A DIGEST OF NEWS AND VIEWS ON BRITAIN'S ECONOMY AND OUR ROLE IN OVERSEAS TRADE AND PAYMENTS

Vol. 1 No. 3 May/June, 1971

CONTENTS

Published bi-monthly

Editor: Edward Holloway
Published by Commonwealth Industries Association Ltd.,
60 Buckingham Gate, London, S.W.1.

Subscription rates: U.K. £2 p.a. Australia $5. Canada $6. New Zealand $5. U.S.A. $6.

THE COMMON MARKET NEGOTIATIONS

An Assessment

The negotiations on Britain's application to join the European Economic Community are now reaching the critical stage. The next round of Ministerial negotiations takes place in Brussels on May 11th and 12th, and unless the British negotiators are able to reach agreement on at least some of the outstanding problems at these meetings, it is likely that the Government's time-table for accession to the Treaty of Rome by 1973 will be gravely endangered.

No doubt this was the reason for the top-level discussions held on 23rd April at 10 Downing Street when the Prime Minister presided over a meeting of the Ministers and Ambassadors chiefly concerned with the negotiations, over which a veil of secrecy has been drawn. No doubt, also, this accounted for the warning which Mr. Rippon gave to the Six on 1st May about the limits to which Britain is prepared to go on the three key issues—New Zealand, Commonwealth sugar and sterling.

An act of Faith!

Let us be quite clear what these negotiations are about. It is not a question of seeking amendments to the Treaty of Rome. That this has been accepted in its entirety was made clear in a recent speech by Mr. Christopher Soames to an audience in France. He said:

> **"By accepting all the laws and regulations of the Community—for we accept them all and the negotiations essentially concern transitional arrangements—we have made our choice, an act of faith."**

By and large the negotiations are limited to the transitional period. In this the main topics confronting our negotiators are—Britain's financial contribution and the future of sterling, which the French insist on bringing into the discussions. The only two items with a continuing interest are (1) New Zealand's dairy products and (2) Commonwealth sugar. **The basis of the Common Agricultural Policy is the creation of a guaranteed market, closed to countries outside the Community and aiming at self-sufficiency. Unless the Community are prepared to change the basis of their policies radically, there can be little hope of any long-term arrangements likely to satisfy the needs of New Zealand or the sugar-producing countries. If these are not obtainable, the question will arise as to whether it will be possible to continue negotiations without going back on the promises made to the countries concerned to safeguard their vital interests.**

Growing Opposition

This would make a very delicate situation for the Prime Minister, whose integrity is not in doubt, but who is identified in some people's minds as prepared to go in on any terms. Mr. Heath is well aware of the growing criticism from the Opposition, greatly sharpened by Mr. Harold Wilson's speech on 26th April in whicht he named seven different issues which were of concern: (1) Monetary contributions; (2) Commonwealth Sugar; (3) New Zealand; (4) Newsprint; (5) Fisheries; (6) Sterling; (7) Industrial relations.

The TUC, which has for some time sat on the fence, is now turning towards outright opposition, as has been demonstrated by recent speeches by Mr. Victor Feather. Some sections of industry are becoming less enthusiastic, and the state of public opinion seems to be moving still further against joining, in spite of the strenuous efforts of the pro-marketeers. The latest public opinion poll shows a decline in support for joining the Common Market over the past seven months. Even the pro-market *Daily Telegraph* has felt the need to sound a note of caution, referring to "growing pessimism in some quarters about Britain's chances of entering the Common Market". They go on to comment: "Some Conservative M.P.s who believe that the entry attempt will fail are pro-Europeans".

The question which must be uppermost in Mr. Heath's mind is the practicability of getting a sufficiently large vote in the House of Commons to make the policy of joining the Common Market credible. As Sir Arthur Bryant so cogently put it:

> **"No one has the right, without first seeking and obtaining our consent, to surrender in perpetuity the right of self-government which we have inherited from our fathers and are under obligation to hand to our children."**

Political Suicide

Mr. Heath has to allow for a considerable number of his own supporters voting against entry, or at least abstaining. While it is clear that there may be a sufficient number of dedicated pro-marketeers in the Opposition to make good this deficiency, with the leader of the Opposition obviously going cold on the project, it is difficult to see how he can make a change of this magnitude, affecting as it does the whole future of the British nation, with an insubstantial majority. To do so, in face of a hostile public opinion would be political suicide, particularly in view of the fact that the Conservative manifesto was limited to negotiating the terms of entry only—"No more and no less".

