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AND OUR ROLE IN OVERSEAS TRADE AND PAYMENTS

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THE COMMONWEALTH AND THE COMMON MARKET

Specially contributed by Neil Marten, M.P.

In July 1971 the then Conservative Government under Mr. Heath presented to Parliament a White Paper (Cmnd. 4715) entitled "The United Kingdom and the European Communities". It stated that "H.M.G. are convinced that the right decision for us is to accept the challenge, seize the opportunity and join the European Communities".

Reading through the pages of that document seven years later, one can only be astonished at the naivety of that assessment. How right was that decision?

Commonwealth countries were encouraged to support our entry. Now the Australian Prime Minister sees the Common Market in its true light and calls it a "narrow, self-interested trading group." The New Zealand Prime Minister, angered at the proposed sheepmeat regime, predicts that the Community will finally disintegrate under the weight of the Common Agricultural Policy (C.A.P.).

Vast surpluses of sugar are being produced in the Common Market to the point where there is pressure to abandon the importation of cane sugar from the developing countries of the Commonwealth. Dissatisfaction with the Lomé Convention is becoming widespread.

Our membership of the Common Market has done no good for the Commonwealth. It is harming our relations with individual countries. The Common Market has even stopped Britain signing an agreement with Australia to import her uranium — one wonders why!

Price of Food

Food prices have increased vastly since we joined the Common Market — not all of this, of course, has been due to our membership. To illustrate the point, the latest Price Commission's report on the increases in the price of maize makes interesting reading. They conclude that, if maize could be bought "at world market prices outside the E.E.C. arrangements, there would be a substantial reduction in the price of maize starch, glucose syrups and derived products to the U.K. consumer, perhaps to the extent of 20%".

The same can be said about bread. If we were not in the Common Market, we would not have to pay the totally absurd levy on imported Canadian hard wheat which we use in our breadmaking but which is not grown in the Common Market. The price of a standard loaf could be reduced by about 5 pence.

The point is that, if we were not in the Common Market, we could buy our food on the world markets at prices considerably lower than we have to pay inside. And we would be buying it largely from Commonwealth countries. Food in Britain would be cheaper.

Never has there been a more spurious reason for membership of the Common Market than that it gives us "security of food supplies". Food surpluses abound on the world markets; we should be able to buy where we want and at the best prices.

Food is to Eat — Not to Store!

The obscene surpluses of food stored in the Common Market (simply because of the system operated by the C.A.P.) is costing over £5,000 million per annum. This includes buying into intervention, storage, export subsidies and subsidised sales. Food is to eat not to store.

We are subjected to propaganda that we get large grants from the Common Market; we don't. Each year, we pay over to the Common Market a gross contribution and then receive back from them such things as grants. We pay in much more than we receive back and next year we will be making a **net** contribution of around £800-£1000 million a year. So we are losing out all the time; the grants are merely returning to us part only of what we are paying in. Bad business.

Trade Deficit

Great hopes were entertained in the White Paper that we would do well out of trading in the "wider home market" of the Common Market. Our crude trade deficit with our other eight partners before we joined was £180 million in 1971. Now it is running at over £2,000 million and has been doing so for the last two or three years. In the past, such deficits have been partly offset by a surplus on our invisible earnings. Now the table has been turned; **instead of having a surplus on invisibles with the Common Market, we have a deficit running at about £350 million.**

And so the catalogue of failure goes on . . . and on. Attempts by Roy Jenkins to move towards monetary union have been given a cautious welcome by our Prime Minister because it could lead to a "transfer of resources to the poorer countries" (i.e. U.K.). This is just the soft option we don't want; hoping that merely our membership of the Common Market will solve our economic problems has had a debilitating effect on British Governments. Surely we must pull ourselves up by our own bootstraps and not constantly expect our begging bowl to be filled up by the Germans. It would be, of course, a major step towards federalism, which is what Brussels wants.

Effect of Direct Elections

Will things improve after direct elections to the European Assembly in June 1979? The elections are to take place in order, apparently, to make the Common Market more "democratic". If that is so, do we accept the "democratic" results? Say, for example, there was a Motion before the Assembly that all North Sea oil belonging to member states should be pooled and become the property of the Community; how would the Assembly vote? Overwhelmingly in favour of the proposal. Are the supporters of direct elections prepred to accept that "democratic" vote? I doubt it. The whole proposition of direct elections is spoof; but it is another large step to the creation of a federal state in which Britain would become a mere province.

