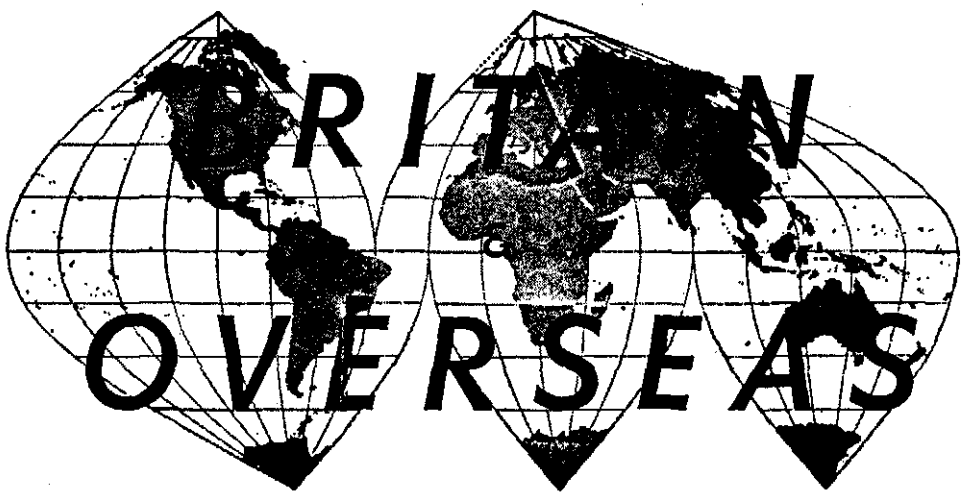

A DIGEST OF NEWS AND VIEWS ON BRITAIN'S ECONOMY
AND OUR ROLE IN OVERSEAS TRADE AND PAYMENTS

Vol. 3, No. 3 May/June, 1973

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Published bi-monthly
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Published by Commonwealth Industries Association Ltd.,
6/14 Dean Farrar Street, London, SW1H 0DX.

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

Does the CAP Fit?

The Common Agricultural policy began to operate in Britain at the beginning of February, 1973. Together with the other new members of the European Community, Ireland and Denmark, the three countries began to adjust to a new system of price support. As a result the prices paid to British farmers will inevitably move upwards during the next five years.

We move to a system whereby farmers' incomes will be supported directly by the public as consumers instead of indirectly through taxation. British deficiency payments and all other food subsidies will be phased out and during the transition period farm prices will progressively be raised to the levels of the common farm policy.

Two of the clauses in Article 39 of the Treaty of Rome set out the main objectives of the Common Agricultural Policy: (a) "To increase agricultural productivity by promoting technical progress and by ensuring the rational development of agricultural production and the best use of all factors of production, especially labour. (b) To ensure supplies to consumers at reasonable prices".

Even the most ardent supporters of Britain's entry into the European Community cannot claim that these objectives have been achieved in the 15 years of operation. Consumers prices have risen enormously while vast surpluses have accumulated. Producers complain that their incomes decline in comparison with other productive sectors and their complaints have led to some vigorous demonstrations. In fact the CAP has few friends and many critics and comment on the functioning of the CAP in the British press has been increasingly hostile. For example in the "*Sunday Times*" of 6th May John Lambert described the CAP in most unflattering terms. He wrote **"the CAP gives the rich farmers a rake-off, keeps the small farmers at dawn-to dusk subsistence, produces sugar to be made into glue and butter to be sold to the Soviets, means higher prices for the housewife - and to cap it all costs the Nine £2,000 million a year"**

MARATHON SESSION

The immense difficulties in reaching agreement on the level of agricultural prices for 1973/74 was underlined by the marathon session of nearly 50 hours, *almost non-stop undignified haggling by the Common* Market Ministers in Luxembourg which culminated in a compromise agreement being reached by the dead-line on 1st May. Some fairly forthright comments on the way the CAP operates was made by representatives of the member countries during this protracted argument. Herr Ertl, the West German Minister of Agriculture, irritated by the French Minister, M. Chirac, suggested that he "needed to see a psycho-analyst". This followed the French accusation that West Germany was currying favour with America in the forthcoming negotiations between the EEC and the United States on tariffs and other trade matters.

