BRITAIN & OVERSEAS

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

Vol. 4, No. 5 September/October 1974

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Published bi-monthly
Editor: Edward Holloway
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.

PETER SHORE'S ADDRESS TO AUSTRALIAN BRITISH TRADE ASSOCIATION

Peter Shore, Secretary of State for Trade, addressed the Australian British Trade Association in Sydney on August 2. As well as about the relationship between the United Kingdom and Australia, Mr. Shore spoke of Britain's present performance and immediate prospects, recently-discovered energy resources, reforming the world monetary system, the European Economic Community—and he looked to a future in which a cluster of strong and growing English-speaking democracies work together in an uncertain and changing world.

Said Mr. Shore: 'As this is the one public speech that I shall make during my visit to this great continent of Australia, I am sure that you would expect me to speak not only about the trade and economic issues which concern us both, but more broadly about the relationship between our two countries.

'And that I gladly undertake to do. For it seems to me from the many conversations I have had with Federal and State Ministers, industrial and other leaders, from my readings of your daily papers and from my awareness of the fact that it is now some time since a British Cabinet Minister has had the privilege of spending some time in your midst, that there are many things that need to be said loud and clear about our two countries and their abiding connections.

UK Prospects

'First I wish to speak of Britain, our present performances and our immediate prospects. It is, perhaps, the combination of some of our well publicised difficulties and our national habit of reticence and of understating our achievements that have helped to give rise to a wholly misleading picture of the state of our nation and the prospects before it.

'Let me remind you of one outstanding fact. There is no major country that exports more per head of the population than does the United Kingdom. No major country, not Germany, not France, not the United States, not even Japan, equals this achievement of the British people. And this record takes no account of the great new surge in our trade that we are experiencing this year since the latest re-alignment of the Pound Sterling.

'Again, while we are indeed an old country there are few nations in the world today who are so firmly and widely established in the new technologies on which the future will be developed. In the quiet engines of Rolls-Royce, the supersonic marvel of Concorde, the Advanced Passenger Train, the most sophisticated computers and in virtually every conceivable aspect of nuclear technology we are, and remain, world leaders . . . '

The United Kingdom's Vast Energy Resources

The Secretary of State went on: 'I do not know whether the magnitude of the recent discoveries of energy resources in the United Kingdom has been fully appreciated in Australia. I would be surprised if it had, because we have only begun to grasp the extent of our new wealth ourselves. But certainly the large deposits of oil and natural gas which lie under the North Sea and it now seems likely under the Celtic Sea as well—not to mention our vast investment in nuclear engergy and the great deposit of coal which lies beneath our feet in Britain—will make us one of the world's energy-rich countries long before the next decade is out.

'One immediate benefit—one that we shall realise before 1980—is that we shall become self-sufficient in oil with a benefit to our balance of payments of some £3,000 million per year. But there is more to it than that, a spin-off in technologies associated with our massive off-shore oil and gas discoveries is now becoming evident in terms of new industrial development. These new factors together with the other developments which I mentioned earlier will result in a major increase in Britain's economic strength and a major shift in the economic power of Britain relative to both our Continental neighbours and, indeed, to the rest of the world . . . '

The Immediate Problem

Mr. Shore continued: 'Like Australia, Britain is running a heavy deficit on its balance of payments current account. Our non-oil deficit grew alarmingly last year but it has shrunk substantially since—from a monthly average of £240 million in the last quarter of 1973 to £144 million by the second quarter of this year and we have every reason to believe that it will continue to shrink in the period ahead. But the major part of our deficit is due to the new price of oil . . .

'In the world's present circumstances, classic remedies for restoring external balance—deflation and unemployment—are singularly inappropriate. We refuse to follow the lemming-like rush of some other industrial oil importers to pile further deflationary measures on top of the damage done to world trade by the oil price increases. We do not intend to try to solve our oil balance of payments problems by inflicting economic damage on the rest of the world. Like you, Britain subscribed to the declaration adopted by the OECD member countries aimed at preventing "Beggar-My-Neighbour" unilateral action to correct oil deficits.