Less Growth—Higher Prices

The situation will not be helped by reports now emanating from Europe about the future prospects of growth in the Community. The main reason given by those who want Britain to join has been that we would have the advantage of dynamic growth; but the EEC Commission has recently stated that economic growth in the Common Market is likely to be noticeably less in 1971 than in 1970. Moreover, prices in the Common Market rose further last year than in any year since the Treaty of Rome came into force in 1958. The final survey for 1970 warns that "prices continue to be in great danger of rising further, with the upward thrust of wage costs playing a major part". Wages in the Common Market rose between 10 and 12 per cent last year. Also, there are growing doubts about membership of the EEC in both Denmark and Norway.

The failure of the pro-marketeers to make any real impact on public opinion stems from the fact that they have been unable to establish any statistical information about the benefits to be obtained by joining the EEC, other than general statements about the "dynamic effects" which cannot be quantified. When asked to do so, they have dodged the issue. Mr. Rippon was quite unable to give any estimate of the gains in trade with the Common Market, or the losses we would sustain in our traditional markets as a result of the adoption of the Common External Tariff.

Questioned about companies who would be likely to be placed at a disadvantage by joining the Market, Sir Anthony Part, Permanent Secretary, Department of Trade and Industry, told a Commons sub-committee:

> "We, like a lot of other people, have been doing some general thinking about where the advantages will tend to lie and where the opposite will be the case. Until we get the actual terms sorted out, and until we can consult with industry and with individual companies about how they see the prospects when the picture is a little bit clearer, I do not think it would be useful to make a list."

As Mr. Neil Marten so aptly put it in a Supplementary Question in the House on 26th April—"If the advantages of going into the Community cannot be quantified until the terms are known, how can all these European-minded people tell us what the economic advantages are before the terms are known?" Mr. Rippon replied with a typical comment—"No-one has any doubts about the advantages".

Meantime the Six are not standing still. The increase in prices agreed under the Common Agricultural Policy of between 5 and 10 per cent will add considerably to the burden and in addition the adoption of the Mansholt Plan will again increase the total expenditure in the next few years. These must have an adverse effect on the question of Britain's contribution. It should also be borne in mind that although in their proposals for the adoption of a Value-added Tax, the Government propose to exempt food and food products, the Green Paper (Cmnd. 4621) makes it clear that in EEC countries with a VAT in operation food is taxed, though at a reduced rate for at least basic agricultural products. Should we join the Market we shall have to come into line, within such a period of transition as may be negotiated, with other members so far as taxation is harmonised.

Monetary Union

The first phase of a three-stage plan has been launched for a complete economic and monetary union which will be finalised by 1980. This first phase runs from January of this year to December 1973. By 1980 there could be a single currency for the whole Community, with all that this implies in loss of sovereignty by the individual countries concerned. Yet, Mr. Rippon assured the House of Commons that by joining "we should be pooling our sovereignty to no greater degree than we have already shown ourselves willing to do in NATO, Western European Union, The International Monetary Fund and a host of other international treaties".

All this adds up to considerable doubts about the whole prospect of Britain joining the EEC, and in these circumstances surely the Government should be considering alternative policies. The extension of the Free Trade Area idea to a larger area starting with the Commonwealth and Sterling countries would make an excellent starting point for such an investigation. The New Zealand Prime Minister, Sir Keith Holyoake, said in a reply to a question that New Zealand would find such an initiative very acceptable to his country. There is little doubt that other Commonwealth and Sterling Area countries would also react favourably, and it is high time tha the British Government gave a lead in this direction.

MR. BARBER'S BUDGET

The real test of the Budget is how far the Chancellor's measures will succeed in stimulating the economy and encouraging much needed growth, and in halting inflation which has eroded the purchasing power of the £ ever since the end of the war, but has been particularly alarming in the immediate past. These two problems are closely related for it is an historical fact that continued inflation destroys confidence, disrupts the economic life of the nation and creates conditions in which growth is impossible and unemployment results. One has only to examine the situation in Germany following the two world wars to see how completely disruptive the effects of inflation can be.

