



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

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CAN THE COMMONWEALTH SURVIVE?

In these last days of 1972 we have to face the fact that on 1st January 1973, Britain will become a member of the European Community. A major change in our approach to trade with the rest of the world is foreshadowed and in these circumstances it is necessary to consider whether the Commonwealth can survive. There have been many who have sincerely believed that joining the Community can strengthen the Commonwealth. This view has been supported by Mr. Arnold Smith, Director-General of the Commonwealth Secretariat and by Members of Parliament like Mr. John Osborn who put the case in our March/April issue for the advantages of British entry into the E.E.C. to Commonwealth industries in both the developed and developing countries of the Commonwealth.

As is shown in an article on Page 15 of this issue, although over the period 1961-1971 Commonwealth and sterling area trade has continued to grow, there are some disturbing implications to be drawn from the figures available so far for 1972. These indicate that our decision to switch trade from Commonwealth to Common Market is beginning to take effect. Unless we resist this trend it is likely to accelerate in the coming months and years. **This must occasion some concern in the minds of those who supported entry into the E.E.C. believing that this would be beneficial to our Commonwealth association. They must now face the question in an acute form as to whether this move by Britain might not sound the death-knell of the Commonwealth.**

ELIMINATION OF COMMONWEALTH PREFERENCE

"The starker economic implications of Britain's accession to the E.E.C. dawned only slowly on many members of the Commonwealth" writes Mr. Melvyn Westlake in a special supplement to "The Times" on 6th December. He goes on—"With entry next month assured, much intense activity is now taking place as Commonwealth countries seek to secure new markets or safeguard their diminishing privileges."

In his article Mr. Westlake points out that "the elimination of Commonwealth preferences will end one of the few manifest facets of a relationship which boasts no constitution and no formal treaty of association, yet spans 860 million people in 32 countries across six continents."

He finds it very doubtful whether without the economic benefits, the bonds of history, sentiment, political self-interest and technical co-operation will prove sufficient to keep the Commonwealth nations together. As Mr. Westlake rightly points out, the E.E.C.'s identification with Africa and the Mediterranean, if not corrected by pressure from Britain, will inevitably loosen ties with Asia, Australasia and North and South America. **"The main losers will be the Asian countries" writes Mr. Westlake, "for they will be cast off effectively, in an economic sense, from the mainland of Europe."**

GROWING DISILLUSIONMENT

The effect of Britain's membership of the E.E.C. on India's economy was recently stressed in a speech by Mr. T. Swaminathan, until recently secretary to the Cabinet in Delhi. He expressed regret that the attempt to open negotiations on a comprehensive E.E.C.-India trade agreement had been put into cold storage. He pointed out that the jute and coir industries supported millions of people in West Bengal and Kerala and the outcome of high tariffs imposed by the E.E.C. could result in desolation and distress in the areas concerned. **India's very important traditional market in the United Kingdom would be eroded without any adequate redress.**

Disillusionment in the U.S.A. about the role of the enlarged Community has been growing. Speaking in Brussels recently, Mr. McGeorge Bundy, former security affairs adviser to President Kennedy told a seminar of experts on the E.E.C.'s external relations that the Europe which the U.S. faced in 1972 was not the Europe it had dreamed of. "The achievement so eagerly sought 10 years ago—the entry of Great Britain—turns out to be the prelude to a series of encounters now in prospect, in matters of trade and money especially, which makes the arcane disputes of the Kennedy Round look like beginner's stuff."

The failure of the Summit Conference to devise any adequate means of dealing with the problems of the developing countries underlines the seriousness to them of the present situation. There is no doubt that the outcome of our European commitment can be disastrous for some of the developing countries with whom we have a long and honourable association. Although the "non-associable" developing countries will gain some benefit from the Community's generalised tariff preference scheme, this will not offset the loss to them of Commonwealth preference. A conservative estimate is that 25% of the Asian Commonwealth's \$600 million annual exports to Britain will face new higher tariffs.