'If ever there was a time for good neighbourliness internationally, this is it. We have to try to create a new international system for recycling the vast currency surpluses which are now building up on the oil producers' accounts, and we have to press on with reforming the world's monetary system.

'If we fail in these tasks, then the whole world will slide into disastrous recession . . . '

Britain and the EEC

Mr. Shore stated: 'The British Government recognises the value of the European Market—but it should come as no surprise to you when we say that we are by no means obsessed by it. **We believe that our prosperity in the future is linked just as much, if not more, with the other continents. Two-thirds of our trade is outside the European Community—a very much bigger proportion than any other member country.**

'We have always been world traders and we intend to remain so. This is one of the reasons why we have called for a "Fundamental renegotiation" of the terms of our entry into the EEC. We want changes in its trade policy. We want a big reduction in the British contribution to the Community budget. We want a major reform of the Common Agricultural Policy, with more liberal treatment of food supplies from other countries, and better access to the Community market for the developed Commonwealth countries, the Associable and Asian Commonwealth . . .

Britain and Australia

'And this brings me back to the relationship between our two countries,' said Mr. Shore. 'Our trade is growing rapidly this year. Certainly there is no evidence at the present time that British exports are being held up by excessive domestic consumption. On the contrary, there is plenty of evidence that, spurred on by their competitiveness, deliveries are increasing rapidly. And with price controls at home British industry is currently finding exporting more profitable than selling in the home market . . .

'Next year, we shall further increase our export drive when the British Overseas Trade Board will launch the largest-ever promotion in Australia of British consumer goods—yet another sign of the importance we attach to the Australian market. On investment, I need only say that Britain is the source of more than one-third of Australia's foreign investment and we are ready to continue investment in Australia—and equally ready to welcome Australian investment in Britain.'

Mr. Shore concluded: 'While thanking and complimenting the members of the Australian British Trade Association for their part in increasing the trade between our two countries, I must conclude by saying something of our wider relationships. Important as they are, trade and investment are only a small part of our connection. Far more important is the link between our peoples. Australia is unmistakably itself, a sovereign democratic state, equal in every respect to the United Kingdom. We have no doubt about that and no wish that it was otherwise.

'But Australia is also overwhelmingly British. It is British first and foremost because our people have come here for two centuries past. Each year in the 1960s and 1970s, no less than in the past, tens of thousands of our people have left the small island of Britain for the vast island of Australia. This will go on.

'It would be an absurdity, therefore, and a folly if we did not recognise that here and indeed with other predominantly British nations there exists a natural and real community, a very special relationship.

'I look, therefore, to a future in which a cluster of strong and growing English-speaking democracies—apart in their distant continents but close indeed in their sentiments, their habits, their institutions and their people—find real and effective ways of supporting and helping each other, of working together in an uncertain and changing world. If this can be achieved then to the long story of our people, new and no less famous chapters will be written.'

Reprinted from TRADE AND INDUSTRY, 8 August 1974.

EUROPEAN CRISIS AND THE ESSENTIALS OF ECONOMIC INTEGRATION

by Victoria Curzon

In Western Europe, where governments have made it abundantly clear that they are reluctant to sacrifice significant parts of their sovereign autonomy, it has become very necessary to define much more precisely how far economic integration can be pursued without provoking 'stonewall' resistance. All the work on European monetary union, for instance, shows that the necessary degree of policy harmonization goes widely beyond anything that governments could ever accept—as long as they represent nation states.

This has been plain from the outset. Monetary integration implies the abandonment to a central authority of some of the most important instruments of economic policy, notably the capacity to manipulate rates of interest, the money supply and public expenditure, employment and, thus, the national vote. To resolve the dilemma of European integration in present circumstances it is necessary to examine whether there exists any scope between a customs union and full economic union to promote further economic integration without encountering systematic resistance from governments.