Although the British Minister, Mr. Joseph Godber, managed to stay clear of much of the in-fighting, there were accusations that "The British were trying to destroy Europe's farm policy." This arose as a result of Mr. Godber's great efforts to resist proposed increases in food prices which would have the effect of increasing inflation in Britain.

Yet, in spite of the tension and the strong disagreements which had arisen, particularly between France and Germany, agreement was finally reached and Mr. Godber was able to say - "This final package includes almost everything we asked for. I am very happy with it as a compromise deal." He added consumer prices in Britain would go up by less than 0.2 per cent on average.

INTOLERABLE

However, Mr. Godber was obviously very irritated by the long drawn out negotiations and the frequent break-downs which had kept the crisis atmosphere going throughout. He commented - "This whole system of negotiations is really intolerable and is not how an operation of this kind should be conducted". He went on - "I made it clear that the United Kingdom wanted to see a change in this".

Returning to the House of Commons to what the '*Times*' described as a Hero's welcome, Mr. Godber reported in detail on the outcome of the negotiations and repeated the claim that the increases agreed "would not raise retail prices". He told the House that "producers would have the assurance that their returns will not fall to unduly low levels and this should help to maintain the expansion of home production". Sir Robin Turton congratulated the Minister "on the valiant way he had stood up for the interests of the British housewife".

THOROUGH-GOING REVIEW

But the question remains, does the CAP fit the requirements of the British people? Mr. Godber showed awareness of this question when he told the House that - "The Council agreed there should be a thorough going review of the general system of the CAP in the autumn and this may well prove in the long run to be one of the Council's most important decisions". Unfortunately, he had qualified this statement when asked previously *what he thought of the Community's Common Agricultural* policy. He said in reply "There is nothing basically wrong with it and I believe it can be made effective. I am sure we can make the CAP into something which will benefit both the European farmer and the consumer."

However there is no doubt that Mr. Godber has shown to our European partners that the CAP as it operates at present is totally unsuited to the needs of the enlarged Common Market, and has given considerable impetus to the need to reform the CAP by providing farm incomes which do not rely so heavily on increasing prices and the production of unmanageable surpluses.

His approach seems likely to try and persuade the Community to move away from a system which attempts to improve farmers' incomes by political means, increasing farmers' selling prices with the resultant cost to the consumer.

As Charles Hargrove commented from Paris, reported in the *'Times'* on 3rd May "Crisis will occur so long as the policy of subordinating the interests of 200 million consumers to those of 12 million farmers does not give way to a more coherent system of direct support to farming incomes, for as long as monetary instability plays havoc with the principle of the unity of price which is at the very basis of the common agricultural policy".

There can be little doubt that the CAP as it operates at present is not in the best interests of the British people. It is essential, therefore, that pressure on Members of Parliament at Westminster should keep the question of major reform alive, so that at subsequent meetings British Ministers will be fortified to continue the struggle for fundamental reform in the crazy patchwork which the CAP has become.

SHADOWS OF A SUGAR MOUNTAIN

After butter, sugar? At first sight, with scarcity of supplies pressing the price of sugar up to £90 a ton, surpluses seem unlikely. Yet there are some factors which could cause scarcity followed by surplus. Whether this is going to happen depends a great deal on the skill of the British Government in resisting attacks by their new French partners in the Community. That resistance must be built up and perfected before the Commonwealth Sugar Agreement ends in 1974.

1973, the year of Britain's entry into the enlarged Community, will inevitably introduce some changes in her supplies of imported sugar, though, thanks to the continuance of the Commonwealth Sugar Agreement, these will not be great.

Before entry we handled nearly 2.9 million tons of white sugar; of this total, 50,000 tons were imported as white sugar, and 900,000 tons were refined from home produced sugar beet. Under the Treaty of Accession we are authorised to import only the negotiated price quotas fixed by the Commonwealth Sugar Agreement, which amount to 1,717,000 tons, and these will be subject to special levies and charges; further, under Protocol 17 the sugar must be marketed in the United Kingdom so as not to prejudice the marketing of Community sugar. Thus until 1975 only some 270,000 tons of our former imports will be subject to the limitations imposed under the Treaty.

When the Commonwealth Sugar Agreement terminates in 1974, under the Lancaster House Agreement our imports from the Commonwealth are guaranteed at 1,400,000 tons, Australian sugar being excluded. Therefore, 600,000 tons will, subject to negotiations, be diverted from the British market.

