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MICHAEL BARRATT-BROWN

A New Foreign Economic Policy ?

I. Seven Years of Conservative Freedom.

Any country's foreign economic relations must be concerned primarily with the terms on which its exports of goods and services can be exchanged for essential imports. But Britain, like other Western European nations, has for long gained an important part of its livelihood by machining and processing imported food and raw materials for sale abroad. A third of the products of British engineering go for export. Furthermore Britons have not only been traders all over the world; they have been shippers and bankers for other traders and also investors in other lands. The protection of British traders and investors has at all times been a first care of British foreign policy. The interests of traders, manufacturers and investors have not always coincided, not have they always been the same as the interests of the people. Overseas investment at high rates of profit has tended to impoverish rather than develop markets for Britain's manufactures.

The Conservative Government's economic policy, pursued with remarkable consistency since 1952, has been to free the movement of goods and currencies from controls, support the £ sterling as a world currency and encourage a Balance of Payments surplus to permit of investment overseas. These are the traditional aims of the great merchant and finance houses which established the international power of the City of London before 1914 and which have been pursued with indifferent success ever since until the recent period. Indeed the policy may be said to have been more than usually successful during the past five years. Imports flowing freely without restriction have risen back to (and in 1957 nearly a tenth beyond) pre-war levels in volume; the London commodity markets have been re-established; sterling is in effect freely convertible into other currencies by all holders except U.K. residents; sterling is claimed to be the currency used in transacting half the world's trade; and an,annual average credit balance of some £200 millions in account with foreign countries has been realised for long term investment abroad.

There have of course been rather special circumstances. An average annual figure of over £ 100 millions has been available in defence aid from the United States or in offshore purchases by the U.S. forces for N.A.T.O. preparations. There has been a world export boom which has covered Britain's declining share of the world market. World prices of the goods we import have been rising throughout the period of the Conservative Government less rapidly than world prices of the goods we export. Germany and Japan have only rather recently been recovering their pre-war share of world markets. Finally, and not least important, colonial dollar earnings have been used to balance Britain's dollar deficits and colonial trading surpluses have been available to British investors through the steady accumulation of the Colonies' sterling balances in London. In this way British investors have been able to borrow short and lend long over the whole period.

This happy combination of circumstances is, however, ending - has indeed ended. Dollar aid is largely finished although some offshore dollar spending continues. The boom in world exports is dying away. German and Japanese competition is strongly challenging Britain in all markets, even in the sterling area. Colonial dollar earnings are still available but the demand for the running down the sterling balances is becoming a pressing one from the Governments of Ghana and Malaya, who earned the greater part of them. The result has been an increasing lack of confidence in the British economy both among foreign holders of sterling and British investors, and much time and ingenuity was spent in 1957 transferring sterling holdings to Deutsche Marks and dollars* - the British investors making full use of certain gaps in the sterling defences, especially those in Kuwait which were not closed by the authorities until some pretty large horses had fled.

Since physical controls were dismantled after 1951 the only instrument remaining to the Government has been the rather crude tool of monetary policy. Was the economy booming with inflation getting out of hand? - then deflate the boom by raising interest rates

* however " anti-British and derogatory to Sterling but on balance if one is free to do so " . . . Mr. W. J. Keswick, Director of the Court of the Bank of England, quoted before the Parker Tribunal.

and squeezing credit. Were imports rising ahead of exports? - then general deflation would soon stop that. Were foreign holders of sterling converting as much as they could into other currencies? - 7% would attract them back. Just until the policy worked, it was of course necessary to do a little borrowing - £100 millions from the U.S. Export-Import Bank, £200 millions from the International Monetary Fund, £50 millions from the European Payments Union - to suspend annual payments of interest charges on earlier loans from the U.S. With all this help there should still be the £200 millions surplus for overseas investment. And there was! But over the next years the loans will have to be repaid with interest and in the meantime the £3000 millions of sterling balances held in London are costing the taxpayer an extra £ 120 million a year (i.e., at 7% interest compared with the rate of 3% in 1953).

All this is done with the aim of strengthening the £ so that it can look the dollar in the face and making possible the regular flow of investment overseas. But, quite apart from the general loss in real values from under-employed workers and machines in an economy that is being held back from full capacity, the results are disastrous for Britain's trade. Under-employment means higher costs and therefore still greater difficulties in competing for world markets. Reduced demand for imports means lower earnings overseas and consequent reduction in overseas orders for British exports. The development plans of India and other under-developed lands, which have played so large a part in maintaining the post-war export boom, are undermined and these new and important markets for British capital equipment are closing down.

It is at this point that we are presented with a great opportunity - the Free Trade Area, which is to set off such an expansion of national income that all who join will benefit. This is presumed to include even those in smaller firms and inefficient industries, which will in fact be quite unable to compete against the more modernised large scale producers or, as will happen in some cases, against lower paid labour. This is to be the last dose of Conservative freedom. Will it be fatal?