Experience in EFTA

In this connection, it is illuminating to look at how far economic integration proceeded in EFTA, which on purpose kept the level of co-operation well below the critical point at which national sovereignty might be threatened. Obviously, a free trade association involves, in the first place, a lesser degree of co-operation than a customs union. But this is not the point at issue. The existence of the European Community is proof enough that a customs union is not in itself a threat to national sovereignty.

What is interesting to discover is whether EFTA has encountered and 'second' or 'third generation' integration problems in the twelve years of its existence. If so, it would imply that the European Community could progress beyond a customs union by simply lowering its sights.

Without wishing to read more into EFTA experience than is really there, it is worth noting that EFTA was (and still is) concerned with such policy problems as government assistance to depressed regions, rights of establishment for firms and personnel, public procurement policies, restrictive business practices, technical specifications and patents.* These are areas of policy co-ordination into which governments have to go, however reluctantly, if they wish to share—equitably—the benefits of wider markets, whether regionally or globally.

Iron out Inconsistencies

On the other hand, EFTA has shown that it is not necessary, for the purpose of preserving the benefits of internal free trade, to devise common attitudes to a policy with respect to these extra-tariff matters. All that was strictly necessary to preserve the wider market was to iron out the inconsistencies and the contradictions. And this could be done by inter-governmental means.

European integrationists might say this is not good enough. The European Community needs to engage in much more than 'negative' integration. It must develop 'positive' integration—that is, common policies to promote European unity.

Here it might be observed, in passing, that the distinction between 'negative' and 'positive' integration is deceptive. For it implies that 'negative' integration (the removal of tariffs, quotas and other restrictions on the free movement of goods) is less of an achievement that 'positive' integration (the development of common agricultural, regional, social and other policies). But in fact it is the other way around. The main gains from economic integration stem from the static and dynamic effects on trade, production and consumption of trade liberalization. And some of the more glaring costs arise from so-called 'positive' integration.

The upshot of the European idea, then, has been the constant pressure of the Brussels Commission on the Council of Ministers of the European Community to act in every conceivable domain, from equal pay for women to energy policy. But the trouble is that member governments are just not prepared to be steam-rollered into 'positive' integration in this way.

A Pragmatic Approach

Would it not be wiser for pragmatic Europeans to let the impetus for further integration (whether 'positive' or 'negative') arise naturally from the functional problems encountered in running a customs union? In this regard there are quite enough difficulties to be jointly overcome without imposing progress from above.

Such a pragmatic approach took the EFTA governments much further down the road to effective integration than they originally intended. This is because tariff-free trade in a non-*laisser-faire* world, bristling with public and private interferences in the market, requires constant supervision and common action.

Could the EFTA method of dealing with problems as they arise not be applied to the European Community? It might put an end to the demoralizing succession of crises that have plagued the Common Market in recent months and years. To those who would insist that without the Commission acting as a gadfly, the Council of Ministers would relapse into thankful torpor, it can only be replied that operating a free trade association or a customs union creates its own dynamic. The advantages for each member country in preserving the commercial advantages are such that the governments are obliged, by easy stages, to accept an increasing degree of policy co-ordination.

This approach would not rule out the development of common agricultural, regional, industrial and other policies. It would serve though to keep those policies within the realm of the politically feasible and economically justifiable—in terms of creating a single European market. To elevate any of these fields of common action to some mystical role in promoting European unity is almost a sure recipe for failure. It is, indeed, a contradiction in terms to say that European unity can emerge from common policies devised by nation states.

In present times, the best one can hope for is concentration on the essentials of economic integration—a task sufficient to tax to the full the capacity of governments to co-operate.

Extract from an article by Dr. Victoria Curzon published in INTERECONOMICS in Hamburg.

Danish Majority Against Community Membership

Copenhagen, Sept. 8.