If enlargement, by adding Spain, Portugal and Greece to the Common Market, ever happens then surely that must be the beginning of the end to the Common Market as we know it today. The C.A.P. is bound to crack under the strain. And, once that goes, what is left of the system except perhaps the irritating and petty bureaucratic nonsenses which flow from Brussels?

Referendum result Reversed

The British public has rumbled it at last. The Common Market's own opinion poll shows that only 29% of British people now think that the Common Market is "a good thing". The latest N.O.P. asked the question "If there was a referendum today how would you vote — in favour of membership or against?" The answer was loud and clear — 33% in favour and 52% against. A reversal of the referendum result of 1975.

Let us hope that, in due course, the British Parliament will come to its senses and recognise that it was, in fact, the wrong decision to join the Common Market. And, after this expensive flirtation, **let us try and build afresh a grouping of nation states who co-operate with each other and where our valuable and historic links with the Commonwealth can be restored and strengthened in the interests of mankind.**

IS GOLD THE ANSWER?

The price of gold has recently reached an all-time peak. This is a direct result of continued weakness of the U.S. dollar. International investors, when they fear that the value of their dollar assets will fall, somewhat naturally turn to a store of value giving greater security such as other stronger currencies and also to gold. This underlines the increasing importance of the role of gold within the international monetary system. Speaking in Zurich recently, the South African Minister of Finance, Mr. Owen Horwood, said — "Gold shows every sign of maintaining its position as an important reserve asset for many years to come, no matter how hostile the opposition to it in certain quarters".

This awakening of interest in the role of gold in the international monetary sphere has led to a call for a return to a gold standard for British currency. On July 14 "The Times" carried an important article on the subject of gold money and this was followed by a long letter published on 21st July. In this, the writer made the bold claim that "there is no valid argument against the immediate reinstatement of a Gold Standard currency. This

correspondent went on to suggest that "The use of Gold Money is responsible neither for recessions nor for unemployment; we are suffering from the worst unemployment in recent memory".

The Return to Gold

It is as well to remind ourselves that we in Britain returned to a modified form of Gold Standard in 1925. Five years later, by 1930, we had very nearly 3 million unemployed!

The return to gold in 1925 resulted in a rigid control over the creation of money. It meant that the authorities controlled the money supply by relating the amount of money in circulation to the amount of gold in the vaults of the Central Bank. By September 1931 Britain, having no gold, was forced to withdraw from the Gold Standard. Our economy was virtually bankrupt, unemployment was rife and the situation very serious. With the departure from the Gold Standard the economy began to recover.

The period of deflation imposed on the country by the return to a Gold Standard brought in its train a severe fall in the price level, often below the costs of production. This brought bankruptcy and ruin to many producers. The whole country was commanded to "tighten your belts" and wages and salaries were savagely cut. At the same time the press was full of stories about unsaleable surpluses of food and goods of all kinds. To take at random some of the headlines of those days-

"Enough Wheat to Last for Two Years"
"Coffee being Burned by the Ton"
"More Tea than we can Drink"
"The World's Surplus of Sugar".

Vast surpluses were reported of every kind of commodity — wheat, sugar, coffee, tea, cotton, rubber, copper, tin, the problem was to cope with too much of everything, foodstuffs rotted, production was severely restricted. At the same time there was severe malnutrition, poverty and misery, there were millions of people who needed good clothes — boots — a decent home but they had no money. This is all on record and should not be lightly dismissed by those who have only experienced the problems brought about by the opposite policy of inflation which has followed since the last war.

Gold Standard Condemned.