UNLOADING SURPLUS SUGAR

As the Community recently had a surplus of one million tons of their high-priced sugar, this 600,000 ton gap in the British market will present them with an attractive opportunity for unloading surplus sugar here, as Monsieur Pompidou has recognised.

1973 will be the year of important sugar negotiations. The 1968 International Sugar Agreement is due to be re-negotiated in May. Hitherto the European Community has refused to take part in the International Sugar Agreement. Two million tons of Commonwealth sugar were guaranteed markets and prices under the 1971 Review of the International Sugar Agreement. The Australian basic export tonnage of 1,100,000 tons will need to be raised by 335,000 tons after 1974 to take account of their exclusion from the British market. It is imperative that the British Government should succeed in persuading the Community to enter this Agreement, as under the Treaty of Rome we have lost the power to negotiate independently.

Monsieur Deniau of the European Commission said in July 1972:

"We must invent something to correct present trends and to give a greater share of trade to these developing countries . . . . . The European Community can learn from the mechanism of the Commonwealth, particularly as regards trade . . . . Public opinion must understand the vital need for Europe to make an increased joint effort on behalf of the less developed countries."

It will be the duty of the British Government to remind the Commission and the French Government of these wise words.

SPECIAL TERMS NEEDED

In the Autumn, the Yaounde Convention between the Community and the associated developing countries is to be re-negotiated. Up till now, this Convention has specifically excluded sugar because it is a Common Agricultural Policy commodity. Now, with a number of Commonwealth countries included under the terms of association, the British Government must fight their battles to secure that their sugar is given special terms of access into the Community.

In 1974 the United States Sugar Act, which is of great importance to all Commonwealth and most international sugar countries, is to be reviewed. This presents a welcome opportunity for the Community and the United States to work in harmony towards raising the standard of living of the sugar

producing countries, and President Nixon's visits to Europe should be used for consultation on this important objective.

At the end of 1974 Britain and the Community must agree on the implementation of the specific and moral commitment that Mr. Rippon announced on 17 May 1971:

"I can now say this to the developing sugar producing countries of the Commonwealth. There would be room in the enlarged Community, of which Britain would be a part, both for present quantities of sugar from these countries at remunerative prices and for the development of sugar beet production. With this safeguard now promised, I believe the House can be satisfied that these countries will not suffer from our entry into the Community. The assurances which successive British Governments have given to these developing countries have now been double-banked by the Community's commitment."

(Official Report, 17 May 1971; Vol. 817, c.886)

The British Government will then need to be reminded of Mr. Rippon's further words:

"If we do not get safeguards for the interests of the developing countries, then we could exercise a veto."

A HARD FIGHT

With the French policy of expanding their sugar beet acreage and of establishing new sugar factories in Martinique and Guadeloupe (those territories that are a part of metropolitan France overseas and therefore members of the Community enjoying privileges far greater than those enjoyed by the Associated Territories) there are indications that the British Government must fight hard if the assurances their spokesmen gave two years ago are to be fully implemented.

The treatment of our refining industries by our fellow members of the Community leads to a similar conclusion. Britain's refineries, just as the Queensland sugar farmers, are the most efficient in the world. The London Tate and Lyle factory is the largest, except that at San Francisco. 8,750 people are employed in this trade and at the moment their future is at risk because the Community have refused to allow a refining margin of more than £12.77 per ton, while the Six have a refining margin for their own beet factories of £37.59 per ton. Temporarily the British Government have rectified this by making supplementary payments of £4.23 per ton, but undoubtedly Mr. Godber has many all-night sessions ahead of him before he convinces his Community colleagues that the refiners of cane sugar should have permanent margins that are adequate.

Already by the repeal of the Sugar Act the British Sugar Corporation is no longer under an obligation to send 250,000 tons of raw sugar to the refineries, and under the Treaty they have lost the Commonwealth cane

sugar that arrived in excess of the negotiated price quotas. After 1974 they will lose the opportunity of refining the 335,000 tons of Queensland raw sugar. Through the omission to include in the negotiations fair terms for the refiners, a third of their supplies of raw sugar will after 1974 be at risk.