An absolute majority, 53 per cent, would vote against Danish membership of the European Community, in a referendum now, according to a poll published today by *Berlinske Tidende.* Only 31 per cent supported membership.

Denmark joined the Community after a referendum on October 2nd 1972 produced 57 per cent in favour and 33 per cent opposed.

From "The Times" 9th September 1974.

** For a detailed analysis of these problems as they arose in EFTA, and for a discussion of the European Community, see Victoria Curzon, THE ESSENTIALS OF ECONOMIC INTEGRATION: LESSONS OF EFTA EXPERIENCE (London: Macmillan, for the Trade Policy Research Centre, 1974). Chapter 4.*

HONG KONG—CENTRE OF FAR EAST TRADE

by Mardie Henry

Up to the time of the Second World War, Hong Kong had developed mainly as a thriving entrepot centre. In the 1950s, however, the upheavals in China with their resulting influx of industrious labour which was immediately trained and put to work in the textile factories contributed, with some other factors, the basis of an industrial revolution from which the Colony was able to develop its present status as a manufacturing centre.

At first Hong Kong catered for the cheaper markets of Asia but by the early 1970s had developed to such an extent that about 85% of all her exports were being shipped to the developed countries with the United States and Great Britain taking up some 65% between them.

Last year the Colony achieved a record high growth rate of £4,783 million in trade with the world, more than double that of 1968 and representing a 34% increase on the previous year. Hong Kong's annual trade figures must be the envy of many a Chancellor around the world with increases of 27% in exports, such as last year's £1,693 million export figure represented, quite commonplace in the Colony's trade figures. Imports in 1973 also showed a considerable rise over the previous year, totalling £2,522 million with re-exports also rising by 57% to reach £567 million.

Export Growth

Successes in individual industries are legion. The backbone of the Hong Kong industrial scene is the clothing industry which, despite a difficult year in 1973, managed to clock up exports of £646 million and record a 20% increase in sales on the previous year. Last year, also, the diversification of industry which has gradually been taking place in the past few years paid off when Hong Kong overtook Japan to emerge as the world's largest exporter of toys. The electronics industry is also racing ahead to put Hong Kong second only after Japan as the world's largest exporter of transistor radios.

The boom years have brought a new prosperity but have also changed the face of this extraordinary community. Physically Hong Kong would be quite unrecognisable to anyone returning after an absence of say fifteen years. Giant skyscrapers have mushroomed up on every available space. Hong Kong now boasts the tallest building in Asia. More are planned, the latest being three towering office blocks all about forty storeys high or more, linked with covered walkways and overlooking a 'Rockefeller' type plaza. The developers, Hong Kong Land, envisage a final cost of anything between £125 million and £160 million.

Hong Kong now has a per capita income second in Asia only to Japan and with prosperity has grown up an ever-increasing middle-class hungry for

the trappings of so-called civilisation. There is now an enormous local market for sophisticated consumer goods from abroad ranging from clothing to luxuries of all kinds and even food and drink. Hong Kong is the world's second largest consumer of French brandy on a per capita basis for example, consuming nearly one million gallons of brandy each year. Middle-class affluence also spills on to the streets where according to the Colony's traffic planners far too many people now want to own a car.

At the same time growing competition in the manufacturing sectors from lower-cost neighbours has forced local manufacturers into realising the urgent need for trading up and for importing high technology both in the form of machinery and know-how. As a result Hong Kong has certainly moved several rungs up the ladder as far as manufacturing and the resulting products are concerned.

New Emphasis on Heavier Industry

But simply improving existing industries is no longer enough at the present rate of development in the Colony and a new emphasis is being placed on encouragement of heavy industry for the future. This is underlined by ambitious Government plans on one of the Colony's many almost barren islands, Tsing Yi Island, where plans call for the allocation of 200 acres of land for light industry. Two American companies have not been slow to take advantage of the new development—Dow Chemicals of America who are already building a £9 million plant and Outboard Marine Company who are also building large factory premises on the island.