It is on this aspect of our economic future that there are very real doubts. How far will the measures proposed by the Chancellor halt inflation and create those conditions of confidence which will encourage growth? In his Budget speech the Chancellor described cost inflation as "a canker which is eating away at our whole economic and social health". He went on to say—"But it lies within our own power, as a nation, to deal with inflation and, if we do so, the prospects are certainly good. If we can get the rate of increase of money earnings down to something much nearer the rate of increase of national productivity, there is every reason to believe that we shall break out into a new period of faster growth, higher investment, rising living standards and a renewed confidence in our future."

Wages and Inflation

Thus, he seemed to put the emphasis on increase of money earnings as the main reason for continued inflation. Yet it can be argued that this increase in money earnings is only made possible if there is a flow of new money created by the banking system which bears no relationship to the increase in real wealth of the community. Although the Chancellor made reference to the increase in money supply in the first three-quarters of the current year—"the final figures will undoubtedly show that the pace of monetary expansion over the year as a whole was substantially faster than was foreseen in April"—he did not appear to ascribe any particular importance to this fact in causing the inflationary spiral. In fact, later in his speech he returned to the theme that the trouble arose from increased wage demands. "Nothing that has happened over these past few months has weakened my conviction that the only way in which we can deal with cost inflation is by means of a progressive and substantial de-escalation of pay settlements and this is the policy which we intend to pursue and to pursue with determination."

The case for a thorough re-appraisal of the function of monetary policy in Britain is argued in a publication issued by the Economic Research Council * on the day before the Budget statement on 29th March. The author makes the case that both inflation and deflation arise from the failure of the monetary authorities to carry out their proper function. That is to ensure that the quantity of new money issued by the banking system corresponds with the productive activities of the nation and the volume of real wealth flowing through the markets.

Goods or Gold?

The study shows that the deflation of the 20s and 30s arose from the decision to return to a modified form of gold standard in 1925. This meant that the amount of money in circulation was directly controlled by the amount of gold in the vaults of the central bank. Thus a rigid control was imposed over the creation of new money while at the same time the capacity to increase the goods and services available for consumption was steadily increasing. In those years the Press was full of stories of destruction of food, milk being poured down drains, cattle being slaughtered, industrial production restricted while nearly three million unemployed endured extreme privation. The missing ingredient to bring these wasted resources and needy people together was purchasing power, but the authorities maintained that more money could not be created and told the nation to "tighten their belts".

Such conditions could not be maintained and by 1931 Britain was forced off the gold standard. This gave the authorities a grand opportunity of replacing the gold standard, under which money was tied to one commodity—gold—to a goods or commodity standard where money was related to the things which gave it value, i.e. goods and services of all kinds. In fact, such a policy was advocated by a well-known American economist, Irving Fisher of Yale University, who proposed in the 1920s that the U.S. should adopt a "commodity dollar". This was not to be tied to a specific commodity like gold or silver, but one that measured the composite of domestic commodity price movements and of business activity and liquidity requirements.

This failure to adopt goods and services as the basis of money issue led to a position where the controlling mechanism of the gold standard was removed and virtually nothing put in its place.

Continued Erosion

An examination of the inflationary years since 1945 shows that this has resulted in continuing erosion of the purchasing power of our monetary unit, two-thirds has been knocked off the purchasing power of the £ since the war ended. The author of the booklet comments—"people

* *"Inflation and the Function of Monetary Policy in Britain", Economic Research Council, 40p.*

having been brought up to believe that the pound had a 'Value' concluded that the more pounds they had, the better off they would be. Governments thought that the way to keep people happy (and so get themselves re-elected) was to provide unlimited pounds for them. Therefore, they pumped more and more money into circulation, regardless of the growth of production of real wealth, and so encouraged people to believe that their spending could continue to rise without let or hindrance. This comes up against the awkward fact that more money does not necessarily increase the quantity of goods and services available to be consumed. The only result of more money coming into circulation without an equivalent increase in production is to erode the value of the monetary unit."