2. The Common Market and Free Trade Area.

The British Governments' proposal for a Free Trade Area to include most of the countries of Western Europe was made in response to the agreement to establish progressively a Common Market and Customs Union amongst the six countries previously associated together in the European Coal and Steel Community (the Schuman Plan) that is, Western Germany, France, Italy, Belgium, the Netherlands and Luxembourg. Faced with the threat of virtual exclusion

from this market, which takes an eighth of Britain's exports, some proposal had to be made. The proposal for an associated Free Trade Area of Britain, Scandinavia, Austria, Switzerland and possibly other Western European countries is designed to share in the common agreement to lower tariffs mutually inside Western Europe on industrial goods, while preserving the protection of British agriculture and the Preference given to Empire agricultural products. Such an arrangement rather than direct entry of Britain into the Common Market was regarded as essential in order to retain the corresponding preferential treatment for Britain's exports inside the Empire. In fact the Common Market agreement on agriculture envisages a "managed" rather than a free market. The view is widespread on the Continent and particularly among the smaller countries like Denmark, which are expected to join the Free Trade Area but will get no advantage for their agricultural exports in the U.K. market in exchange for lowering their tariffs to British manufactures, that the British are trying to have their cake and eat it.

The Free Trade Area proposal is also designed to give the British financial authorities some room for manoeuvre around such supranational European institutions and their enforcement of common economic policies as are envisaged for the Common Market. It is clear, however, from the O.E.E.C. Working Party Report on the Free Trade Area that economic and financial practices in the Free Trade Area will have to be "harmonised" with those in the Common Market and that administrative machinery will be required to ensure this, so that, *inter alia, "* escape clauses are not made use of by member countries without prior approval of a majority of members " [(1)] It is also expected in the City of London that sterling will become the main currency for transactions in the Area as it is in the present European Payments Union. The reasons for this are partly the reputed efficiency of London short term financing of trade, shipping, insurance, etc., and partly the need of the Common Market countries to hold sterling to make purchases in the Sterling Area (of which oil accounted in 1956 for about a third) - purchases which are nearly double in value what they export (2).

The advantages for Britain or for any other advanced trading country of a lowering of tariffs and the barriers to trade are undoubtedly great, for they should lead to a general expansion of trade [(3).] But three major objections exist against freeing trade in this way and all these seem to have been given extraordinarily little weight in the general discussion which has been going on since the Common Market seemed likely to materialise. First, there are all the arguments in favour of protecting infant industries or strategic industries (and not necessarily only those which are strategic in a military sense). Secondly, there is for Socialists the crucial problem of retaining for a socialist Government the necessary power to control the national economy effectively - and other sorts of Government may well find they need such powers in the event of a world trade decline. Thirdly, there is a special problem in the case of this Free Trade Area in that it is essentially an exclusively trading area.

3. Cartels and The Development of Strategic Industries.

On the first question, the problem for an advanced industrial country like Britain is not so much one of protecting infant industries as of being able to guarantee the development in the national interest of major strategic industries. The problem of infant industries in the less developed regions and particularly in the French and Belgian dependencies included within the Common Market is to be met by special arrangements for continuing tariffs and by an Investment Bank for Europe with an ultimate capital of $1000 million and an overseas Development Fund of about $500 millions. The possibility of obtaining loans from the Bank have already aroused the interest of Mediterranean countries which are at present outside the Common Market. There is no doubt that the improvement of living standards in Southern Italy and elsewhere in the Mediterranean might do something to reduce the dangers of competition from low wage producers in these areas and generally might have an expansionary effect on trade. At present the rate of return for these Bank loans is fixed at four per cent.

The crux of the matter for Britain is the control of strategic industries. The working of the Coal and Steel Community of the Six Nations, upon which the Common Market is based have already suggested that the largest concerns in each country are bound to dominate and that among them cartel arrangements are certain to emerge. The Economist Intelligence Unit in recommending the Free Trade Area proposal comments: " Free Trade is on the side of the big battalions (i.e., countries with a large industrial base. M.B.B.). Free Trade is also, other things being equal, on the side of the big firms ... (In both) the U.K. and Germany have a considerable lead over their competitors " (4). It would be interesting to know how the Economist Intelligence Unit would recommend the Free Trade Area to the smaller European countries and the smaller firms! If the largest concerns throughout Western Europe are enthusiastic about the Free Trade Area, it is in part because they already have cartel arrangements for dividing the market and controlling production. " Fertilisers, steel tubes and cement are among the goods sold in Europe under agreements that render tariffs irrelevant" commented the Frankfurt correspondent of *The Times Review of Industry* (5).

The Common Market regulations on Governmental restraints are far less modified by exceptions than are those on producers' restraints. Articles 85 and 86 of the Rome Treaty largely repeat the provisions of the European Coal and Steel Community which have been wholly ineffective (6).

Among other purposes attributed to the formation of the Free Trade Area is said to be the strengthening of Western Europe in relation to the U.S.A. - " very much less important" - commented the T.U.C. " than the anti-communist aspect of European Federation ... (and one that) has not prevented the Americans giving strong encouragement and, where appropriate, financial support to European integration projects" (7). The latter may be the better judgment. When the Coal and Steel Community was established, the *Financial Times* remarked that " it was regarded by American interests as being a convenient way of taking an interest in the expansion of the European steel industry" (8). In the Common Market it is necessary to imagine the advantages accruing to the U.S. motor industry's subsidiaries in Europe of concentrating their European production centrally in one or two giant plants with a unified market of 160-300 million people. The Economic Commission for Europe suggests the Ruhr as the centre of the area which will attract the greatest concentration : " The already highly developed industrial centre embracing the valley and outlet of the Rhine is likely to offer strong attractions for these new plants because of considerations such as transport costs, ease of communication, skilled labour and availability of commercial and other services " (9).