EFFICIENCY ILL-REWARDED

It is monstrous that efficiency should be so ill-rewarded. Sugar cane produces twice as much raw sugar per acre as sugar beet, yet the Community dice are loaded in favour of the sugar beet grower. Private industry is to be penalised for the benefit of the public British Sugar Corporation. Further, when Tate and Lyle purchased an interest in French refineries, the French impeded this development.

There is much evidence that the French intend to expand sugar production both in France and in metropolitan France overseas. If their intentions are realised, there are two alternatives: A huge sugar mountain that will eventually be dissolved at a loss through sales across the Iron Curtain: or the drastic reduction of sugar production in the Commonwealth. Both alternatives would be disastrous to the British housewife and the British taxpayer.

After one meeting in his negotiations on sugar, Mr. Rippon described it as a dialogue of the deaf. Let us take care that our spokesmen are not dumb in the dialogues that will take place in the next two years. We look with confidence to the British Government to fight this battle with the necessary determination and toughness and, if it becomes necessary, to use the veto.

COMMONWEALTH AND OVERSEAS RESEARCH ASSOCIATION

We had hoped to announce the date of launching C.O.R.A. in this issue of "Britain and Overseas", but negotiations have taken longer than we expected. However, we are more than ever convinced of the need to establish an organisation whose principal aim will be to promote research into the whole field of Britain's overseas trade. The mission to Canada initiated by the Engineering Industries Association, referred to on page 12 of this issue, is a welcome sign that British industry is becoming increasingly aware of the need to safeguard our traditional markets in the changing world situation. We hope to report further progress in our next issue.

THE COMMUNITY'S GRAIN POLICY

One of the most significant developments in 1972 that is likely to affect the world grain economy has been the decision to enlarge the European Economic Community. The accession of the United Kingdom, Denmark and the Irish Republic from the beginning of 1973 will affect the balance of the Community's grain economy and may have considerable repercussions on international trade in grain.

The Community's common grain policy, the cornerstone of the Common Agricultural Policy, has stemmed from the aim to improve farm incomes through price guidance and market control. In the early 1960s the original Community was a deficit grain area but the high target prices that were deemed politically necessary led to big increases in production and to surpluses first of wheat and then of barley. Market supply adjustments have been effected at high cost through large intervention purchases, heavy denaturing payments and export subsidies, while the Community has continued to import around 9 million tons of feed grains a year.

SERIOUS FINANCIAL DIFFICULTIES

Three aspects of the common grain price policy have resulted in serious financial difficulties. Firstly, the divorce of internal grain prices from world prices has led to large expenditures to protect a high cost grain production structure and probably to some mis-allocation of farm resources. The second feature and one that has contributed largely to the contradictory situation of substantial imports despite large overall Community surpluses, has been the relative failure of the regional price policy. The regional price differentials have clearly not been adequate to ensure the flow of grains from surplus areas to deficit areas at prices attractive enough to overcome traditional tastes and trading links. Thirdly, the relationship between the prices of the various grains has not reflected their generally accepted relative use values, particularly as animal feed. In the early years of the Community, the wheat price was substantially above that of barley which led to wheat surpluses that had to be disposed of at high cost by denaturing for feed or as subsidised exports. Since it was not considered politically possible to lower wheat prices the difference between the two grains was narrowed by raising the price of barley. This in turn brought about a big increase in barley production and altered its price relationship with maize, which has been only partly readjusted in the new price structure announced for 1972-73.

It has been expected that the enlargement of the Community will help to resolve the problems of the Community's grain surpluses. With the inclusion of the United Kingdom, the Community will again be a deficit grain region. But the relief may be smaller and less permanent than anticipated (though the large additional sales by Community countries to the Soviet Union this year will mask to some extent the real dimension of the surplus problem for 1972-73). It is to be expected that United Kingdom producers will react to the higher prices they will receive under the Community's policy with increased production. This may lead to reduced imports, especially as the high Community prices of feed grains may check overall feed consumption and also encourage, as it has in the Netherlands, the substitution for grain in compound feedingstuffs of high protein ingredients such as soya beans. Some projections have even indicated structural surpluses of wheat and barley in the United Kingdom by 1980 which could aggravate the Community's problem of financing surplus disposals.