The National Recovery Programme's Research Report No. 2 † showed that between 1964 and 1967 the mass of liquid purchasing power available to the people of Britain increased by an amount of the order of £2,500 million, equivalent to about £50 of spending money in hand for every man, woman and child in the entire population of the country. At the same time our rate of growth was negligible. The latest issue of the Bank of England's Quarterly Bulletin shows that Britain's stock of money expanded at an annual rate of nearly 12 per cent in the first nine months of the financial year. The searchlight needs to be turned on how this new money comes into circulation and steps taken to ensure that the money flow should be scientifically regulated by impartial and disinterested statisticians with the intention and effect of keeping the average price-level constant.

It is the unregulated flow of new money into the economy which has led to the spate of wage demands. The effects of inflation have led to a situation where a man earning £10 per week in 1945 now needs at least £30 a week to maintain the same **standard** of living. It is a very natural desire to prevent a deterioration in living standards which lies behind the continued demand for increased wages. It is a short step from this for the more powerful trades unions to attempt to safeguard their members not only by discounting the effect of current inflation but also to take into account future inflation. If these wage increases are granted without a compensating increase in production, then they add to the inflationary spiral. To this extent the Chancellor is right to demand a halt to unrealistic wage increases, but he should also look at the unregulated way that new money has been injected into the economy if inflation is to be halted.

This question of the importance of money supply was voiced from both sides of the House of Commons in the debate which followed the Budget statement. Referring to the Chancellor's comment "But this does not mean that I intend the growth of money supply simply to accommodate the going rate of inflation", Mr. Robin Turton said "surely the

† *"Expansion without Inflation", National Recovery Programme, 37½p.*

real factor we have to get at is that the growth of money supply ought to have some relationship, not to the going rate of inflation, but to the growth of the economy. Until we get that right we will not get the economy right."

Both Mr. Turton and Mr. John Biffen also took the Chancellor to task for another significant statement made in his Budget speech. Mr. Biffen said—"My right hon. Friend the Member for Thirsk and Malton quoted the Chancellor. I shall do the Chancellor the courtesy of making the same quotation again. I hope that everybody will repeat it and think about it. These were the Chancellor's words:

> 'As the rise in costs and prices is moderated, so the aim will be to slow down the growth of the money supply. This will depend on the progress we make in de-escalation'."

As Mr. Enoch Powell said in a recent speech to members of the Economic Research Council—"This is upside down, if the growth of money supply is the cause of the rise in costs and prices, you cannot sit waiting for the rise in costs and prices to diminish and say that as soon as it does we will turn down the money supply. That must be putting the cart before the horse!"

Implicit in the Chancellor's statement is the view that the Government should be a passive supplier of money to finance income settlements, whereas their correct role should be to control these demands by using their undisputed function as the sole creator of money. The situation was neatly summed up by the First National City Bank in their Monthly Economic Letter for March, 1971, when they said —"We know from the experience of many countries, through hundreds of years, that price inflation is invariably brought on by allowing monetary growth to run out of control." This goes to the whole heart of economic management and the relationship between the administration and the supply of money.

Much more will be heard on this controversial topic in the coming months for, as the author of the booklet already referred to says—

> "Inflation is a disease: it creates conditions of mind which cause otherwise rational people to behave irrationally. They will continue to do so until the facts about inflation are made clear and the myth destroyed that money is itself wealth."

WHAT NEED FOR STERLING NOW?

Although, due to French insistence, the question of the future role of sterling is under question in the negotiations with the Common Market, there is still resistance on the part of the British Government to bringing this forward at the present time. Mr. Rippon, the Minister in charge of Britain's negotiations told an Anglo-French conference of Parliamentarians in London—"as this issue involves many countries not party to these negotiations, we have felt, and feel, that such discussions should not form part of the negotiations proper. Lest any here should be in doubt, let me repeat that the Government would be willing at the appropriate time to explore the possibilities for change in the reserve role of sterling with all those concerned, including the official holders of sterling."

"Obviously we have to find means which avoid creating an unacceptable burden for us, promote the healthy development of the international monetary system, and naturally protect the interests of sterling holders."