These are all developments which, as the Common Market becomes a reality, British industry will have to face. They are the developments which lead many to say that Britain cannot afford to be excluded from this market and that our only hope is very greatly to step up the rate of home investment which lagged behind general rates in Western Europe down to 1955 (10) and which has been cut back once more in the squeeze since 1956. But for Socialists there must be another question. Are we to be tied to the policies and practices of the strongest European capitalist groupings? Once Britain joins a Free Trade Area, would a Labour Government be free not only to maintain and improve the social services, which are due to be "harmonised" among the member countries, but also to establish greater control over the British economy in the interests of the British people? If only to ensure the expansion of the rate of investment referred to here, a Government must have greater powers than it now has over industry. The T.U.C. warns that " control over the distribution of industry and authority to determine its internal fiscal policies should remain each Government's full responsibility. Governments should also retain the power to provide special assistance, on defined and mutually agreed conditions, to essential industries " (H)- But how is this to be done if subsidies and physical controls are ruled out and what will be the realities of this " mutual agreement " - with the Ruhr barons?

Those who argue in favour of retaining national sovereignty over the strategic points of our economy are often spoken of as " fuddy-duddies " [12] living in a Nineteenth Century world of nation states. We no longer control directly our army or navy or the air forces that fly from our bases, why worry about our industry? Supra-national bodies are increasingly replacing national assemblies. It is the inevitable trend of the atomic age - so they say. The fact is that Socialists are bound to ask what power a Labour Government would have against a majority of West European capitalist Powers in organisations set up to decide many of the vital questions of our national economy. Enough difficulties are being stored up for the future by the recent increase of U.S. investment in British industry (13), without adding to these. We have all protested bitterly at Russian interference in the economies of Eastern Europe. Are we to sell out ourselves? Be it noted that those who cry loudest in defence of national sovereignty in Hungary or Eastern Germany cheerfully propose handing over powers as great, if not greater, to a West European federation dominated by Western Germany and prompted by the U.S.A.

No Socialist need be concerned about protecting inefficient firms or industries at home, but we have every reason to demand the retention of sovereignty over our national economy and moreover, that there should be alternative plans for what might easily become new " depressed areas" - particularly for example in Lancashire. It seems to be generally regarded as inevitable that cotton and rayon will suffer in a Free Trade Area [14]- The T.U.C. statement at the 1957 Congress, while welcoming the proposals in general, drew attention to " the possibility of special cases of difficulty in particular places and in particular industries." The suggestions of the earlier T.U.C. report for Government plans to assist displaced work people were however no more reassuring than the Common Market plans for a European Social Fund for retraining, moving and compensating workers displaced by the working of the Common Market. The T.U.C. says " These should include such provisions as adequate unemployment pay, retaining facilities and support during retraining and, where necessary, assistance to workers and their families to move to new areas " ([15])- These fall somewhat short even of the Government subsidies given to depressed areas in the 1930s (even though these were in fact used for restriction rather than expansion) and

certainly falls short of the post-war Labour Government's policy for Development Areas. Something more will certainly be needed to deal with the structural unemployment that might well result from the lowering of present tariffs in the cases at least of cotton, rayon, paper, leather, watches, clocks, china, footwear and toy industries. These industries employ a total of 850,000 persons, and are all expected by the Economist Intelligence Unit to lose from the establishment of a Free Trade Area [16].

Yet, one can see the dilemma of the T.U.C., because it is precisely the intervention of Governments in industrial price and production policy that will become increasingly difficult as the Free Trade Area begins to assimilate to Common Market practices. Even today, for example, under " Tory Freedom," coal and steel exports are "restrained " and exports of scrap are banned to keep prices down [17].

4, *Physical Controls and the Balance of Payments.*

All these arrangements would be likely to come under the heading of " discriminating subsidies and restraints of free competition." And when it comes to protecting the Balance of Payments - now Britain's perennial problem — the power in the hands of Governments, except for very short term emergency measures, would be reduced to less even than the Tories are at present prepared to use.

On the second question, then, of retaining effective powers to control the national economy, we have already seen the implications of a Free Trade Area on the distribution and development of home industry. But this is only half the story! If our analysis, at the beginning of this article, of the present weaknesses of Britain's economy is correct, then the check in 1956 and 1957 to the steady post-war growth of national production follows from the Tory abandonment of precisely those controls which in the Free Trade Area we might be expected to give up for ever. The weapon of monetary controls - high bank rates, credit squeeze and other measures of deflation - will be the only weapons available to prevent imports from being pushed up by rising home demand beyond the point where they can be paid for, and to stop foreign bankers and British investors, where they are free to do so, from selling sterling. The alternative weapon of physical control - of imposing import controls discriminating in favour of essentials, and exchange controls preventing an exodus of funds - will be out of order except as an emergency measure to deal with a critical Balance of Payments situation.