All this makes melancholy reading and it is sad to reflect that when, over the years since the Common Market proposal was first mooted, the Commonwealth Industries Association has persistently pointed out that the end-product would be the weakening of the Commonwealth and the disbandment of the sterling area, we were dubbed alarmist and referred to scathingly as "Little Englanders." **The case we consistently supported for the establishment of a Free Trade Area in Europe, associated with our traditional trading partners, still remains the best solution to our problems.**

In the first issue of *Britain & Overseas* published in January 1971, we set our main objective to "show how the proposal to join the European Economic Community if undertaken under the inward-looking terms of the Treaty of Rome will damage irretrievably Britain's world-wide overseas connections. This is not to say that we advocate turning our backs on our European partners, but our belief is that we can best serve them as well as the Commonwealth and our other traditional partners in trade by preserving and strengthening Britain's world-wide overseas connections."

NEED FOR OUTWARD-LOOKING POLICIES

We see no reason to change this objective. Our effort in the coming year must be to use all our endeavours to press on the British Government the need for outward-looking policies and to see that no opportunity is lost of pressing this view upon our European partners. They, too, stand to gain much from adopting such measures as will stimulate and develop world trade. No-one will gain in the long run from the setting up of self-sufficient economic blocs as some in the E.E.C. would like to see established. In carrying out this task we shall have many allies all over the world and not least among our Commonwealth friends.

There are signs that we shall have the good-will of some within the present Government. Speaking to the monthly meeting of the National Economic Development Council on 6th December, Mr. Peter Walker said that from now until next summer the U.K. must use the maximum force to see that the E.E.C. adopted a line which was both in the U.K.'s interests and at the same time calculated to diminish protectionist tendencies in the U.S. This was taken as a hint that there will be a British attempt to modify the Common Market agricultural policy in the context of next year's international negotiations on trade policy.

In attempting to co-ordinate efforts to establish an 'Open-Seas' policy in Europe, we may yet save our Commonwealth association to the benefit of the future peace and prosperity of the world.

We echo the words of H.R.H. The Prince of Wales who told the Annual Conference of the Institute of Directors in 1971 **"It is not humanly possible to create another Commonwealth. It is unique in the history of mankind, a group of countries, previously colonies, voluntarily choosing to remain within the same kind of union . . . It could become a far more powerful union in terms of world affairs."**

POLITICIANS AND THE E.E.C.

British Business for World Markets recently commissioned National Opinion Polls Ltd. to carry out a survey of electors in Great Britain to determine their opinions of certain politicians on Common Market entry.

From a list of twelve well-known politicians from the three major parties, Mr. Enoch Powell was selected most often as the M.P. who has the best understanding of the problems facing Britain today. 29% of the voters thought he has the best understanding, 18% thought that this applies to Mr. Wilson, 14% to Mr. Heath, and 10% to Mr. Jeremy Thorpe. Support for Enoch Powell was very evenly distributed throughout all sections of the electorate.

To the question what they considered to be the "most important problem" facing Britain today, 26% said "cost of living", 15% said "unemployment", 14% said "strikes" and 8% said the "E.E.C."

The issue which is so often associated in the Press with Mr. Powell—the need for tighter immigration controls—came very low in the list of issues which concerned those questioned, only 6%.

The poll found that 39% of the sample approved Britain joining the Common Market, while 46% disapproved.

A LONG-AWAITED REVOLT

In an article on The Immigration Bill published in our issue for March/April, 1971, Mr. Russell Braddon wrote—"Australia's reaction to the Immigration Bill will almost certainly be one of revulsion. In large numbers, the old will regard it as an act of betrayal, the middle-aged will jeer at its hypocrisy, the young will condemn it as racist, and those who for so long, so patiently, have 'bought British' will at last say 'To hell with the British. If I'm alien to them now, they're equally alien to me. So I'll buy Japanese!'"

This warning given 18 months ago has been given greater emphasis by the debate in Parliament on 22nd November, when Mrs. Shirley Williams, M.P. moved that the Statement of Immigration Rules for Control of Entry (H.C., 1971-72, No. 509) be disapproved. The realisation that fundamental changes were being made in the future position of this country **vis-a-vis** our Commonwealth friends, nationals of the EEC and others brought about a long-awaited revolt against the insensitiveness of the Government in their approach to these vital problems. There is no doubt that Sir Max Aitken's article published in the 'Daily Express' played a large part in arousing public hostility to the Government's proposals which had their repercussions in Parliament with the defeat of the Government.