Many argue that Britain should opt out of the responsibility altogether, but is this practicable in present circumstances? The answer must be that sterling which plays such a large part in financing world trade cannot be abrogated without threatening the structure of the payments mechanism of world trade. It is still the medium of exchange through which about one-quarter of the world's trade is conducted and it is the currency in which about one-sixth of the world's reserves are held. There is nothing in sight that could replace sterling in the immediate future, although at some time there must be. International monetary co-operation in sustaining sterling has been the outcome of enlightened self-interest. There is no illusion in London that Britain wishes to posture as world banker in a bygone imperial role, but a realisation that London is tied up with all the world's banking, financing, and trading services, and that commitments have to be honoured.

What created the need for sterling?

It is necessary to take a look at the historical background to appreciate why sterling played a vital role in rebuilding world trade after the economic crises of 1929 and again in the post-war world.

The banking function of the United Kingdom in its many ramifications emerged during the nineteenth century out of the trading and financial relationships built up between the U.K. and other countries. The growth of international trade pivoted mainly on the British market, was largely financed by British capital, and made use of British banking

facilities. It followed that the pound sterling became the most convenient means of settlement and also the most economical and easily accessible reserve to hold when foreign-exchange transactions were centred so heavily in the City of London.

The banking connections, branch establishments, agencies, and correspondents which had spread outwards to all parts of the world with the development of British overseas trade provided the most convenient machinery for international payments between third countries. Backing this installed equipment of banking facilities with its world-wide connections, the credit facilities provided by London for produce markets, ship-chartering markets, and general merchanting resources enabled international business to be transacted in sterling with a minimum of delay and expense. This remains the essential basis of sterling's position as an international currency to this day.

Collapse of the Gold Standard

In 1921 the world was left with an economic depression of unparalleled severity due to the collapse of the Gold Standard. Gold had been withdrawn from international circulation; something like £5,000 million had gone to the U.S. between 1929 and 1932, and considerable withdrawals were made by France. Much of this was taken out of active circulation.

It was in these circumstances that some new initiative was vitally necessary if world trade was to recover from the abysmally low levels to which it had sunk, and in April, 1932, the British Treasury set up the Exchange Equalisation Account. Endowed in the first place with £150 million of Treasury bills, it was commissioned to use them to establish stability in the exchange rate of sterling. Sterling Treasury bills were put into circulation with the backing of the British Government, but they were not backed by gold.

They proved to be exactly what overseas traders needed, and were readily acceptable—the mark of any satisfactory currency. The operation of these Treasury bills operated as a counter to deflation, which had been the prime cause of the world-wide depression.

In this way the Sterling Area took shape. In pre-war days no less than 21 foreign countries plus what are now the nations of the Commonwealth (except Canada) were associated in this operation. In this way came about the recovery of world trade after 1932.

Sterling was held by other countries, not only as a convenient means of conducting current transactions, but also as a buffer against future needs, and thus the function of the pound was parallel to the traditional main reserve asset of gold. In fact, it was in one respect superior to gold, for sterling reserves could be invested in London and thus earn interest.

Although the outbreak of war in 1939 and the difficulties encountered in the post-war period brought some changes in the functioning of the Sterling Area, the main features do not radically differ from the pre-1939 level. It is still true that the greater part of overseas trade of member countries is financed in sterling. Most of the Sterling Area's foreign-exchange transactions go through the U.K. and it is therefore still convenient for most overseas Sterling Area countries to hold their reserves in London in the form of Sterling balances.

To talk of the sterling balances held by countries in the sterling area as a debt is misleading and arises from out-of-date monetary conceptions. It is a question of honouring a currency which we ourselves have created, when and if in the course of trade and development holders of sterling want goods which we can supply, or rather which we or any other members of the sterling area can supply. Thus sterling provides purchasing power which can stimulate our productive energies or those of others.

It is significant that the French have again been discussing the tying of the availability of world liquidity to the amount of gold in circulation. It was to counteract this crippling provision that sterling became a world non-gold reserve currency for international payments. It may not be desirable for Britain to maintain the concept of a world currency indefinitely, but there is no alternative to sterling in sight, and until the world's payment system is completely refashioned, providing some form of new reserve asset for the expansion of world trade, it would be fatal for Britain to abrogate its present role.