The Government has also given strong support to proposals to build an oil refinery and petro-chemical complex likely to cost some £300 million. Two groups are at present studying the feasibility of Lamma Island as a site for the complex. One is the Shell Company in partnership with America's Dow Chemical, and the other Hong Kong's Textile Alliance in partnership with Japan's TAO Oil Company.

Long-Term Projects

There is no lack of faith in the future and the Hong Kong Government shows the way with the encouragement of such long-term projects as the Cross Harbour Tunnel opened in 1972 and the present plans for a mass transit 33-mile long underground railway system. The contract for the first four stages of the underground was finally awarded this year to a Japanese consortium.

Future Government plans also embrace a number of projects such as a desalination plant currently under construction and claimed to be the largest in the world and many social developments such as seven promised technical institutes, housing for nearly one and a half million people and the extension of secondary education facilities.

Hong Kong is probably the most important financial centre in the Far East, with well over 500 banking offices and 50 representative offices of foreign banks. There are four stock exchanges engaged in active trading in Hong Kong with total turnover in 1973 valued at £1,018 million.

Although the territory is a British Crown Colony it seems to have been left to others to take advantage in the past of the enormous potential of the Colony both in its own right and as a base for operation in South East Asia as a whole.

Although traditionally the great Hong Kong trading companies known around the world have been British names such as Jardine, Matheson, Hutchinson and Swire—it is the Americans and the Japanese who have noticed the worth of the area for investment in manufacturing industry. The USA dominates foreign investment tables accounting for some 40%. Japanese investment accounts for 25% followed by Singapore at 10%. Britain trails in fourth place with an investment of 9.8%.

Importing Needs

Hong Kong, covering an area of some 400 square miles, has no raw materials whatsoever. In order to survive the population—now totalling some 4 million souls—has to manufacture and to export. Whatever is needed for the manufacturing processes has to be brought from outside sources. As the prosperity of Hong Kong grows, so the importing needs of the Colony—not only for industrial purposes but also those for the well-being of the population—also grow.

As reported by a London Chamber of Commerce Mission visiting the Colony last year, 'all the materials and machinery necessary for the upgrading in style and quality of local products has to be imported. This is so basic a fact that it is difficult to understand why Britain has been so slow to pursue the many opportunities.'

Opportunities still abound. Not only Hong Kong but the whole area of South East Asia as a whole is an area poised for development. With its well-developed facilities Hong Kong is an ideal spot in which to get the first toe hold.

A STRANGE MORAL CRUSADE

Britain is embarked on a strange moral crusade when everyone is his neighbour's conscience and watchdog to prevent, stop, pull down, any horse that looks like pulling ahead of the field.

The idea that nothing exists until someone creates it—and that creation is socially good and should be encouraged—has simply been forgotten. The result is that our words are upside down. To provide employment is to exploit the sweat of others (said to me a month ago). To earn more than your neighbour is to be selfish, to grow is to destroy, to modernise is to go backwards, to invest is to squander, to save is to lose.

Extract from an article by James Pilditch in THE DIRECTOR for July 1974.

AUSTRALIAN CANNED FRUITS AND THE EEC

by Eric Mason

Overseas Representative, Australian Canned Fruit Board

The advent of Britain's entry into the European Common Market has meant for the Australian canned fruit industry the abrupt and absolute cancellation of the Imperial Preference system. In addition a tariff barrier of 24% has to be faced and somehow surmounted. Sugar tax has also to be added to this burden and this can vary from nil to 6% depending on the state of the world sugar market as interpreted by the EEC authorities in Brussels.

The accumulative effect of this changed situation on the UK market is to add approximately one-third to the importer's price and considerably more than this by the time the additional costs reach the detail level. Fortunately the full Common External Tariff has not been applied in one piece but, and only as a result of hard bargaining, it has been phased over five years commencing at 1st January, 1974 and will reach full maturity at 1st January, 1978. Notwithstanding this slight sweetening of the pill this most unnecessary and unjust imposition represents a quite traumatic burden.