NEED FOR RE-THINKING

However, the projection of United Kingdom grain production, trade and consumption based on the gradual adoption of current Community prices may well prove an unrewarding exercise. A rational analysis of the present Community price structure and market control methods with their inherent contradictions and complex administrative arrangements leads to the conclusion that it is improbable that they can continue without radical modification until the United Kingdom's prices are fully harmonised with those of the Community. The financial burden of the present system calls for a rethinking of the whole aim and method of applying a common grain policy. In the first place it would seem inevitable that the attempts to maintain farm incomes through price policies will have to give way to some method of direct income subsidies or welfare benefits for low income farm families. By its support of the Mansholt Plan with its proposals for the restructuring of Community farms, the Commission has conceded the need for a new approach to the problems of prices and farm incomes.

With such a change of approach it could become possible to end the full insulation of Community prices from general world trends, making it feasible to relate threshold prices to c.i.f. prices, perhaps through reference to a rolling average import price base. The ending of the reliance on high prices as the sole means of farm income support would also make it possible to contain the surplus production of individual grains by limited use of marketing quotas. Secondly, the enlargement of the Community makes even more necessary a review of regional price policy. The new Community will cover a considerable range of climatic and soil conditions. A regional price structure should be flexible enough to allow for these variations as well as full transport costs even if this involves more than one price structure. Thirdly, the relationship between the prices of the various grains should be based on a realistic assessment of their use value so as to encourage rational economic decisions on production and consumption.

from "Grain Crops" published by The Commonwealth Secretariat. £2.25.

THE 'TALKING SHOP' OF EUROPE

by Ronald Butt

(Reprinted by kind permission of 'The Director' May 1973)

In the original concept, the Executive of the European Community was to have been the Brussels Commission — and, bureaucratically this is, in fact, the body that has the power. What is more, because the area of European 'government' is so wide, in a sense the Commission's power is also a political one.

Yet in broad political terms, the real Executive is the Council of Ministers who, alone, take the final decisions in sanctioning or rejecting the propositions made by the Commission. The council of Ministers is also the only one of the Community's institutions in which the national states are directly represented (the assumption being that the various members of the Commission are servants of Europe, not of the countries that nominated them). In the present early stage of the enlarged Community's development, it is only realistic to accept that, with the fundamentals of power still with the national states the channels of democratic influence will continue to be exercised for the forseeable future via national Parliaments to the Council of Ministers and *not* through the European Parliament at Strasbourg.

The European Parliament not only has to deal with an Executive which is, so to speak, slippery because it is divided between two distinct bodies (one of which, the Council, is not at all answerable to it) but even more important, the M.P.s of Strasbourg simply lack the powers to do an effective job. The Strasbourg Parliament cannot bring pressure to bear on the Council of Ministers (which is effectively the European Cabinet, whatever the nominal claims of the Commission) because it has no power to bring it down, as the British House of Commons can bring down a British Government; nor can it deprive it of money. Even though the Strasbourg parliament has rejected the Commission's farm price policy, it cannot force it to be changed.

Moreover, there is simply no way in which it can manifest the most potent form of parliamentary influence which is customarily exercised at Westminster — the private pressuring of the Government by backbench members of its own party, on which it depends. The Council of Ministers need not care a fig for the pressures of Strasbourg — and to the extent that parliamentary power is of concern to it, this takes the form of each individual Minister's concern about the pressures on him from his own Parliament, and particularly his own party, back home.

That is why it is most important at this stage that the Westminster Parliament should equip itself with the means of examining all the propositions of the Brussels Commission (which are published quite openly) and then express a view on them to the British Government *before* the representative of the British Government goes off to fight his corner in the international bargaining in the Council of Ministers. Even then, of course, there is a snag. Once the bargaining is done, and the Council of Ministers

has made a decision which is disliked in the home Parliament, what precisely is to be done against a *fait accompli?* The answer, under present arrangements, is nothing much. It simply isn't possible to go in for the sort of painstaking amendment of Community legislation which is the custom at Westminster.

