of so many "men of substance" for the Common Market is perhaps more understandable.

14. The economic objections are extremely strong. To override these facts some very clear and significant political benefits would be needed. If these exist there is a marked reluctance to state them. The political advantages adduced are often vague and contradictory. Political strength seems closely tied up with economic strength. Joining the EEC is therefore the last step likely to bring about a renaissance of British political power.

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