Perhaps the greatest condemnation of the Policy of returning to the Gold Standard was made by the man mainly responsible, for as Chancellor of the Exchequer, Winston Churhchill had presided over the return to gold. On 21st April, 1932 he made a speech in the House of Commons in which he denounced the decision to return to the gold standard in the strongest terms. The following is an extract —

> *"When I was moved by many arguments and forces in 1925 to return to the gold standard I was assured by the highest experts, and our experts are men of great ability and indisputable integrity and sincerity*

. . . that we were anchoring ourselves to reality and stability; and I accepted their advice. I take to myself and my colleagues of other days whatever degree of blame or burden there may be for having accepted their advice. But what has happened? We have no reality, no stability . . . He went on to ask —

"Is the progress of the human race in this age of almost terrifying expansion to be arbitrarily barred and regulated by fortuitous discoveries of gold mines here and there or by the extent to which we can persuade the existing cornerers and hoarders of gold to put their hoards again into the common stock? Are we to be told that human civilisation and society would have been impossible if gold had not happened to be an element in the composition of the globe?

These are absurdities; but they are becoming dangerous and deadly absurdities. They have only to be asserted long enough, they have only to be left ungrappled with long enough, to endanger that capitalist and credit system upon which the liberties and enjoyments and prosperity, in my belief, of the vast masses depend. I therefore point to this evil and to the search for the methods of remedying it as the first, the second and the third of all the problems which should command and rivet our thoughts".

The entire speech is worthy of close study, particularly as we have not yet found the way of remedying the evils of which Churchill spoke.

Money and Commodities.

We have to recognise that the present unfortunate inflationary situation arises to a large extent from following policies which are the exact opposite of those followed in the 1930's. The fault then lay with deflation — today with inflation. The cumulative effect of excessive taxation, overspending and over-borrowing, particularly by Governments can be avoided by correct monetary and fiscal policies. But why should this cause us to base money on one commodity — gold — when reality and stability demand that money and commodities should be linked together ?

Instead of a Gold Standard we should adopt a Commodity Standard for our money. Commodity money, based on as wide a range of goods and services as possible would certainly appear to be a logical step in the evolution of money over the ages. History shows that many commodities have been used as money, corn and cattle, gold and silver to name but a few. All have been used as a basis for money and all were goods of some kind. The establishment of Commodity money would remove the twin evils of deflation and inflation which have bedevilled this century.

To complement this, we would need to set up a Currency Commission * to be responsible for the rate of growth of money supply in relation to the supply of goods and services; thus maintaining stability in the purchasing power of the pound.

**Honest Money: The Case for a Currency Commission by Edward Holloway. 25p.*

THE BURDEN OF TAXATION

Throughout history the burden of taxation has been a major source of irritation and complaint. In his essay 'Of Taxes' written in 1756, David Hume wrote "Exhorbitant taxes, like extreme necessity, destroy industry by producing despair; and even before they reach this pitch, they raise the wages of the labourer and manufacturer, and heighten the price of all commodities. An attentive disinterested legislature will observe the point when the emolument ceases, and the prejudice begins".

Rather more graphically, in 1920 the Rev. Sydney Smith wrote "The schoolboy whips his taxed top; the beardless youth manages his taxed horse with a taxed bridle on a taxed road; and the dying Englishman, pouring his medicine, which has paid seven per cent, into a spoon that has paid fifteen per cent, flings himself back upon his chintz bed which has paid twentyfive per cent, and expires in the arms of an apothecary who has paid a licence of a hundred pounds for the privilege of putting him to death".

Government Spending

More recently, in 1964, Dr Colin Clark claimed that "There is strong evidence to suggest that if people realized how much of their earnings they are giving to the government they would be angry and horrified". He went on to urge that we should "seriously aim at conducting the business of government on a budget of not more than 25 per cent of the national income, at all times except war, or similar emergency". In his book "The Power to Destroy" published in 1969, Professor D.R. Myddelton explained that "Government spending is unlike private spending in one important respect. While prudent private individuals keep their spending within their income, governments decide how much they want to spend, and then raise the taxes to pay for it; and modern governments do not even cover all their spending by taxes. They pay for excess spending by borrowing . . . "

Now, in 1978, there is increasing realisation by people in all walks of life of the damage done to the economy by excessive taxes and the arguments for cuts in taxation are heard in many quarters. In California, USA the famous Proposition Thirteen has been one instance which has aroused widespread interest.