The T.U.C. therefore recommends that " In the Agreement establishing the Free Trade Area, there should be provision for the restoration of Balance of Payments equilibrium without forcing deficit countries to resort to internal deflation. The agreement should acknowledge the right of member countries to restrict imports for Balance of Payments reasons . . . Member countries should.also retain the right to control capital movements " (18). Quite ! Quite ! but the Common Market permits such action only as " a temporary recourse to be resorted to with less and less frequency as economic and financial policies are more and more closely integrated " [19]. The same approach is suggested for the Free Trade Area by the O.E.E.C. Working Party, as we saw earlier, and accepted by the British Government in its White Paper on the subject (. . . " the invocation of escape clauses .. . should rarely occur and probably only on the occasion of extremely serious Balance of Payments difficulties" [20]. What should be done if the Balance of Payments difficulties are only moderately serious or are prolonged is clearly indicated in the Conservative Party's pamphlet explaining the Common Market: " It therefore seems"that any disequilibrium would always have to be corrected by reducing incomes and by unemployment in the country concerned, just as South Wales solved its balance of payments difficulties with the British ' Common Market' in inter-war years " [21].

All the emphasis in the Common Market Treaty, in the O.E.E.C. report and in the Government White Paper on the Free Trade Area is upon prior mutual discussion and agreement and upon mutual help. And this sounds fine until one remembers the social philosophy of those with whom agreement would have to be reached. One is bound to conclude with Professor R. F. Kahn that" enthusiasm about the virtues of Free Trade usually go hand in hand with a belief in the efficacy of blind economic forces" [22]. In other words, we abandon the whole principle of State controls and intervention in the economy upon which capitalist governments since the war have claimed to render themselves immune from the working of those blind economic forces which wreaked such havoc in the years between the wars. In turning to consider the third objection to the entry of Britain into a Free Trade Area, we must begin to ask ourselves whether it is after all so essential that Britain should avoid *at all costs* the risk of excluding herself from the " great and growing market in Western Europe."

5. *Trade Outside an Exclusive Free Trade Area.*

It is a major feature of the Common Market and of the proposal for a Free Trade Area that, while lowering barriers to internal trade, barriers to external trade will be retained and, as a result of averaging existing tariffs, even raised. The balance of gains and losses for any joining country will depend in part on the importance of the Area in its foreign trade. For the six countries the Common Market provides nearly a third of both imports and exports and the rest of the proposed Free Trade Area another sixth, making together nearly half of their total trade. For Britain the Common Market and die rest of the Free Trade Area each provide between an eighth and a tenth making a total of just over a fifth of our total trade. The Commonwealth connection which accounts for over half of both Britain's imports and exports is thus vastly more important. Even excluding Canada and including only the sterling area, the proportions are over 40% and in the early 1950s were nearly 50%.

Much is made by the advocates of the Free Trade Area proposals of the fact that the volume of trade has been growing faster inside Western Europe than elsewhere. The difference in rates of growth was certainly greater between 1950 and 1955 when Western Germany was returning to the world market; but since 1955 total Western European trade has grown only slightly faster than the rate of growth for the whole world. North American trade also moved well ahead of this rate in 1956 but was somewhat behind it in 1957. Japan's trade soared in both years as she began to recover her pre-war position, with an especially large rise in imports. By contrast, it is true that the showing of the U.K. and the Sterling Area was poor, and especially poor when compared with Western Germany's increase at double our rate. The figures shown in note 23 slightly underestimate the Sterling Area's growth rate because they are value figures, and prices of Sterling Area products have not been rising as much as the prices of the industrial countries' products [23].

These are all uncomfortable facts for Britain, reflecting as they do the end of her post-war period of immunity from German and Japanese competition. But do they prove that Britain should attempt to increase the share of her trade with Western Europe in what amounts to an increasingly competitive market? Or does not the expanding share of the Western European market in world trade only reflect the declining rate of growth in overseas markets ? Is the expansion likely to continue with deflationary policies almost everywhere in operation? Certainly the causes of the decline of the Sterling Area share of world trade and the possibility of reviving it need to be closely examined before Britain is committed to exclusive policies in Western Europe. The special dangers for Britain of excluding the rest of the Sterling Area from the Free Trade Area have been well taken. Australian wool producers, Ghanaian cocoa growers, Nigerian vegetable oil producers and many others have been anxiously watching the proposals for a Common Market and the dangers to them of competing in the Western European markets where the dependencies of Common Market countries will have tariff-free entry ([24])- The U.K. is committed to retaining the preference for Sterling Area products in the U.K. market because of the, probably greater, reciprocal advantages of better terms in Sterling Area markets. But what is to happen to the other once important trading partners of Britain and of Western Europe, who have been struggling to re-enter the Western European market - above all, the South American countries, the Communist countries of Eastern Europe, and China? Quite apart from the difficulties which the Common Market must make in perpetuating the division of Europe between East and West and aggravating the difficulties of a solution to the problem of re-unifying Germany; the reduced share of the East and of South America in Western European trade is evidently to become permanent [25].