E.E.C. NATIONALS

The position of nationals of the E.E.C. under the new proposals was made clear by Mrs. Williams in her opening speech, "Articles 48 and 49 of the Treaty of Rome provide for the free movement of labour. That entails, as we know, that E.E.C. nationals can come to this country for six months seeking work, and after that time they can stay—if they can get work—for four years, subject effectively to no conditions except that they do not become a burden upon the State's public moneys. They have the right to bring in their dependants without let or hindrance—children under 21 years, parents and grandparents. They are not tied to any employer or job. After succeeding in holding a job for four years they can seek the removal of restrictions on future residence and seek permanent residence in this country."

Mrs. Williams pointed out that under the 1971 Act and under the Statement of Rules there are now five different kinds of Commonwealth citizen—the U.K. citizen with a right of abode in U.K.—the Commonwealth citizen who has no right of abode—Commonwealth citizens holding certificates of patriality—Commonwealth citizens who held residence when the Act was passed—and finally Commonwealth citizens who are not patial and who do not reside here. These latter are the people who will be less well treated under the rules.

PROFOUNDLY OFFENSIVE

She called on the Government "on the ground of the totally unnecessary distinction between Commonwealth and E.E.C. nationals introduced after entry and on the ground of rules which are profoundly

offensive to civil liberties and to civil rights—to take these statements back, redraft and change these most offensive provisions, and bring them back to the House for its further consideration.”

Mr. Robert Carr, the Secretary of State for the Home Department, referred to the position of the nationals of European Community countries. He said “They will be free to come here to work and live, as we shall be free to go there. As has been long and widely understood, the concept of the Community as a free travel and free work area is fundamental and is certainly not negotiable.” He claimed, however, that “the movement of labour into and out of any one country is not likely to be very large and is on the whole showing signs of decline.” He repeated the assurance “that the Government would not hesitate to use the machinery available under the Community rules and under the understandings to take action to correct, and protect ourselves from, such imbalance as would be caused.”

FOUR CATEGORIES

Summarising the position after 1st January, Mr. Carr said—“Shortly after that date there will be four categories of people coming into Britain—two kinds of Commonwealth citizens and two kinds of alien. From the Commonwealth there will be those with close direct family links with this country whose fathers or mothers were born here, and there will be those without such links. From foreign countries there will be E.E.C. nationals, and there will be other aliens.”

“Commonwealth citizens with mothers or fathers born in this country will have more privileges than those who do not, because they will have no restrictions of any kind. E.E.C. nationals will have more favourable treatment than will other aliens. But what is more important to understand in the context of our debate today is that patrilial Commonwealth citizens will be more favourably treated than E.E.C. citizens, and non-patrilial Commonwealth citizens will be more favourably treated than non-E.E.C. aliens.”

Sir Robin Turton said “So far the debate has not helped to alleviate my worries. I do not dispute the point about immigration for settlement. But the rules show a lack of imagination in their treatment of visitors from Australia, New Zealand and Canada.” He quoted the cases of young men from Australia and New Zealand who spent £500 each to visit the mother country and, if possible, to see their own Queen, and who were told by the immigration officer “You can have two months.” When they later applied to the Home Office they were given a two-month extension, and then a final extension of two months, making six months in all. They were then told that they had to go. Those are the realities of the situation.”

He pointed out that “Under paragraph 39 of the statement of rules for control on entry, an Australian girl who marries a British citizen is to be admitted for settlement, but under paragraph 45 an Australian man who marries a British girl has no claim to settlement unless to turn his wife, who was born here, out of the country would involve particular hardship. We cannot stand for that,” said Sir Robin.