Remedy for Inflation

The latest onslaught in this country comes in a new publication entitled "Excessive Taxes lead to Inflation and Unemployment"* in which it is claimed that "The only remedy for inflation is to cut Government expenditure and so eliminate the excessive borrowing requirement".

**Excessive Taxes Lead to Inflation & Unemployment published by The Economic Research Council, 55 Park Lane, London, W.1. price 75p. (post 10p).*

The report emphasises that the basic cause of our malaise is not excessive wages but the excessive portion of the national "cake" grabbed by the State. In spite of the great power wielded by the trade unions, they have not succeeded in maintaining the workers' share. This remained constant between 1949 and 1970 and declined by 2 per cent between 1971 and 1976. The employers' share decreased from 19.1 per cent in 1955 to 14.1 per cent in 1976, while the government share in taxes and levies increased from 9.9 per cent in 1955 to 22.7 per cent in 1976.

Instead of concentrating on incomes policy, the report suggests that the prime need is to insist on the government reducing expenditure, enabling it to reduce taxation and thus provide incentives to increased production. This would, in turn make it possible for wages (take home pay) to be increased and also make capital available to finance further expansion with a consequent reduction in unemployment.

The Will-to-Work

The official figures disclose that the trend of taxation has always been upward under a Labour Governemnt and somewhat downward under a Conservative Government. However, the difference between the two has not been so great as to achieve that decisive reduction in direct taxation which is essential if the will-to-work is to be restored and the spirit-of-enterprise and the confidence of investors is to be revived.

The statistics also show that increases in the level of total taxation have been associated throughout the period with increases in the general level of unemployment. In 1975-76 the sharp rise in taxes on earnings was associated with a further rise in unemployment.

Increasing Prosperity

It is suggested that Union Leaders should use their great power to resolve inter-union disputes by negotiation, and co-operate with Industry to ensure that it can make a reasonable profit and so be able to afford higher wages and more investment.

Union Leaders should then combine with Employers to insist on the Government reducing expenditure, which would enable it to reduce taxation.

The report makes it clear that this policy would be of far greater service to Union members and to the nation than the present policy of encouraging industrial confrontation, strikes, and wanton over-manning, because it would lead to a general increase in prosperity, which would make it possible for real wages, or take-home pay, to be increased and capital to be accumulated to finance expansion, which is the only means by which unemployment can permanently be reduced.

WHOSE ZIMBABWE?

BY JOHN BIGGS-DAVISON MP

It may not be saying all that much; but it would be hard to find in Africa or indeed in the whole of the Third World a more liberal state than Rhodesia.

She has governed herself since 1923. She has never been administered from Britain. "It was said that during World War Two offers had been made by the British Government for full independence to be granted to Rhodesia as a token of gratitude for the services rendered to the common cause. This would have been meant as a tribute to the Rhodesians who fought on the battlefields, many of whom died on His Majesty's service. It is said that, when told about this offer, the Salisbury attitude had been: 'Let us first win the war'."* The wartime compulsion found necessary in Southern Rhodesia was to keep enough of her youth out of the Forces and enough on the farms and in other essential enterprise.

In 1964 Southern Rhodesia's erstwhile partners in the Central African Federation, which Britain first created then abandoned, namely Northern Rhodesia and Nyasaland, gained their independence within the Commonwealth as Zambia and Malawi. Southern Rhodesia was not granted her independence although her status in fact if not in law was almost as sovereign as that of New Zealand before the Statute of Westminster defined the formal equality of the Dominions with the United Kingdom. Rhodesian resentment against London grew under Federation and the disappointing aftermath. UDI came in 1965.

Lifting of Sanctions

Westminster-style parliamentary government continued. It was white parliamentary government, although, from Federation days onward, there were black and brown MPs. It was not based on universal franchise: nor did government at Westminster until recently, as history goes. Now one man one vote has been conceded by Mr Ian Smith and the Rhodesia Front. That miracle found expression in the earlier Anglo-American plan bearing the name of Kissinger. It should have led to the lifting of sanctions and to Western support, in the Western interest, of the Zimbabwe State against disruption and aggression.