An examination of the respective shares in world trade of different areas before and since the Second World War reveals the following pattern of changes. By 1956 Continental Western Europe had barely recovered its pre-war share of a third of world trade. North American trade had grown from less than a fifth to over a quarter of the total - largely as the result of the huge increase in U.S.-Canadian trade and of U.S. Aid Programmes overseas. The new Rouble Area in the East had won nearly 11% in place of 7% before the War. By contrast with these developments the Sterling Area's share had declined from over a quarter to under a fifth, largely owing to the halving of the U.K. share of world imports. The share of other countries had also declined mainly because of the much reduced share of Japan [26].

6. Trade between Industrial and Primary Producers.

Looked at from another point of view, countries producing primary products — foods, minerals and other raw materials — (excluding the Rouble Area) still accounted in 1954 as in 1938 for just over a half of world trade. The proportion dropped however to 43% between 1954 and 1956. [27] Primary producers had increased their sales and purchases rapidly during and immediately after the war and again during the raw material stock-piling boom at the outbreak of the Korean war. At the same time, they very greatly increased the prices they obtained for their products, partly owing to reduced supply and increased world demand and partly to the better organisation of primary producers and their support from the new independent Governments which have replaced colonial rule. Even in 1954 the primary producer's terms of trade - that is the prices they were paying for their imports compared with the prices they received for their exports — were still some 60% more favourable to them than before 1939. While prices of their primary products had more than trebled, prices of manufacture had barely doubled. Only four out of twenty-eight major primary products rose less in price than manufactures between 1938 and 1954 (28).

On the basis of these favourable movements nearly all primary producers have been engaged on some form of economic development programme since the end of the war. Canada, Australia, New Zealand, and South Africa, advanced their industrial output roughly threefold between 1938 and 1955 ([29])- India's second Five Year plan envisages a 5% annual increase in national income. Burma's Eight Year Plan has been raising the national income by nearly 10% per year. The much more comprehensive plans of the Communist countries have aimed at higher rates of development still, varying from 10% to China's annual target of 20%. These movements towards industrialisation have led to a great expansion of trade. Canada was for long third in the world's list of trading countries until West Germany returned to that position - which a united Germany held before the war. China and Russia are now among the top ten trading nations of the world; and India and Australia are not far behind.

The steady fall in raw material prices since 1950, however, and the rapid fall in food prices since 1954 have begun to undermine these development plans based as they must be to a great extent on earning sufficient from export of primary products to cover imports of key capital equipment. The *Financial Times* index of commodity prices had fallen by the beginning of 1958 to 80 (1952 = 100) from a level of around 90 a year earlier. This rapid fall has followed, in part, directly from the deflationary policies pursued in the U.K. and elsewhere in Western Europe and the consequent reduction in imports. It is the old story of the vicious downward spiral: the check to -full employment at home means that British workers buy less - put off buying that new overcoat for example; less wool is then imported from Australia and Australians have to cut down their imports of motor cars and machinery; and so more British workers cut down their purchases, and so on.

Behind this immediate fall in prices, however, lies a long term movement of great significance. Output of food in the world has only grown by 35% since before the war. Output of the agricultural raw materials by even less. Even output of minerals, much inflated by the three-fold increase in petroleum output, has only risen by 70%. Yet, with these small additions to materials, manufacturing output has more than doubled (30). This has been made possible by new processes for eliminating and utilising waste and by the development of new synthetic materials. Without these domestically produced substitutes, it has been suggested that demand for raw materials would have been 40% higher in 1954 ([31])- Moreover, most developed industrial countries have been rapidly increasing their own food production. U.K. food imports alone were still in 1957 10% below their pre-war volume.

Do all these changes mean, then, that the traditional pattern of Britain's trade is coming to an end - the exchange of capital goods for food and raw materials? Is the new pattern to be the exchange of increasingly specialised manufactures among the more developed countries of the world? This is a trend which has certainly been growing. It is the trend which is envisaged as central to the growth of trade in a Western European Free Trade Area. But must we prepare ourselves for entry into an increasingly competitive struggle between the giants of modern industry inside the cartels of Western Europe ? Do we accept the *Economist's* argument that " the industrialisation of under-developed countries is tending to reduce their trade with Europe and to give more importance to their trade with neighbouring countries, which are at a lower stage of development?" (32). Do we accept also as permanent the exclusion of half of Europe and the Soviet Union and China from its traditional share in our trade?

If we look at things statically, the answers to these questions will be largely affirmative. Marxists will, however, not be so blinded by the wealth of the old advanced industrial lands that they miss the growing points of the new. Specialisation is bound to increase in the exchange of industrial products and the pattern of trading industrial for primary products will not go on for ever. But if most trade is to be done between the more industrialised lands - as is the case — the moral is not to enter a cut-throat battle for the trade of the present industrial countries but to help other countries to industrialise.

There is today a parting of the ways. We can no longer drift, living on the war and immediate post-war boom in the prices of primary-products, which enabled the less developed lands of the world and especially those in the Sterling Area to expand their purchases of our exports. The boom is now played out. We are presented with a choice of going into the Free Trade Area at the expense of our tradi-outside or encouraging our trade outside at the expense of our trade in the six countries of the Common Market. If Britain does not join the Free Trade Area, it is doubtful if other countries will, so that the latter choice will be the sacrifice of an eighth of our trade for the sake of a much larger proportion outside. The crucial question is whether positive measures are taken to revive the main sectors of this outside trade.