COMMON MARKET DEBATE

The Open Seas Forum, which supports the idea of a multilateral free trade area, based upon the principles of EFTA, as an alternative to the Common Market, has published a new study by Professor Harry G. Johnson, entitled "Our Entry into the Common Market: The Implications for World Economy".*

Professor Johnson maintains that if Britain is successful in joining the EEC the long-run implications for the world economy will be both far-reaching and potentially ominous. It will break up the preference system of the Commonwealth and is likely to contribute to a reversal of the post-war trend towards integration of the world economy through the liberalization of trade and increasing freedom of international capital movements.

The adoption of a commitment to a common European currency would be especially dangerous for Britain because it would involve a binding pledge to a fixed exchange rate, which past experience has shown to be a serious impediment to the pursuit of objectives of domestic policy. The dominance of the United States dollar and of American monetary policy would probably be increased, something that is quite contrary to the objectives of the "Europeans".

Move towards Reciprocity

Of the American view Professor Johnson says "Of the two aspects of the traditional basis of contemporary American foreign trade policy —non-discrimination and reciprocity—reciprocity has been increasingly emphasized, and non-discrimination less and less extolled as a fundamental moral principle in trade negotiations. A proposal for a free trade association involving Britain, U.S.A. and other countries might capture the essence of this changing mood, and permit a further movement towards global trade liberalization within the confines of the GATT rules to substitute for a retreat into protectionism and regionalism."

The Chairman of the Forum, Mr. Richard Body, M.P., says in his introduction to the Paper that a large sum of money—variously estimated as between £2 million and £10 million—is being spent by a network of pro-European bodies telling of the El Dorado which awaits Britain in the Common Market. They suggested that the Community has acquired some mystique to achieve economic growth.

Growth Plummeted

"That this growth in Western Germany, the country they have compared with our own, has now plummeted down to a rate of no more than 2.5 per cent—below our own for 1971—does not deter these propagandists in the slightest" writes Mr. Body.

"Nor does the fact that the high tariff wall that surrounded the Six at the time of our first application to join has shrunk so low, with each succeeding round of tariff reductions under GATT, that we are now able to export more to the Common Market than to anywhere else, including the whole of the Commonwealth. Next year the tariffs will be cut again, when the Kennedy Round is completed, and after that they will cease to be of much significance for most of our exports. Certain non-tariff barriers will still exist between us, but as often as not they can act to our advantage as much as to theirs."

The next paper in this series will be by Professor J. E. Meade.

* *Common Market Debate No. 1, published by Open Seas Forum, 60 Buckingham Gate, S.W.1, 30p.*

WHY NOT LOOK BEYOND THE E.E.C.?

Lionel Gelber *

Canada is one of those Commonwealth countries that cannot observe the proceedings at Luxembourg and Brussels with indifference. If Britain enters the Common Market this will adversely affect 60 or 70 per cent of Canadian trade with Britain. The fact is that British customers, with or without encouragement from Whitehall, may have been smoothing the path to the new Europe when they let Canadian imports slip from 17.2 per cent to 7.5 per cent during the last nine years. Nor should a rise in Canadian exports to the Common Market itself (from Can. $438m. to $851m.) be misunderstood. Despite the economic growth which that entity has had, Canada's share of trade with it declined from 1.9 per cent in 1961 to 1.22 per cent in 1967.

It is possible, nonetheless, that British negotiators will show colleagues how all their countries must import 12 industrial items of which, among efficient producers, Canada exports nine. Beyond this, what Ottawa urges is another set of negotiations—one to ensure that, if the Common Market is enlarged by the entry of Britain and smaller applicants, international trade will not be diverted but fostered. For the moment, crumbs from the high table are the most that Ottawa can anticipate and it is with no sanguine expectations that it waits discreetly in the wings.

Second Thoughts

It is less easy, however, for the U.S. to do the same when, having sowed the wind over this issue, it is about to reap the whirlwind. There may even be a dispute between London and Washington if American grains, contrary to an agreement concluded under the rules of GATT (the General Agreement on Tariffs and Trade), are shut out from Britain. Yet, while the British were at their most diffident, it was the U.S. which exhorted them to sign the Treaty of Rome. Now, it may be having second thoughts itself.