The farce at Geneva, the second Anglo-American plan which neither side in Africa has endorsed and the British Government's efforts to convene another conference, all arose because the guerrilla war lords outside Rhodesia (misleadingly called the Patriotic Front, because they are bitterly at odds) and their hosts and patrons, the "front line" Presidents, applied that veto which Dr David Owen has said more than once inside and outside the

**Sanctions Double-Cross: Oil to Rhodesia by Jorge Jardim. Intervencnao July 1978*

House of Commons would not be granted them. Both Mr Joshua Nkomo and Mr Robert Mugabe, the latter blatantly, are out for power; and power for them must come from the barrel of a gun because they would be rejected in a democratic election.

The celebrated six principles — Mr — (now Sir) Harold Wilson, then Prime Minister, addded the sixth — mean nothing to those whose only principle is power. To successive British Administrations, however, they have been the criteria for recognition of Rhodesian independence. The Internal Settlement satisfies all except the fifth principle — that of popular acceptability. As Sir Harold said last April, according to *The Scotsman*, "the test now was whether the Africans and the white Rhodesians accepted the agreement: 'If so, I believe we are committed to recommending it to Parliament'."

Fair Elections

The fifth principle can be fulfilled if a fair election can be held. If it cannot, much blame will be due to a Government that has so far lifted no finger to help arrange it and has otherwise encouraged the belief that if the terrorists but keep on intimidating, torturing, maiming and murdering black and white Rhodesians on outlying missions and lonely farmsteads, they will succeed in frustrating the exercise of self-determination. In the Commons debate of August 2nd, the Shadow Foreign & Commonwealth Secretary, Mr John Davies, reported the clear impression he received during his visit to Rhodesia and Zambia of the confidence of "the Patriotic Front, in the person of Mr Nkomo . . . that he had only to intensify the fighting and to wait and the whole of Rhodesia would drop, like a ripe plum, into his hands". The Internal Settlement was "faltering in many ways". It was not, for example, acting fast enough against racial discrimination and thus convincing Africans of the good faith of the Transitional Government. The primary reason was the hostility of the outside world to that government and the settlement. "That is where the leadership of this Government (viz.HMG) has taken those people who sought a democratic agreement in their country."

A decade ago a distinguished American stateman and jurist, Mr Dean Acheson, who was not only a Secretary of State but one of the draftsmen of the United Nations Charter, said at a meeting of the American Bar Association:-

> "It will surprise some of our fellow citizens, though hardly anyone here today, to be told that the United Nations is engaged in an international conspiracy, instigated by Britain, and blessed by the United Nations to overthrow the Government of a country that has done us no harm and threatens none.
>
> "This is barefaced aggression, unprovoked and unjustified by a single legal or moral principle."

Far fetched? Well . . . . But since 1968 Southern Africa has been transformed by the collapse of Portugal and the consequent spread of subversion and aggression through the "liberation" struggles backed, despite *detente* and Helsinki, by the Soviet empire and its Cuban auxiliaries, in pursuit of Moscow's strategy of "economic denial".

Has the West the Will?

Russians and Cubans may be forgiven for wondering if the West has the will to sustain its friends with like determination. How else will access be maintained to mineral resources which are useful to North America but indispensable to Western Europe? That is our vital interest; and interest and principles go together — principles, for which the Commonwealth and UN are meant to stand, such as self-determination and one man one vote, rather than one man, or one party, oppression.

Heartening debates in the US Senate and the British House of Commons revealed the anxiety felt on both sides of the Atlantic at the negative policy symbolised by Dr David Owen and Mr Andrew Young. **Thousands of Rhodesians of all races are hoping and praying for a change of heart and a change of government. Rhodesia is not on the point of collapse. There is time to save her; but above all it is necessary that we should will it.**

WHAT KIND OF NEW INTERNATIONAL ECONOMIC ORDER?

by Paul Derrick

During the last few years the United Nations and its agencies have committed themselves to the development of some kind of New International Economic Order; but just what this phrase implies remains somewhat uncertain. The Group of 77 developing countries and UNCTAD envisage it as order which will bring about a substantial redistribution of wealth and income in favour of developing countries. Trade unionists incline to see it as an order which will bring about a fundamental redistribution of wealth and power in favour of the working class — a much more egalitarian world in which differences of income are much reduced. Many governments and traders see it as involving a new international monetary system to replace the one which was devised at Bretton Woods, so as to bring a new stability into international economic relations to replace the constantly fluctuating exchange rates.