It goes without saying that no advocate of the Free Trade Area is suggesting that intra-European trade will replace entirely or even a large part of trade outside. But Britain of all West European countries has the largest share of its trade outside Western Europe altogether - nearly four-fifths compared with half or less which the other countries carry on with the outside world. Even the assumed 3% annual increase in Western Europe's national income over the next 10-15 years, as envisaged by the *Economist*, is not at best going to absorb a very much larger share of each country's trade. It is, of course, realised that Western Europe must continue to rely on outside imports of non-ferrous and other metals, and of oil and wool, cotton and rubber, unless these last are entirely replaced by synthetics and by a great expansion of the Sahara oil output. Some of the vegetable oils, cocoa, coffee and tobacco will also be available from the dependent territories of France and Belgium but these can meet only a small proportion of total demand. Much of the timber, meat and many other foodstuffs will also have to be imported as at present.(34) Increases in West European food production and the further development of synthetics are likely to follow from the lowering of barriers to trade. While such developments may not be without advantage, it must be clear that unless they are offset by an overall expansion of demand, they will result in reduced demand for outside imports and this in still lower prices for primary products. And from such a result a country like Britain with most interest in sales to primary producers will gain least.

The experience of the interwar years is here particularly telling. The very low prices of food and raw material imports in the 1930s made possible a continuous, small but steady, rise in Britain's national income per head and in real wages for those in employment throughout the period. But this was at the expense of the unemployment of 10% or more of the labour force at home as well as at the expense of colonial and other primary producers. Cheap imports make poor markets and poor markets mean the ruin of our export industries. It could happen again and while the present fall in import prices may well seem at first sight to be in the interests of the British people, and may actually be in the interest of the great quasi-monopoly processors of imported raw materials - the oil companies, Distillers, Unilever, etc. - it may have dire results if the fall continues. Exports will decline, unemployment will rise, Britain's technical advance will suffer and in the end the real wages of even the employed might drop. We should remember that the steady rise of the national income in the 1930s came to an end in 1937-8 as a new American slump and the processes of impoverishment in the colonies struck back at the metropolitan country as well. Only the rearmament programme saved the situation (35).

7- Dependence on Dollar Aid.

There is one further point to be made. The establishment of a

Free Trade Area is expected to strengthen Western Europe vis-a-vis the Dollar area. We have already noted how U.S. manufacturers may gain from a unified European market. We need also to note that European production can do little to reduce Britain and Europe's present, perhaps, excessive dependence on dollar imports for cotton, non-ferrous metals, sugar, tobacco and specialised machinery. The share of dollar imports into Western Europe was increased from 9% to 12%, not including military aid deliveries, between 1954 and 1956 (36). Britain alone roughly trebled her imports of sugar, wheat, cotton and copper from dollar sources between 1954 and 1957 with huge extra increases in coal, iron and steel during 1955 and petroleum oil after the Suez crisis (37). In addition dollars have always to be paid for much of the oil imported by U.S. oil companies into Britain from the Middle East.

Britain's dollar gap has been growing as has that of all West European countries. Military aid, which covered so many normal imports of industry, has been coming to an end. It had dropped to 9% of U.S. exports in 1957 from a maximum of 26% in 1953. And yet U.S. imports show no sign of growing to equal more than their present proportion of two-thirds of the value of U.S. exports (38). We have seen again and again further restrictions imposed on U.S. imports each time some foreign product established a foothold in the market - first watches, then bicycles, now woollen goods. Will it be motor cars next?

Gold has once more been flowing back across the Atlantic in 1957 at the rate of $ 100 millions a month. In the first half year accounts for 1957 Britain alone had a dollar deficit on current account to a value of over £30 millions which was only covered by sales of gold, colonial earnings and borrowing. On trading account exports to the U.S. were only three-quarters of the value of imports (39). If the present American recession were to continue European sales in the U.S. could fall very heavily, and for some time the gap could become unbridgeable. The repercussions of reduced dollar earnings by the rest of the Sterling Area could be catastrophic. Already Britain has thrown in most of her available dollar reserves to close the present gap.

It must now be clear that an alternative foreign economic policy is required for Britain which seeks new non-American resources of food and raw materials and which will revive the flagging economic plans of the underdeveloped lands, and so stimulate a general expansion of world trade. The development of mankind in the West cannot take place in economic, any more than in political, isolation from the one-third of our fellow human beings who live inside the Communist world or of the other third who live in underdeveloped economies.

Their advance in the long run is inevitable; but, while the speed and success of that advance depends largely on their own efforts, both their ability to avoid the ruthless regimes we have seen in Eastern Europe and our share in their advance depends on the aid we can give them now.

8. An Alternative Foreign Policy.

The main lines of an alternative foreign policy can only be roughly indicated here. Detailed consideration of the central elements - the aid to be given to under-developed countries and the special position of the Sterling Area - must be left to a later article. Any fundamental change in policy - and foreign economic policy is no exception - demands several different stages of action, the first of which are found to be largely educational. There are however certain things that can be done while the Conservative Government is still in office and the most urgent is the presentation of a clear alternative to the electorate to be carried out by the next Labour Government. Then there is the much longer term aim of working out a socialist policy for international trade in keeping with the building of Socialism in Britain.