THE VOTE OF CENSURE

The European Parliament was theoretically designed to bring influence to bear, not on the Council, but on the Commission. For example, it can pass (provided it is by a two-thirds majority) a vote of censure which obliges the Commission to resign as a body. However, such a motion has never actually been tabled, presumably because the European Parliament has no say in appointing a new Commission and, indeed, can do nothing to prevent the immediate reappointment of the old one. (The Strasbourg Parliament cannot, however, censure an individual Commissioner.) Equally, it has some powers over the Commission's Budget which are due to increase. But they are certainly not on a scale to offer it political power in any meaningful sense.

It is probably fair to say that the European Parliament will never exercise any substantial countervailing influence on the Council and Commission until such time as the Commission is either stronger (that is, more powerful as the European supra-national body) or until the Council is more supra-national and less national. Both of these concepts are mere pipe-dreams at present, but perhaps only such a development would give the impetus for providing the Strasbourg Parliament with teeth. At the same time, it would have to be put on the electoral basis of direct national suffrage (on a system which is the same for all members) which is the aim envisaged in the Treaty of Rome — some ultimate and indeterminate date.

The obstacles in the way of achieving this are formidable. For the present, there is no will for anything of the sort. For almost every other member state, Britain's preoccupation with parliamentary checks is a very minor matter of no great interest to them. The French are not only too nationalistic but they are hardly all that sensitive about their own internal parliamentary niceties. To the Germans, it is all pretty theoretical and impractical at this stage.

Of course, there are the Euro-fanatics in Britain who are so eager for total Europeanisation on an institutional basis, that they are not at all sensitive about what happens to the Mother of Parliaments in the meantime. Some seize every straw in the wind to persuade themselves that the time is in sight when the European Parliament can be elected—and they even like to believe that the adoption of proportional representation in Northern Ireland *could* bring it nearer. But as far-ahead as anyone can see, parliamentary power in Europe will remain in the national Parliaments—not least vis-a-vis the Brussels bureaucrats and the Council of Ministers. It would be silly to denigrate the efforts to get something with a little life and influence going in Strasbourg. But it would be even sillier to suppose that the European Parliament will be anything like a real organ of power for a very

long time. Anyone who is concerned to maintain proper oversight of Brussels should first make sure that he knows what is being proposed at Brussels and then, if he doesn't like it, to bring parliamentary pressure to bear through our own House of Commons—which has got a great deal of life and power in her yet. At Strasbourg, it really is a talking-shop.

MISSION TO CANADA

A warning that a pre-occupation with Europe could lead to Britain losing out in more distant traditional export markets has come from the President of the Engineering Industries Association, Mr. Ernest Barrett of Bradford.

In a statement issued on the eve of the YORKTRADE 3 British Engineering Trade Mission to Canada — organised by the Yorkshire and Humberside Region of the Engineering Industries Association — Mr. Barrett said that if Britain was to make a success of EEC membership it was "absolutely essential" that we retain and expand our markets outside the Community.

"This is the only way we can underwrite the substantial costs EEC membership entails," continued Mr. Barrett. "We cannot afford to let traditional markets like Canada slip between our fingers because of our pre-occupation with Europe."

"Yet I must warn you that trends are not encouraging. In recent years Canadian exports and imports from the former EEC Six, and especially Germany, have been expanding at a greater rate than trade with the United Kingdom".

Mr. Barrett said that it was ironical that while Britain was attempting to integrate its economy with that of Europe, Canada is becoming concerned at the consequence of economic integration in North America. While the United States will remain Canada's major trading partner, the Canadians are keen to expand their business with Europe.

"For this reason the YORKTRADE 3 mission is particularly well timed," said Mr. Barrett. "Then the effective devaluation of the pound is likely to have offset most of the increases in Britain's costs and prices. This means British exporters should have gained distinct advantages over German and Japanese competitors."

"The outlook for world trade is encouraging and our competitive position is strong. The very fact that you are going all out for the hard sell is a guarantee that YORKTRADE 3 will be a great success."

WHAT LIES AHEAD

Speech by the Rt. Hon. Sir Robin Turton, K.B.E., M.C., M.P., at the Annual General Meeting of the Thirsk and Malton Conservative Association on 4th May 1973.

We are living in difficult times and our country faces great problems. To revert to our European differences, my view was that it was a mistake to join the European Community. That view has not changed. But we live in a democracy and when by a majority composed of Conservative and Liberal votes and Socialist abstentions from voting, we have become members of the Community, it is the duty of each one of us, whatever our beliefs, to unite in fighting to minimise the damage caused by our entry and to support the Conservative Government in its efforts to stand up for British interests.

