

'Britain and the Six' from The New Statesman and Nation (13 October 1956)

Caption: On 13 October 1956, the London weekly political magazine The New Statesman and Nation expresses its doubts about the advantages for the United Kingdom of an association with the Common Market envisaged by the six Member States of the European Coal and Steel Community (ECSC) or of the establishment of a free-trade area under the auspices of the Organisation for European Economic Cooperation (OEEC).

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Britain and the Six

Is Britain about to become a partner, or at least a participant, in a plan of European economic co-operation? All that has happened so far is that the six countries of "Little Europe" have been considering plans for a customs union and that out of these discussions has arisen a wider, but less ambitious, project for a west European "free trade area" open to any member of O.E.E.C. that is prepared to join. Neither of these plans has yet taken final form; but they have gone far enough to lead Mr. Macmillan to consult the governments of the Commonwealth about them.

The difference between the customs union projected by the six and the wider project of a free trade area appears to be that the former involves not only the disappearance of tariff and similar barriers between the participant countries but also the adoption of a common tariff against the rest of the world; whereas the latter involves only the first of these, leaving each country to raise what barriers it pleases against other countries. There seems to be no question of British entry into a customs union, which would automatically end any sort of preferential arrangement for Commonwealth trade. All that has been under discussion has been possible British participation in the proposed O.E.E.C. free trade area; and even in this connection it seems that agricultural and perhaps other primary products, as well as manufactured foodstuffs, are to be excluded. The main effect, then, would be to open the British market to the unrestricted entry of west European manufactured goods and in return to give the British manufacturers a similar unrestricted access to west European markets. This would certainly mean sharp competition here and in western Europe between British and West German industries — to name only our most important competitor. The idea behind it is that the larger common market would make it possible to reduce costs by producing on a bigger scale and to plan investment policies over a wider area.

Were the proposed free trade area to be set up without British participation, there would be an evident risk that British manufacturers would lose a considerable part of their export markets in western Europe — largely of course to Germany. As against this, British participation might involve inroads by west European manufacturers into the British home market — though the proposal to introduce free trade only by stages over a span of years would allow home industries a period of grace to accommodate themselves to the new conditions. If primary products are to be excluded from the scheme, the exports of the Commonwealth countries would not be greatly affected by it, though there would be some tendency for the west European countries to increase imports of primary products, where they could, from such overseas territories as they still retain.

The most questionable aspect of the entire project is that it would evidently tend to the setting up of permanent barriers in the way of trade between western and eastern Europe. It would make the reunification of Germany even more difficult than it now is by integrating West, but not East, Germany into the west European free trade area; and it would place Czechoslovakia and Poland, among other countries, outside the boundaries of a so-called Europe which included only countries of the O.E.E.C. group.

There is, moreover, the grave doubt whether, despite certain evident advantages of removing internal tariff barriers between the countries of western Europe, the prospective partners in the European free trade area really constitute a viable economic unit. The Danes are already saying that they have little interest in a project from which foodstuffs, their principal export, are to be excluded; whereas New Zealand, for example, would clearly be hostile to any proposal to allow Danish agricultural products unrestricted entry into the British market. The French, in other matters strong supporters of the European idea, feel grave doubts about the capacity of their industries to stand up without protection to German — or, for that matter, to British — competition. The Dutch, like the Danes, are interested as agricultural exporters; and the British manufacturers are afraid of their increasingly pushing and efficient German rivals. Obviously there is no intention of seeking to make the European free trade area self-sufficient; it will be bound to need large imports of both agricultural and other materials, which will have to be paid for with exports, chiefly of manufactured and, above all, of capital goods. The question is whether there will be room, within the markets open to the west European exports, for all the manufactured products they will need to export, unless the markets can be so widened so as to include the countries now on the other side of the iron curtain.

To be sure, this doubt arises whether western Europe becomes economically integrated or not. It does not seem at all likely that the dollar market for imports from western Europe can be enlarged enough to solve the problem of absorbing both German and British manufactured exports on the scale required. The difficult question for British industry is whether it can better afford to lose a large part of its markets in western Europe to the Germans or to open its home market to free west European — above all West German — competition. The answer chiefly depends on the relative prospects of rising productivity in Great Britain and in western Europe; and it is necessarily difficult to assess these prospects. The Germans have of late been increasing their productivity a good deal faster than we have; but that is partly because they had to start after 1945 from a much lower level. Their post-war recovery has been very remarkable; but it does not follow that they can keep up the pace now that recovery is largely accomplished. On the other hand, Great Britain has allowed its rate of production-advance to slacken off of late; and recovery of the post-1945 rate of advance will call for a considerable increase in capital construction, for which the resources can ill be spared unless we can cut our spending on armaments much more drastically than we yet show any sign of being prepared to do. Nor must it be left out of account that the demands of capital construction are to a large extent competitors with the demand for exports of capital goods, on which the prospects of the British economy are bound more and more to depend.

Whether the European free trade area comes into being and whether, if it does, Great Britain takes part in it, the British economy will be faced with big difficulties for some time to come, and a high proportion of current output will have to be devoted to investment designed to inspire industrial productivity. In these circumstances it is of the first importance to eliminate all wasteful or unnecessary capital spending and to make sure that investment is guided into the right channels and not frittered away by speculators in search of immediate profits from the home market. That proposition must in any event be the basis of our economic policy. Whether Great Britain should at the same time take the plunge into a west European free trade area is a question which cannot be answered until we know more clearly what the project is. We cannot afford to reject it out of hand; but we need not get unduly excited about the whole matter yet awhile. It is still quite on the cards that the six countries primarily concerned will fail to agree on this project for a common market and that, even if they do agree, the proposal for a wider free trade area will fail to mature. To say this is not to express the hope that nothing will happen: it is merely to utter a reminder that nothing binding or decisive has been agreed on so far.