The statesmen who met in Bonn early in July were seeking ways and means of bringing a world wide recession to an end — and facing the fact that so-called Keynesian recipes for maintaining something like full employment in a capitalist economic system are not working very well — with massive unemployment in many countries which reminds many of the poverty in the midst of potential plenty in the 1930's before the Keynesian revolution.

Inflationary Pressures

Perhaps one of the most intractable problems of the old international economic order is the problem of continuing inflation — endemic in certain Latin American countries and a major problem in many European and other countries. Looming over this is the environmental crisis; the pollution problem combined with shortages of basic raw materials and particularly the shortage of oil. Western Europe and the United States are likely to face real oil shortages in the mid-1980s in spite of North Sea oil; and if consumption and production continue more or less as expected the world will be facing an acute shortage of oil by the end of the century. This is bound to result, like the somewhat artificial oil crisis at the end of 1973, in a sharp rise in the price of oil relatively to other prices; and this is only too likely to add to inflationary pressures as increases in oil prices did in the mid-1970's. What kind of New International Economic Order will be needed to cope with the economic crises which seem only too likely to develop as the world runs short of oil without alternative sources of energy being developed on a sufficient scale in sufficient time?

A Commodity Standard

Perhaps one of the more urgent needs is for a stable international standard of value as national currencies decline in value with inflation. It may be that some kind of commodity standard could be developed as a basis for a new international currency issued not by the International Monetary Fund but by the United Nations itself. For example a thousand metric tons of a specific kind of Canadian wheat might serve as a standard of value over considerable periods of time and a consolidation of some intergovernmental debt into interest free debts in terms of such a standard might help to ease the balance of payments difficulties of many countries.

The humblest member state of the United Nations has the right to issue its own currency and the same kind of right might be given to the United Nations itself in such a way as to greatly strengthen its own finances. Such an international currency would need to have a name and a physical existence — unlike the "Special Drawing Rights" created by the I.M.F. in terms of national currencies. And precisely because it was not directly linked to national currencies and subject to the inflationary pressures of national currencies there might be a better chance of maintaining its real value. It may be that the creation of a new international currency based upon a commodity standard would be helped if some of the rich countries that have large stocks of gold and have made large gains from the increase in the price of gold and talk about getting rid of gold were to make substantial gifts of gold to the United Nations itself proportionate to their gains — in such a way that the reserves of the UN became comparable to or larger than those of national governments.

With an international currency not linked to industrial pressures it should not be too difficult to stabilise its value in terms of a commodity index with intergovernmental debt at the same time consolidated to a significant extent to interest free debt in terms of a single commodity such as wheat. But the mechanics of devising an international currency that could provide a real and reliable standard of value are, perhaps, a relatively simple matter compared to the task of ensuring that goods are exchanged for goods, sustaining demand and employment and containing inflation.

As oil producing countries become bigger creditors towards the end of this century they may be willing to become interest free intergovernmental creditors if an acceptable standard of value can be found. Human labour might be as acceptable a standard of value as wheat; but there seems little prospect of stabilising the general level of incomes as inflationary pressures grow under the stimulus of sharply rising oil prices towards the end of the century.

Wage Restraint

It is hard enough today to develop an incomes policy that will be accepted as applying fairly to all incomes; and in Britain since 1975 a Labour Government has called insistently for restraint in wage claims to prevent further increases in costs and prices and has at the same time recognised the need for substantial profits to finance investment and save jobs. In its White Paper on the incomes problem in July 1978 it argued that restraint both in wage claims and in the distribution of dividends is likely to be needed for some time to come; but trade unionists inevitably argue that such a policy cannot apply fairly to all incomes while industry is run on a capitalist basis as profits continue to accumulate on behalf of shareholders.

Mondragon Co-operatives

It is not surprising that increasing interest is being shown in many countries in the possibility of organising production on a *co-operative* basis so that enterprises are run in the interests of those actively associated in production. This is clearly calculated to increase incentive and productivity and at the same time promote restraint in wage claims since trade unionists would know that available surpluses would be coming to them in any case.