It is by pressure from disparate quarters that the ground is being cleared for an epoch-making change in the American approach. If American purposes are to be served, the optimum size of the European Community may be its existing one. But the U.S. can forestall its enlargement only by offering Britain, with lesser applicants, an alternative more viable than entry into the Common Market. And here Washington, on examining the proposals for a multilateral free trade treaty, will have to move quickly. Such a venture may not only furnish Britain with the sort of outlets it requires. It could further that liberalisation of trade to which, with Canada, Nixon Republicans and a number of Democrats subscribe.

* *Author of "The Alliance of Necessity" published by Robert Hale 1967 and contributor to "New Trade Strategy for the World Economy" published by Allen & Unwin 1969.*

What all this calls for is plain. It would throw into reverse an American trend that dates from the era of the Marshall Plan and which John Kennedy brought to its zenith. According to his scheme there was to be an Atlantic partnership based on two pillars—the first, in Western Europe, enlarged and fortified by the admission of Britain and the rest to the Common Market; the second, in North America, implying the absorption of Canada by the U.S., a phase which Canadians themselves did not grasp. Yet if this grand design went too far, it did assume the one condition under which the Common Market, even within existing limits, could exploit fully its present cumulative potential. Much that is centrifugal in the European Community prevents it from acquiring an organic federalising, supranational character. Until it does acquire one it cannot—as American history indicated and the experience of the German "Zollverein" revealed—achieve its aims. When it does, no single component like Britain, centre of a Commonwealth and linked traditionally with the United States, can retain overseas affinities of its own.

A Third Force?

In so compact a complex, administrative necessity is what must tell. A supranational cohesion is essential, at any rate, when West Europeans toy with ideas of monetary union that will vie with the American dollar; so that the new Europe should speak on world politics with a single voice; or even seek to combine for their own semicontinental defence—though with their security still underwritten by the American nuclear deterrent and by Nato support from the U.S. and Canada. What Washington in turn must decide is whether, on being more closely unified, an enlarged Community may not become the framework for a Third Force—one that could go its own way when the U.S. must desire that the power structure of the West continue unimpaired.

There is another consideration. At a juncture when the American people shrink from any over-extended mission as a global gendarme, they might cling to whatever politico-strategic assets they possess elsewhere. Foremost among these, since the end of the 19th century, has been a co-operative British role. And if that role still has a residual utility, the U.S., by sponsoring a multilateral free trade area, might do what it can to ensure that role's perpetuation. For then Britain could spurn the trammels of Europeanisation and hope to persist not only as hub of the Commonwealth but as chief among allies on which the U.S. can still rely.

Nor is there any reason why Britain, more than other members of a free trade area, should become the 51st State of the American Union. Rather, what British exporters and investors need are bigger opportunities within the lucrative American home market. And as with Britain, so with Canada—the Canadian electorate voted against reciprocity in bilateral trade with the U.S. as long ago as 1911. Today, however, the sheer diversity of a multilateral free trade area should make it safe.

Prior Assurance

If, too, Washington seizes the trade initiative in the West from the Six, the bulk of the British people, by all the evidence, will respond with joy. It is, though, not only competing domestic lobbies (Americans who favour a lowering of tariff barriers versus protectionist elements among certain branches of industry and the trade union movement) that have made the Nixon Administration hesitate. The U.S., as leader of the West, must also reckon with repercussions, negative as well as positive, abroad. It is allied with those which are negotiating for the enlargement of the European Community. Its fear is that it would be counter-productive if it did anything to lure one from the others prematurely. It might be still more counter-productive if Washington ignores the degree to which American interests and the sentiments of the British people have been coinciding.

What the British public should get is prior assurance of an attractive alternative before Parliament must pass judgment on the results of negotiations at *Brussels and Luxembourg.* *No assurance of that kind* will be forthcoming at present. Washington has deemed it more expedient just now to reiterate American support for British entry into the Common Market. And yet, if Britain did enter, it would restrict not only its own scope but that of the United States. Any such foreclosure must be to the detriment of the West. Washington, with the British people, should want to keep its options open and that is the objective towards which it might chart a new course in the end.

Extract from an article published in 'The New Statesman' 18.12.70.

Printed by Plaistow Press Magazines Ltd., 3 New Plaistow Road, London, E15 3JA