BUILT ON SAND

During the debates on the European Communities Bill,” said Mr. Enoch Powell, “as a matter of theory the question of full-hearted consent was raised over and over again. Those of us who opposed that Bill said—we were only repeating ‘Our Master’s Voice’—that such a thing can only be achieved, and will only stand, if it is whole-heartedly willed by the generality of the nation. Of course, it would have been possible for the people of this country to have felt that they could embrace the citizens of Western European countries and that they were closer to them than to the citizens of Australia and New Zealand. But the fact is that they do not feel that way. . They have not ‘turned away from the open seas’, to use the famous phrase which President Pompidou put to my right hon. Friend the Prime Minister. In this matter, what people do not feel is not capable of being given reality and permanence as an institution”.

Mr. Powell concluded: “If Britain’s membership of the European Economic Community is not built—and it is not built—on the whole-hearted will and acceptance of the people of this country, then it is built upon sand. Now we are to see them tested in practice. Even before the 1st January we begin to see the first demonstration. The people out of doors do understand. In the end we shall have to hear them”.

Speaking as one of the two Australians in the House, Mr. Russell Kerr deplored “the two-faced and short-sighted attitudes which have brought this once proud nation to the abject posture symbolised by the Motions upon which we shall be voting to-night”.

Sir Bernard Braine referred to a number of cases in which insensitive and stupid treatment of non-patrials had been perpetrated by the authorities, and he quoted from a letter written by a former major of the Grenadier Guards—an Australian who served 16 years in the British Army who wrote to say that he was rejected from the British passport desk by an Indian passport officer and told, so that all could hear, “You bloody Australians want the best of both worlds”. He quoted several similar cases and sought an assurance that such administrative stupidities will be brought to an end.

CANADIAN DILEMMA

The dilemma confronting people living in New Brunswick and some other parts of Canada was high-lighted by Mr. Bryant Godman Irvine, the M.P. for Rye. He said: “What my right hon. Friend the Home Secretary has not appreciated is that the island of St. Pierre et Miquelon, which is only a few miles off the coast of the Atlantic Provinces, is a Department of metropolitan France. So the Frenchmen on that island who have done nothing for us will be perfectly entitled to enter Britain with no conditions, whereas the people who have lived in New Brunswick for 200 years will be subjected to the conditions set out in Rule 36 and will require a “special voucher” before admission.”

Winding up for the Opposition, Mr. Peter Shore, M.P. for Stepney, reinforced the point made earlier by Sir Robin Turton and others, "that it is important for us to treat those who come as visitors in a liberal and friendly way. Our actions affect their well-being and at the same time add to or diminish the reputation of our country."

He sounded a note of warning about the arrangement with Turkey, which begins in 1976. "I understand that at the moment there are about 500,000 Turks in the countries of Western Europe, and a waiting list of almost one million more. Greece as well, although agreement there is in suspense at the moment, may come in."

'THIRD COUNTRIES'

The arrangements proposed, said Mr. Shore, "involve a real contrast in treatment between Commonwealth immigrants and the nationals of the E.E.C. They are deeply offensive to most people in this country, who feel a far stronger connection with most of the Commonwealth countries than with most of the countries in the Common Market. They are perhaps even more offensive to the Commonwealth. For Canada, Australia and New Zealand, which share with us the same Head of State, operate a substantially open door for our own citizens, and are peopled predominantly with British people, the change of status to, as the Rome Treaty puts it, that of being 'third countries' is a deep and unforgiveable offence."

Replying to the debate the Secretary of State for Foreign and Commonwealth Affairs, Sir Alec Douglas-Home, made it clear that Commonwealth citizens would not be treated as aliens and there was no intention that they should ever be so treated. He promised to take note of the complaints about the difficulties and frustrations experienced by a good many Commonwealth citizens at airports and ports. "We will, therefore, try very hard to improve upon our present policies and will consult with the Commonwealth countries which feel that particular difficulties apply to them".

At the conclusion of the debate, Mr. John Biggs-Davison, M.P. for Chigwell, asked the Foreign Secretary if he would "now withdraw those rules for consideration in the light of these discussions," to which Sir Alec replied "No, sir".

In the division the Government was defeated by 275 votes to 240.