The United Kingdom has been Australia's principal export market for canned fruits since the end of the Great War in 1918. At one time it sent 100% of its export canned fruit to these islands but nowadays due to a safeguard policy of diversification the figure is approximately 70%. On average this market has absorbed 4½ million basic cartons of Australia canned fruit each year for the past five years. A basic carton is the equivalent of 24 x 30 ounce cans. In sterling terms this means a supply turnover of £27,000,000 per annum at present c.i.f. prices.

Steady Erosion

Now that Imperial Preference has been removed and a tariff wall erected against this Commonwealth country the prospects of a steady, if not rapid, erosion of its trade in canned fruits appears a stark possibility once the full tariff quota is reached in 1978—if not before.

Putting it mildly this situation is grossly unfair and to the Australians who grow and process the fruit for export it is quite inexplicable. The Common Market, by which title euphemistically the nine members of Europe are now known, does not to any kind of degree produce canned fruit. Even with the most charitable assessment—which includes Greek production—EEC production is no more than 30% of its total requirements. Greece, you might recall, is an 'associate' member of the European Community and gets special privileges thereby.

Just to add salt and rub it vigorously into the wound the Brussels Commission have recently conceded special concessions to certain Mediterranean countries who produce canned fruits and who are nonmembers of the European Community and these concessions consist of reduced tariffs on many articles of food and on such processed fruits as canned apricots and peaches. These hand-outs are of course part of a larger political deal but it is difficult to understand why third country interests in canned fruits should be singled out for punishment when none of the nine members are being menaced in any way whatsoever by such suppliers as Australia.

Unfortunately this is by no means the end of the story for up for discussion in September next is a much dog-eared proposal heavily backed by France and Italy to launch a mimimum price system for canned peaches packed in syrup. A minimum import price has been suggested to be based on the average c.i.f. prices which have prevailed on the market for the past two years. A minimum price level is to be struck below which a third country importer cannot sell his product. The original reason behind this tabled proposal was to safeguard such processed food items, listed as 'sensitive' in the Brussels nomenclature, as canned tomatoes, of which commodity Italy in particular was being undercut by producers such as Portugal and Algeria. Canned peaches had never been in the 'sensitive' class but France introduced them ostensibly because of Freestone peaches canned by Greece and sold at cheap prices mainly to West Germany. A minimum import price for peaches may result in cheap freestones, which is a fresh peach variety really not suitable for canning, from flooding the Continent but will also be detrimental to third countries' imports of clingstones, which is the only variety of peach truly suitable for processing. It may be coincidence that France is the only country in the EEC that produces clingstones even though her production of this type of peach in the foreseeable future is fractional.

Danger for Australia's Trade

To the uninitiated a minimum import price could be an attractive method of keeping poor quality low-priced fruit from a desirable market. The neatness of the system deceives the onlooker, however, for not only is such a method just another barrier to free trade but a minimum import price can easily and rapidly become too high a price. Market prices have a habit of fluctuating, as we all well know, and Australia among others in certain circumstances could find herself unable to adjust—that is lower prices—when the situation demanded it and the European market, which for Australia is mainly Great Britain, would be denied to third country importers so far as clingstone peaches are concerned.

This M.I.P. proposal is related just to illustrate and emphasise dangers that exist for Australia's trade (and others) in canned fruits packed in syrup. Britain's entry into Europe has meant constant bargaining and vigilance amongst all the other worries associated with such a competitive worldwide product.

The canned fruits industry in Australia was founded in the main by returning soldiers, both Australian and British, who were allotted land on which to grow fruit by the Government of the time in order to rehabilitate them. These early growers soon organised themselves into co-operative groups to take advantage of the export trade. These co-operatives with Federal backing set up canneries and organised a trade which certainly since 1926 has been, if not one of the mainstays, certainly a valuable contributor to the Australian economy. **All this was achieved within the framework of the British Government's cheap food policy. Because of an assured market guaranteed by Britain the industry expanded and invested its capital.**

Justice not Privilege

The industry today finds itself for no fault of its own on unstable ground. It asks no more than a fair fight, but it seems that the odds are weighted well against. The reasons for Britain's entry into the EEC are fully understood and sympathetically accepted but surely a way can be found to improve the terms for former Commonwealth members who only ask for justice, not privilege.