There were three important objections to joining:

the loss of Parliamentary sovereignty
the inflationary burden on the housewife and elderly people, and
the possible effect on world trade and on our trade with the Commonwealth.

On the first issue, the Government have taken bold initiatives to retain the sovereignty of the British Parliament. To lead our delegation to the European Assembly, the Prime Minister selected a very efficient junior Minister, Peter Kirk, and as delegates Conservatives who opposed entry, as well as those who voted for it. Already by their efforts Question Time has been introduced in the European Assembly, and a Committee has been set up to reform the procedure. Stimulated by our delegation, the Assembly has rejected the agricultural proposals of the European Commission, a drastic step never taken before.

What a pity it is that the Opposition have refused to send delegates and thereby have abstained from this important work of trying to give powers to this European Assembly that under the present constitution is so powerless.

But still more important work remains to be done in securing that the British Parliament can debate issues before they are irrevocably decided by the European Commission or Council of Ministers, and can scrutinise the Commission's budget, which may have a far reaching effect on the British taxpayers.

Here the Government has not been inactive, although they were delayed for some time by the refusal of the Socialists to co-operate. A Committee under the Chairmanship of Sir John Foster has been set up to examine these problems and to recommend solutions. An interim report of that Committee has already been considered by Parliament.

The Government have also tried hard to reduce the inflationary effect of joining the Common Market. We are the only member nation that has zero-rated all foodstuffs for human consumption. The nonsensical Common

Agricultural Policy that has raised European prices far above world prices and far above the costs of efficient production has been staunchly attacked by Mr. Godber. The housewives of Britain owe him a deep debt of gratitude for having reduced the inflationary demands of the French and the Germans and for having secured a review in the autumn of the Common Market Agricultural Policy.

It is not in the interests of agriculture that the price of food should be raised so high that the people cannot afford to buy it, and in consequence large surpluses are built up which then, as in the case of butter, may be sold to the Russians at knock-down prices, so as to disrupt world markets.

This brings me to the third problem, the disruption of world trade and the loss of British export markets through the diversion of our imports from traditional trading partners.

Already our recent balance of trade deficit underlines the dangers. In the first two months since entry our trade gap with the EEC is nearly double what it was a year ago,imports from them having increased at a rate of nearly £2,000 million a year. At the same time, our trade with the Commonwealth and Sterling Area has not expanded to the same degree.

Mr. Kissinger in a speech last week drew attention to the danger to world trade arising from the closed trading system embracing the European Community and called for a new Atlantic Charter.

It is imperative that the British Government responds to this appeal, as the division of the world into regional trading blocs would cause tensions that might endanger the world economy.

ECONOMIC CAUSES OF INFLATION

Why are overseas prices rising? They are rising because the value of the pound is sinking relative to other currencies. In some cases, in Germany, in France and in Japan, it has fallen by a considerable amount. The value is sinking because we are increasing the money supply at home at such an alarming rate that foreigners do not want to hold pounds. This is a consequence of the long period of overspending which is coming through in the form of prices. It is not entirely the cause; there are other causes. One is that of joining the European Economic Community, which I personally supported. I always expected that food prices would rise as a result and I never believed that it would be possible to stop that because it was a conscious act of policy from which we knew we would have some suffering, but the sinking of the value of the pound was also due to domestic financial policies.

There is no way of stopping inflation because, as the right hon. Member for East Ham, North has said, prices will go on rising and wages cannot be contained within the formula. That may be being done at present but if prices accelerate it will be more difficult to contain wages and we shall have more increases in wages and prices during the coming year than we had in the past year. We must look to the economic causes of present inflation. We can no longer blame the trade unions; in my humble submission we can no longer blame foreigners either.

Extract from a speech by Mr. Nicholas Ridley M.P. in the debate on Price—Pay Code 2nd May 1973.

INFLATION AND THE BURDEN OF TAXATION

The mounting burden of taxation not only undermines individual incentives to increased work and earnings, but in a score of ways discourages capital accumulation and distorts, unbalances, and shrinks production. Total real wealth and income is made smaller than it otherwise would be. On net balance there is more poverty rather than less.