NO PATRIAL STATUS

(Comment from Australia)

Sir — My eldest brother enlisted at the age of 22 years in 1914, was at the landing, severely wounded in June, spent more than 18 months in the hospitals at Lemnos, Malta and England, then returned to his unit in France in 1917. My second brother, at the age of 21, enlisted in 1915, and I enlisted the following year at the age of 20. We three

were still in France on that wonderful never-to-be-forgotten eleventh day of November, 1918.

Our youngest brother enlisted in 1939, serving in England, Tobruk, Greece and the Islands, and my brother's eldest son, trained in England, became a pilot in charge of one of the bombers pounding the enemy in the raids in 1944, from one of which they failed to return.

As we fail to have Britain's required patrial status, we and our children are discriminated against, while actual aliens, some of whom could have fought against us, are to be treated differently because they are now residents of the Common Market countries.

C. V. HENNESSY.

Orroroo.

From The Advertiser, Adelaide, Monday, 27th November, 1972.

IMMIGRATION ISSUE AND THE N.Z. ELECTIONS

The National Government's defeat was a direct knock-back to the Heath Government and its immigration policy, the 50-year-old New Zealand war hero, who was refused permission to return to Britain has claimed.

Mr. Alan de Lury, who was turned away from Dover two weeks ago has now been allowed into the country for 30 days by the Home Office "to clear up his affairs."

He claimed the Tories policy on immigration was farcical and the National Government had not done enough to protect the right of New Zealand citizens to enter Britain.

Mr. de Lury had been working as a male nurse at a home for the disabled in Yorkshire for 18 months but did not have a work permit. When he tried to re-enter the country after a continental holiday, he was told he would not be allowed in and was locked up at Dover until he could be put on a boat back to France.

Although Mr. de Lury had a savings account and other assets in England, he was stranded in France with only £14 and ended up in Paris penniless.

In Paris he went to the New Zealand consulate where he was told to re-apply to enter Britain. He was told it would take about six weeks for his application to be processed.

However, after six days, his application was refused. When it was pointed out that Mr. de Lury had assets here, the Home Office changed its mind and allowed him 30 days in Britain to clear up his affairs. But Mr. de Lury intends to fight the Home Office decision.

The man who gave five years war service says that despite his disgust at the attitude of the British Government, he desperately wants to remain in the country where he has been so happy helping the sick.

From New Zealand News, 29th November, 1972.

MEMORIAL TO THE PRIME MINISTER

A group of academic economists has recently sponsored a Memorial to the Prime Minister on the highly important question of inflation. They suggest that the prices and incomes policy proposed is at best a temporary palliative and cannot cure inflation. They challenge the view that higher wages are themselves the main cause of inflation—"There is no evidence that the power of the trade unions has caused or can cause inflation without a concomitant increase in the money supply. It should be self-evident that they cannot push up the level of all prices, but only cause the price of those articles that they manufacture to rise and therefore some switch of demand."

They show how the Government's borrowing requirement has increased astronomically since the present Government came into power. "From 1945 to 1970 it averaged only about £200 millions a year. In 1971/2, i.e. the first full year when you were Prime Minister it was 5 times more than in the previous year, namely £500 millions compared with £100 millions for 1971. This year it was estimated to be £3,000 millions, but by now you probably know, as we suspect the true figure will be nearer £4,000 millions. . . . You know and we do not have to tell you how this money is borrowed, but there are members of the public, however, and even commentators in the newspapers it seems, who do not appreciate that these huge sums are obtained by adding to the amount of money in circulation and thus adding to the total demands."

"Is there another country in the world" they ask, "that can claim a record of such profligacy as that? It is, we suggest, the clue as to why our rate of inflation is so much worse than that of any other member country of O.E.C.D."

The Memorial goes on to deal with the repeated argument that control over the stock of money would lead to a much higher level of unemployment, but they consider that the present method of providing statistics on unemployment are unreliable. They suggest that the hard core of unemployed should be stated separately, the voluntary unemployed who are benefitting from redundancy payments should also be listed separately together with those who are out of a job temporarily while they transfer from one job to another. The remainder, the real unemployed, can only be a fraction of the total figure. This would total perhaps 300,000 people which is only a small percentage of the total population and the hardship to them must be compared to the hardship that will accrue to the whole nation if inflation is allowed to continue.