The main immediate matter for action concerns the preparations being made for the entry of Britain into the Free Trade Area in Western Europe. The present position is that the Conservative Government is committed by the Queen's speech to " welcoming the declaration by the O.E.E.C. of their determination to promote the establishment of A Free Trade Area " and to " seeking to bring these negotiations (not specified M.B.B.) to a successful conclusion" (40). The Labour Party Conference did not resolve on the subject at Brighton - a surprising omission - but the T.U.C. passed the section of the Council's report which gave provisional support to the proposal for a Free Trade Area subject to certain safeguards referred to earlier. Labour leaders, in the only debate which covered the subject in Parliament, have welcomed the proposal in similar terms, emphasising that " we cannot afford to stay out " (41).

If the argument of this article is correct, then the proposal for Britain to enter an exclusive Free Trade Area in Western Europe tied in with the Common Market must be reconsidered. There need be no objection to the proposal for a general lowering of traiffs over the next fifteen years, with suitable arrangements for protecting home agriculture. What need to be opposed in the Government's proposals are the inevitable loss of economic sovereignty involved and the association with an exclusive Free Trade Area, itself to be surrounded by tariff walls. In agriculture particularly the walls are specifically designed to be high, though no higher than the average existing tariffs. Yet under the General Agreement on Tariffs and Trade (G.A.T.T.) the raising of new tariffs is clearly forbidden. A Labour Government would be wise to tackle the whole question of the Free Trade Area through G.A.T.T. at whose last meeting in October 1957 the strongest criticisms were expressed about the Common Market by the excluded agricultural countries like South Africa, New Zealand, Canada, India and Ghana.[42]

In the meantime, it is essential that the Conservative Government should be challenged in the strongest terms as soon as the detailed arrangements emerge from the Maudling negotiations. Any proposals for conceding sovereignty over British economic and financial policy to a supra-national authority - and nothing less seems likely - should be opposed with all the power the Labour opposition can command. It will be exceedingly difficult for a Labour Government to extract Britain from engagements made now. The very essence of the present schemes is that it must be binding on future Governments over a period of fifteen years. It is not enough, however, merely to oppose. The main argument of the supporters of the Free Trade Area is that Britain will suffer if we are excluded from the Common Market. And this is true if the alternative is to do nothing. A positive alternative programme must, therefore, be put forward at the same time by the Labour Party which will guarantee a renewed expansion of the trade of the whole world and not merely of Western Europe.

This alternative policy should include :

(a) The signing of trade agreements by the Government with Britain's major trading partners under which long term guarantees of purchases of food, raw materials and certain industrial products are exchanged for guaranteed long term sales of our, mainly, more advanced industrial products and particularly of capital equipment; prices to be the subject of annual review. The enormous importance of Britain as a regular market for so many products and so many countries would make such agreements a real stabilising factor in the earnings and plans of primary producers as well as in underpinning full employment at home.

(b) These agreements should envisage a steady growth in the level of exchanges so as to reduce dependence on areas such as the Dollar Area and Common Market, with whom it might not be possible to trade in this way and with whom at present Britain runs a serious deficit.

(c) The bans on East-West trade should be lifted and similar agreement should be reached also with China, the U.S.S.R. and Eastern Europe, with whose planned economies exchanges must also be planned on the basis of just such long term agreements if trade is to be expanded.

M) Credits at not too high rates of interest and grants of aid should be made under these agreements to help under-developed countries to maintain and even speed up their development plans. The Russians are now doing this - on a small scale so far - but the result has already been important in encouraging industrialisation and thus buttressing world trade. The credits carry very low rates of interest and are repayable in commodities many of which are in surplus supply-

(e) Licensing of imports should be re-introduced to ensure that non-essentials are excluded and essential imports are expanded to meet the demands of full employment.

(f) Exchanges controls should be reimposed to prevent a mass flight of capital from London. This, indeed, would have to be done almost within the first hours of the announcement of the return of a new Labour Government, if damaging losses were to be prevented.

(g) Consumption/export controls should be re-established for many industries under which imports of scarce raw materials would be licensed to firms in proportion to their fulfillment of export deliveries under the long term trade agreements.

(h) Finally, Government aid and guarantees should be provided for the development of new industries and the transfer and training of workers from old industries. Such aid has been wasted for years in developing military aircraft output; it needs to be turned to civilian and export production and with a much stricter control by Parliament on expenditure.

This is a policy which would be in the interests of the overwhelming majority of the British people. The only sufferers would be the City of London - the merchant bankers and financiers, commodity brokers and insurance agents - and the leaders of the largest industrial concerns. It is these latter who are hoping to use their quasi-monopoly position and international cartel connections to ride a decline in world prices, trade and production by increasing their share of total profits at the expense of the great majority of producers and manufacturers.