Lastly, from the point of view of the British economy canned fruit price increases caused by excessive EEC tariffs clearly contribute to cost of living rises within the United Kingdom. Any reduction in trade with Australasia which the present EEC membership terms could bring about will adversely affect Britain's economy, for canned fruits are carried by British-owned container vessels and the goods are covered by British insurance companies registered at Lloyds. **Trade is a two-way operation and surely it is in Britain's interests as well as Australia's to see that fair play is achieved!**

NO PAINLESS CURE FOR INFLATION

by Russell J. Clark

A beginning could be made by stating just what needs to be done to halt inflation and what the real alternative to taking action is. It is important to present the public with a choice because every government believes that it will lose the support of the electorate if the actions it knows to be right prove in any way painful, as the cure of inflation certainly will. The Government should therefore explain that if inflation is not checked, the high and stable level of employment that everyone wants to see maintained, will be one of the casualties. If to ease the effects of the rise in the cost of living consumer prices are kept under some sort of restraint while manufacturing costs go on increasing, employers will not be able to afford to pay as many workers as hitherto.

Preaching restraint to the unions may be a part of what the Government have to do, but action is also needed. They should announce that they are not abandoning the policy of full employment, but that until inflation is beaten it will not be given over-riding priority. As a prelude to such an announcement, Ministers might well, as Peter Jay recommended recently in *The Times*, refresh their memories from the White Paper of 1944 in which the original commitment to full employment was hedged about with certain conditions. They could then remind the public that employers and workers had not always exercised 'moderation in wage matters' and that increases in the general level of wages had not always been 'related to increased productivity due to increased efficiency and effort'.

They could point out that these conditions are still valid. If they are not met, full employment is not compatible with price stability and a respectable balance of payments. This should be repeated firmly and repeated often. By doing so they would make it clear that there is no possibility of removing the evil of inflation effortlessly. Nor, they should add, can consumer prices be reduced at a stroke.

Unemployment Figures Need Clarification

It should also be explained to those who still think of unemployment in terms of the 1930s that things are very different now. Though unemployment is still a hardship, it is not the financial tragedy that it was then. Moreover, the emotive unemployment figures need some clarification. This would show that even when 600,000 are registered as unemployed, the numbers without work for more than a few weeks, who are employable and genuinely seeking jobs, remain quite small.

Progress towards stability should not be rapid, for when inflation has reached a rate approaching 20 per cent any attempt to stop it abruptly would risk wrecking the economy. There is, however, such public dissatisfaction with the effects of the loss of value of money that a government willing, and seen to be willing, to make the ending of inflation its main objective could count on a favourable response. The Opposition, of whatever party, though they might object to particular measures, could scarcely reject the policy aim itself.

Money Supply Coming Under Control

A start has in fact been made in that the rate of growth of the money supply is now quite moderate. It is consistent with a slowing down in the pace of inflation. Of course, control of the money supply has meant high nominal rates of interests and a squeeze on company liquidity. The banks are not as free to lend as they would like to be. These are some of the pains; but the Government should not be deterred. They should go on with the good work, begun towards the end of last year by Mr. Barber, and continued by Mr. Healey in his spring budget, of bringing government revenue and expenditure into

balance. It means ensuring that the cuts in government expenditure are real; and that any fresh increase in expenditure is covered by taxation or by borrowing from the public. The former would be unpleasant and the latter requires that the lenders be given a real return.