The Memorial states:—

"Those who are still complacent about inflation should realise that at the present rate the cost of living doubles every ten years, or in the course of an ordinary working life it will multiply no less than 32 times. Is there a statistic about our present life more staggering, frightening and

cruel than that? It means that if a young man beginning his working career this week saves £1, it will be worth 3 pence on the day of his retirement. We know you are not going to be complacent about it. Our anxiety is that you are going the wrong way about overcoming it and that wrong way is going to lead to a disaster greater than any of us may realise."

The authors reach the following conclusions:

First, there can be no lessening of inflation unless the rate of increase of the money supply is diminished. We do not argue that the money stock should be reduced; indeed we would like to see a steady and stable increase. However, this rate of increase should be cut back to about 6-8% depending upon the expected rate of growth. This is higher than the average from 1951 to 1970 and in our view it would be ample enough to prevent any severe unemployment or unfortunate bankruptcies. We recognise it would be brutal to turn off the tap suddenly.

Secondly, there can be no effective control over the stock of money until the Government has succeeded in reducing the net borrowing requirement. This can be done by higher taxation or reducing the proportion of the gross domestic product that goes on Government spending to a level that existed before the Government took office.

Thirdly, it must be acknowledged that the present target of 5% growth may be put in jeopardy. It is better that this should happen than that inflation destroy the fruits of that growth.

Fourthly, the system of compiling the unemployment statistics is in need of radical change. Economic policy should no longer be overwhelmed by a fallacious and emotive "one million".

The authors of this Memorial are

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MONEY SUPPLY IN THE UNITED KINGDOM

Extract from an article by David Kern published in *National Westminster Bank Quarterly Review*, November 1972.

My own interpretation of the events since September of last year is that while monetary aggregates are being used as an important statistical measure of the overall financial situation, there has clearly been no attempt to set a specific limit to the money supply. In fact, its growth since the autumn of 1971 has been very rapid by any standard and by every definition, and the inflationary consequences of its rate of growth are almost universally feared.

The growth in money supply seasonally adjusted

Month ending		£ million		% change over 3 months (annual rate)	
		M1	M3	M.1	M3
1971	September 15	n.a.	+180	n.a.	+10.4
	October 20	n.a.	+260	n.a.	+13.3
	November 17	+ 70	+280	n.a.	+16.0
	December 8	+160	+200	n.a.	+16.3
1972	January 19	nil	+460	+ 9.3	+20.7
	February 16	- 10	- 40	+ 5.9	+13.1
	March 15	+330	+510	+12.8	+19.9
	April 19	+170	+530	+20.1	+21.0
	May 17	+140	+330	+26.8	+29.7
	June 21	+260	+810	+22.9	+35.9
	July 19	- 50	+490	+13.4	+34.0
	August 16	+ 40	+130	+ 9.3	+28.9
	September 20	+110	+540	+ 3.6	+22.2

Source: Based on figures from *Financial Statistics*.

The basic reason for this rapid monetary expansion has been the Government's firm intention to bring down the level of unemployment and to achieve an improved rate of economic growth. Successive doses of reflation announced over the past two years resulted in large budget deficits and these were only partly offset by the steady expansion in National Savings and the purchases by government debt by non-bank residents. In the last quarter of 1971 bank lending to the private sector started to expand very rapidly and during 1972 it has become the main source of monetary expansion.

INFLATION AND MONEY SUPPLY IN THE EUROPEAN COMMUNITY

In reply to Mr. Parkinson, Conservative M.P. for Enfield West, The Minister of State, Treasury, Mr. Nott, supplied the following table showing the latest available figures of price inflation over the last 12 months in the present member countries of the European Economic Community, based on consumer price indices for August, 1972:

	Per cent.
Belgium	5.4
France	6.1
Germany	5.7
Italy	6.0
Luxembourg*	5.6
Netherlands	7.2

*Consumer price index for July, 1972.