The policy here proposed, though it would challenge the present arrangements of the great oligopolies, would not yet offer a fundamental challenge to their continued existence. A foreign economic policy for a Socialist Britain would have to go much further and change the whole basis of the present operations of the great companies. Such a policy, in matters of foreign trade, would not require many additional measures beyond those already employed by the 1945 Labour Government. It would certainly not mean as the Tories

suggest, a return to rationing of foodstuffs. It will, however, in-
volve a return to the use of the physical controls which the Tories

have succeeded in making unpopular. The problem must be put clearly by the Labour Party before the electorate : Is it to be control of the economy by the Gentlemen (of whom we obtained such a clear picture before the Parker Tribunal) in their own interests or is it to be control by a Labour Government in the People's interest? In a modern industrial society it has to be one or the other.

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(3) See U.N. Economic Commission for Europe. Survey of Europe in 1956, Oh. 4.
(4) Economist Intelligence Unit: Britain and Europe, p. 20.
(5) Times Review of Industry, December 1956, p. 89.
(6) Summary of Rome Treaty in Keesing's Contemporary Archives, p. 15953.
(7) T.U.C. Economic Association with Europe (November 1956).
(8) Financial Times (17 May 1953).
(9) Economic Survey of Europe in 1956, Oh. IV., p. 16.
(10) Net fixed investment as a percentage of net national product was 6% in the U.K. in 1954, the lowest in Europe, compared with an average rate of twice that level in Western Europe as a whole. See Economic Survey of Europe in 1955, p. 44.
(11) T.U.C. Economic Association with Europe, p. 3.
(12) Harold Wincott in the Financial Times.
(13) See Survey by J. H. Dunning, Times Review of Industry (October 1957).
(14) Econ. Intell. Unit: Britain and Europe, p. 36.
(15) T.U.C. Economic Association with Europe, p. 3.
(16) Econ. Intell. Unit: Britain and Europe, p. 36.
(17) ibid. p. 75.
(18) T.U.C. Economic Association with Europe, p. 5.
(19) O.E.E.C. Working Party Report.
(20) A European Free Trade Area Cmd. 72 (February 1957) p. 7.
(21) Our Trade with Europe, Conservative Political Centre.
(22) The Listener, 29 February 1957.
(23) Comparative Rate of Growth of Foreign Trade, 1948-1957. (Current Values of imports c. i. f. and exports f. o. b. taken together as a % of previous base year).

Country or Area	1955 as % of 1948	1956 as % of 1955	1957 as % of 1956
World Total (excl. Communist bloc)	152	111	110*
Continental W. Europe	188	112	111*
of which: W. Germany	—	117	114
North America	140	117	106
Sterling Area (less U.K.)	134	105	107*
U.K.	129	104	104
Japan	475	128	132
Latin America	128	106	106*

* based on first half 1957 only.
Source: I.M.F. International Financial Statistics.

(24) The Times, 11 October 1957.

(25) Percentage Shares of Total Western Trade with Different Areas. 1987 and 1956.

Year		OEEC	OEEC Dependencies	(Sterling Area	USA	Other $	Non$ S. America	East Europe	Others
1937	Imports	38	10	11	10	6	8	9	10
	Exports	50	7	10	26	4	5	6	13
1965	imports	42	12	11	15*	6	3	2	7
	Exports	51	11	11	7	4	3	3	10

* including Military Aid (E.C.E. Survey of Europe, 1955, Table C 33).
Source: O.E.E.C. General Statistics.

(26) U.N. Monthly Bulletin of Statistics, Special Tables and E.C.E. Survey of Europe in 1956 for the Rouble Area,
(27) U.N. World Economic Survey for 1956, Table 84, p. 197.
(28) Ibid. Table 26, p. 65.
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(32) Economist Intelligence Unit. Britain and Europe, p. 12.
(33) Ibid. p. 10.
(34) E.C.E. Survey of Europe in 1955, p. 17.
(35) Svennilson, Growth and Stagnation in the European Economy, Tables 3, Al and A3.
(36) CE.EJC, General Statistics, op. cit.
(37) Details of Increases in U.K. Dollar Imports, 1954-57 (in £m ci.f.).

Commodity Source	1954	1955	1956	1957
Sugar: $ Area	24	19	30	51
All Areas	103	103	108	154
Wheat: U.S.A.	28	48	61	59
Canada	81	98	105	81
All Areas	176	222	233	212
Cotton: U.1S.A.	36	26	32	63
All Areas	125	99	104	108
Copper: U.S.A.	5	9	3	19
Canada	16	22	21	18
All Areas	97	133	131	105
Iron and Steel: U.S.A.	6	37	22	19
All Areas	28	99	106	79
Coal: U.S.A.	3	37	28	19
All Areas	17	24	43	25
Petroleum: UJS.A.	23	23	31	66
Venezuela	18	31	35	68
All Areas	312	334	370	441
Machinery: U.S.A.	24	32	38	40
(non-electric): All Areas	75	92	110	125
ADL Imports: U.1S.A.	282	420	409	483
Canada	273	344	348	320
Other $	85	89	98	122
All Areas	3374	3881	3889	4076

Source: U.K. Trade and Navigation Accounts, December 1956 and December 1957.

(38) I.M.F. International Financial Statistics, op. cit.
(39) U.K. Balance of Payments, 1954-57. Cmd. 273, October 1957.
(40) Queens Speech, 5 November, 1957.
(41) Mr. Harold Wilson. Debate in Parliament, November 1956.
(42) Times, 30 October 1957.