But new taxes are so unpopular that most of these "social" handout schemes are originally enacted without enough increased taxation to pay for them. The result is chronic government deficits, paid for by the issuance of additional paper money. And this has led in the last quarter-century to the constant depreciation of the purchasing power of practically every currency in the world. All creditors, including the buyers of government bonds, insurance policy holders, and the depositors in saving banks, are systematically swindled. Once more the chief victims are the working and saving poor.

Yet everywhere this monetary inflation, eventually so disruptive and ruinous to orderly balanced production, is rationalized by politicians and even by putative economists as necessary for "full employment" and "economic growth". The truth is that if this monetary inflation is persisted in, it can only lead to economic disaster.

Many of the people who originally advocate inflation (or the policies which inevitably lead to it), when they see its consequences of raising prices and money wages,proposeto cure the situation not by halting inflation but by having the government impose price and wage controls. But all such attempts to suppress the symptoms enormously increase the harm done. Price and wage controls, to precisely the extent that they can be made temporarily effective, only distort, disrupt and reduce production — again leading toward impoverishment.

Extract from the Conquest of Poverty by Henry Hazlitt. Published by Arlington House Publishers. New Rochelle N.Y. $8.95.

NEW ZEALAND'S TRADE WITH BRITAIN

"Despite her Common Market association, Britain is still our main export market and she will continue to be so, irrespective of our current efforts to intensify diversification. And it will be to Britain that we will look for the maintenance of old ties should the going in Europe get rough.

The Governor-General, Sir Denis Blundell, called for renewed appreciation of the British market in a recent speech. As our High Commissioner in the United Kingdom, he made it his brief to cover the entire country and keep New Zealand's good name to the fore. It will be for his successor, Mr. T.H. McCombs, to continue this essential work.

There is no room in a fiercely competitive world for those who are content just to sit back and feel sorry for themselves. New Zealand has a future in Europe, but it will be of her own making."

"The pessimists and malcontents who delight in writing off the British Commonwealth as a spent force are not bothering to look beyond the end of their rather blunt noses.

As in the best of families, there are bound to be differences of opinion, and this is healthy. Nations are essentially people and this is what gives the Commonwealth its special strength. At the same time we should never forget that it is this diverse human factor which could sap our particular association of countries of vitality and nothing would be more dangerous today.

We in New Zealand are naturally apprehensive when we think about our position in the changing Commonwealth. There is Britain in the EEC, a situation still rather foreign to us. We now know our future lies largely in our own hands.

Yet the Prime Minister, Mr. Kirk, firmly believes the British Commonwealth will remain "in strong and vigorous being," that our relations with Britain should be as close and friendly as they have always been. Encouraging, too, is the conviction of the Commonwealth Secretary-General, Mr. Arnold Smith, that Britain's entry should not have any weakening effect on the Commonwealth. Rather the opposite . . .

Each member must feel free to pursue its own destiny within the Commonwealth concept. This New Zealand appreciates in respect to the EEC. But always there must remain the determination to preserve the Commonwealth "in strong and vigorous being"."

"Comment" from a recent issue of the New Zealand "Sunday Herald"

RHODESIA'S MINERAL PRODUCTION

Rhodesia's mineral production reached a record at-mine value last year of R$108 million — a 6.7 per cent. increase over the 1971 figure of R$101.2 million. And Mr. I.B. Dillon, Minister of Mines, predicted an even higher rate of growth in 1973.

The Minister said that based on expansion of existing projects and planned new projects, we could look for an increase in the value of production of at least 10 per cent.

He said that, with certain exceptions, there had been a significant firming of commodity prices.

"Short of a world depression, I am now more confident that the target value of R $200 million will be achieved in the 70s."

Mineral production had been an "anchor of the economy for several years and will be particularly valuable this year to help cushion the effects of drought."

Mr. Dillon said there was significant improvement in the value of copper, nickel, gold and chrome production.

The value of gold production in 1972 was R $13.2 million compared with R$11.9 million in 1971.

The security situation had little impact on the prospecting programme in the north-east. There were known deposits of kyanite in the area, but these were unlikely to be exploited without rail transport.

"Our policy is to create growth points through mining in remote areas. We hope road and rail development will be accelerated to open up the country."

from Rhodesian Commentary, March 1973

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