Mr. Nott also supplied the following figures showing the growth in money supply in the six European Community countries during the past 24 months to June 1972:

	Per cent.
Belgium	25
France	31
West Germany	28
Italy	45
Netherlands	39

These figures which are taken from published national sources, follow a narrow definition of money supply which broadly compares to the United Kingdom's M1. This consists of notes and coin in the hands of the public and sterling current accounts of the private sector at banks.

It is worth noting that the three countries with the highest rate of price inflation, Italy, Netherlands and France, also have the biggest increase in money supply.

MONEY IS THE ROOT

The recent speedup in British inflation can be traced to the explosive acceleration in the growth of Britain's money supply that began early last year when the Bank of England, in order to help the Treasury finance a record budget deficit, turned the money tap on full. The speed-up may also reflect the boost in import prices caused by the pound's downward float, as well as the lift given to inflationary expectations by the settlement of a coal strike last February, with a wage increase of 21%—far above the then-current pace of wage advance.

Unless checked by controls, the pace of inflation in Britain would probably continue to quicken, for much of the impact on demand and prices of last year's extraordinary money growth still lies ahead. The National Institute of Economic and Social Research forecasts that in the absence of controls retail prices might rise by as much as 9% in 1973 and possibly still more in 1974. This bleak prospect, along with the Trades Union Congress' refusal to accept voluntary controls, forced the government's hand.

When the Nixon Administration introduced its program of controls last year, there was no demand pressure on U.S. prices. In fact, price-and-wage inflation had been on a downward trend for more than half a year. Controls probably helped speed up the process of revising expectations downward.

In Britain's present case, however, the problem is not merely one of high inflationary expectations that time and controls can undermine. Demand pressure on prices exists already in the face of a relatively high level of unemployment, and there is the prospect of stronger demand to come. Beyond an initial period the effectiveness of the new controls must be considered doubtful, even assuming no massive resistance by labour.

Controls can only help; they cannot do the job alone. It seems not unlikely, then, that the British authorities will have to revert to monetary and fiscal restraint. For in the last analysis, the only known cure for inflation is the money cure. And with price expectations as high as they now are in Britain, the therapy may prove both painful and slow.

Extract from Monthly Economic Letter, First National City Bank, November, 1972.

NEW LOOK POLICIES FOR AUSTRALIA AND NEW ZEALAND

The biggest political swing New Zealand has seen for nearly 40 years brought the Labour Party into power for only the third time in the New Zealand elections. Labour took 56 seats to the National Party's 31. After 12 years in power the National Party under Mr. Marshall lost 13 of its seats to Labour.

The new Prime Minister, Mr. Norman Kirk, said when the final result of the election became known that "It's a victory for the little people, the people who are inclined always to be overlooked". Certainly, he had been outspoken in his opposition to the British legislation which he claimed denied New Zealanders "free access to their monarch in Britain".

The Labour Party manifesto, ranged over many aspects of life, with most emphasis being placed on the state of the economy, social welfare and housing.

On the state of the economy, Mr. Kirk said in his opening address that the National Government's mismanagement of the economy was one of the big issues of the election.

Social welfare policy offers greater assistance to social security beneficiaries who wish to work, more support for voluntary agencies and greater research in the social welfare field.

On the subject of housing, the manifesto states that it is the party's aim to ensure that every New Zealander was adequately housed.

Other points covered by the manifesto were: repatriation of New Zealand soldiers in Malaysia and Singapore, abolition of compulsory military training, electoral reforms, pre-school education and child care

centres, the environment, industrial expansion, law and order and Maori affairs.

Following the news of the switch to Labour in New Zealand came the results of the election in Australia. Here again, the Labour Party under the leadership of Mr. Gough Whitlam won a decisive victory.

COMMONWEALTH AND STERLING AREA BUSINESS

By Jim Bourlet

Trends 1961-1971

Sir Alec Douglas-Home confirmed (Hansard 21/10/71, col. 918) that although the percentage of Britain's trade conducted with the Commonwealth has fallen during recent years the volume of such trade has actually risen. This can be seen from the following table which, after converting imports and exports to 1961 prices shows a small increase between 1961 and 1971. By quoting percentages and not volume the Government's 'factsheets' on Common Market entry last year lead many to believe that Commonwealth trade has actually fallen.