If, as seems likely, the prices of some important internationally traded commodities continue to fall and if, as may still be hoped, the social compact really works, the pressure on costs will be eased and the Government's task of restoring stability made somewhat lighter. But to resort to reflation at this juncture, as some have advocated, and as the Chancellor did at the end of July, is to put at risk the little progress that has been achieved. His recent measures will relieve some present pain, but will add to the difficulties of curing the underlying disease.

Mr. Healey's main purpose appears to have been the winning of an early election rather than the attainment of monetary stability. To the extent that what he has done reduces trade union fears of unemployment and checks the rise in consumer prices, his measures may help to make the social compact work and limit pay increases due to threshold arrangements. If they do, industry's costs will climb less steeply. But investors will not be much encouraged by an increase in dividends that falls far short of the rate of inflation. Nor will industrial confidence be promoted by measures that add substantially to the budget deficit and hence to inflationary pressures.

Extract from Editorial, National Westminster Bank Quarterly Review, August 1974.

COMMONWEALTH PHILHARMONIC ORCHESTRA

INAUGURAL CONCERT PROGRAMME

A Concert to be held in the Royal Albert Hall on 22nd October, 1974, promises to be a memorable Commonwealth occasion. The orchestra will be conducted by Sir Adrian Boult and by Michael Bialoguski, Artistic Director. The programme will include Malcolm Williamson's Overture, Rachmaninoff's Second Piano Concerto and Beethoven's Symphony No. Five. Most of the High Commissioners of the Commonwealth countries have promised to attend.

The Commonwealth Philharmonic Orchestra Trust Ltd., now in process of formation and under whose auspices the Concert will be held, has as its objects:

(a) The advancement of education in music throughout the Commonwealth and the improvement of public taste therein.
(b) The promotion and organisation anywhere in the world of public performances of music by Commonwealth musicians.

(c) *The promotion and organisation of other cultural and educational activities relevant to the study and appreciation of music.*

They propose to award grants and scholarships to talented Commonwealth musicians for further study of music and related subjects in the United Kingdom, to commission new works by Commonwealth composers and to promote and organise competitions in the composition and performance of music by Commonwealth composers and musicians and to award prizes to and to defray the expenses of the competitors in connection therewith. They also intend to provide facilities and premises in the United Kingdom to encourage and promote multilateral communication between Commonwealth musicians for the exchange and dissemination of ideas, knowledge and information. Public appreciation in Commonwealth countries of the indigenous music of other Commonwealth countries will be encouraged by the performance of such indigenous music throughout the Commonwealth.

CAN WE LEARN FROM EFTA?

With the question of Britain's renegotiation of the terms of entry into the European Community becoming an increasingly important issue, the publication of this valuable book* is most timely. Victoria Curzon's case is that free trade associations are a more efficient means of promoting economic integration than a customs union.

The author has made an exhaustive study of the working of the EFTA experiment of which she says: 'It was an amazing technical success, in that various administrative problems associated with a free trade area worked smoothly and did not impede the growth of trade'. Comparing this with the agonising experiences in the EEC, the confrontations between member countries, the infighting in Brussels and the dire effects on both producer and consumer of the CAP, there is obviously much to be learned from the EFTA experience.

As Professor Harry Johnson says in his introduction to the book: 'there is probably far more to be learned about the process of achieving economic integration from the detailed history of EFTA, as Dr. Curzon recounts and appraises it, than from the experience of the European Community to date. The history of the latter has been one of dramatic confrontations and stopped clocks. It has been one of futile efforts to resolve political difficulties through appeals to technical expertise. It has been one of agreements that agreement is necessary and even that agreement and what the disagreements are about is necessary. It has been one of a large and continuing gap between the aspiration and the realization, the myth and the reality, of European economic integration.'

* *THE ESSENTIALS OF ECONOMIC INTEGRATION: Lessons of the EFTA Experience by Victoria Curzon. London: Macmillan, for the Trade Policy Research Centre. £5.95.*

THE PLAISTOW PRESS LTD., LONDON E15 3JA.