These overall figures mask many interesting details. For example, Britain's trade surplus with Australia has risen from £27m. in 1961 to £88m. in 1971, and that with S. Africa from £43m. in 1962 to £154m. in 1971. Food and raw materials, though still the largest part of our imports from Commonwealth countries, have tended to decline slightly in real terms, but imports of manufactured goods have increased substantially.

British business with Commonwealth countries is not, of course limited to goods alone. Services such as insurance and shipping and the provision of capital and 'know how', on a two-way basis, result in substantial and increasing net earnings for Britain. The chart shows the doubling of 'invisible' trade during the past decade.

Thus, taking 'visibles' and 'invisibles' together, our business with the Commonwealth continues to grow, it shows a substantial balance of payments surplus for Britain and exceeds our business with the E.E.C.

The Present Position

The figures so far for 1972 are however disturbing. Imports from the Commonwealth have dropped marginally and our exports to the Commonwealth have dropped by £150m. between October 1971 and October 1972 whilst those to the E.E.C. have risen by £250m. Part of the explanation of these movements must be the anticipation of changing policies away from the Commonwealth and towards the Common Market. In part it is also due to the longer term trend of discouraging food imports from the Commonwealth by subsidising food production in this country and importing expensive Common Market foodstuffs. There is clearly a grave danger that these policies will lead, not only to the strangulation of much valuable exchange, but also to the loss of balance of payments surpluses which Britain enjoys with Commonwealth countries.

The Future?

The wisdom of the statement 'unto he that hath, shall be given, and from he that hath not shall be taken even that which he hath' seems to apply here. If we have the courage to pursue policies which encourage Commonwealth trade, our business opportunities are very great. If we have not the courage to do this and accept less outward-looking Common Market policies, even our present business is endangered.

The opportunity for greatly expanded business is there if we maintain a policy of free importation of Commonwealth products and if we maintain and protect the institutions of Sterling as a basis of 'invisible' trade. Interestingly, an adverse movement in the 'terms of trade', making our exports more competitive in Commonwealth countries, could be the key to greatly expanded trade.

Unhappily, present policies seem all in the direction of pursuing Common Market policies; restricting food imports and disbanding the sterling area. Furthermore the high rate of inflation in this country makes our exports ever more expensive.

Unless some way is found to remedy these trends, then outlook for the future could be grim.

BRITISH BUSINESS WITH THE COMMONWEALTH AND SOUTH AFRICA

(Note. 'Invisibles' relate to the 'Sterling area' which excludes Canada)
£.Million. Figures in brackets = at 1961 prices.

Year	Price Index (1)	Imports (2)	Invisibles (3) (Debits)	Total	Price Index (1)	Exports (2)	Invisibles (3) (Credits)	Total	Net Business Balance.
1961		1,808	466	2,274		1,587	912	2,499	225
	(100)	(1,808)	(466)	(2,274)	(100)	(1,587)	(912)	(2,499)	(225)
1966		2,018	620	2,638		1,728	1,121	2,849	211
	(106)	(1,910)	(585)	(2,495)	(112)	(1,531)	(1,001)	(2,532)	(37)
1971		2,433	977	3,410		2,404	1,820	4,224	814
	(128)	(1,900)	(763)	(2,663)	(145)	(1,658)	(1,255)	(2,913)	(250)

CANADA INVISIBLES. 1971. From Canadian Balance of International Payments.

Payments to Britain. 629 million dollars. (£262m.) (Exchange rate. 2.40)

Receipts from Britain. 547 million dollars (£224m.)

Net addition to Britain's business balance. £38m.

(1) U.K. Monthly digest of Statistics 1972, Table 140.

(2) U.K. Overseas Trade Statistics 1971.

(3) U.K. Balance of Payments. 'Pink Book' Table 10. Figs. exclude Government transactions.