The spectacular success of the Mondragon co-operatives in the Basque Province of Spain has aroused widespread interest in the last five years or so and encouraged more people to speculate about the possibility of industry generally being organised on a co-operative basis. From the theoretical point of view the outstanding contribution to current thinking on such possibilities has been made by Professor Jaroslav Vanek of Cornell University and his theories and the experience of Mondragon practice will be debated at an

Open World Conference on Industrial Co-operatives organised by the International Co-operative Alliance and due to be held in Rome from October 25 to 28 this year.

It may well be that by the end of the century inflationary pressures resulting from the oil shortage will have pushed the world significantly in a co-operative direction with significantly greater economic equality both between individuals and between nations. The New International Economic Order would not necessarily be centralised like the economic order in some states that describe themselves as socialist, but it looks as if it really will have to be new, that is basically different from the existing capitalist order, in order to cope with economic and industrial pressures born of the impact of environmental crisis on a capitalist order.

THE CASE AGAINST IMPORT CONTROLS

by R. S. Musgrave

The advocates of import controls can be put into two categories: firstly those who advocate "temporary selective" controls, or something of the like, and secondly those who advocate widespread permanent controls. It is more important to deal with the latter in that if the "widespread permanent" import control arguments can be demolished, then the temporary selective controls will be kept strictly in their place and will not be permitted to expand into the permanent variety.

Those who advocate widespread import controls normally argue as follows. As full employment is approached, imports rise very quickly, which throws the balance of payments off course, which prevents any further increase in demand. Therefore it is imports which prevent demand being raised, unemployment being reduced and national income being increased.

Devaluation versus Import Controls

The most important, indeed the only important advocates of this view are to be found in the Cambridge Economic Policy Group (CEPG). Having read their Reviews I cannot say they are presenting any very new or imaginative variations on the above fallacious argument. Indeed it is admitted in their March 1977 Review that they are not saying anything very new on the devaluation versus import controls argument. It would be good to see similar admissions made when their members appear on television. Indeed the leader of CEPG, Wynne Godley, was last year *opposing revaluation* of the pound (in the Vickers da Costa reviews) when the pound was at its all time low of around 1.60 dollars. To claim that devaluation is useless compared to import controls and then to claim that revaluation is also no good is, if not a self contradiction, not exactly a coherent economic philosophy!

CEPG's thoughts on import controls seem to be held in low esteem by

most economists. I mentioned to a lecturer in economics at my local university that I had read CEPG's reviews; his response was to groan. Another economist describes Cambridge as a "disaster area" so far as economics goes, which is doubtless rather too sweeping. The Guardian's leader of the 31st March of this year starts, "The fastest way to earn yourself a quick headline is to prophesy five million people out of work by the 1990s. The Cambridge Economic Policy Group has always had a flare for publicity".

First Flaw

But to concentrate on the above import control argument, the first flaw in it is as follows. As full employment is approached, domestic firms and industries find it increasingly difficult to meet demand. This rise in the number of areas of the economy where demand exceeds supply pulls in the imports, but it does something else which the CEPG have failed to notice. It causes demand pull inflation. Indeed the point at which imports (or to be more correct, the marginal propensity to import) gets serious is presumably very much the same as the point at which demand pull inflation gets serious since the cause of each is exactly the same. Import controls are thus useless since inflation imposes the upper limit to demand at just the same point as imports do. It is no coincidence that the countries with very stringent import controls, such as East European countries, also have strict price controls.

Having imposed their import controls, CEPG envisage raising national income by means of a very large programme of additional industrial investment. Each pound of existing industrial investment yields about £0.6 of output, so all one has to do to increase output is have mammoth quantities of investment (March 1978 Review, Ch 2, section 6,e.) What an amazing new ultra simple way of raising output! Why did no one think of it before? Answer: because it is a load of rubbish. Lack of industrial plant is not for the most part the constraint on raising output near full employment. The majority of factories have their plant working at less than 90% capacity even at full employment. CEPG seem to be unaware of this.

Tariffs and Quotas

Another argument which CEPG cite in favour of import controls is that the alternative, namely devaluation, causes price increases, which will cause unions to demand wage increases, which will exacerbate inflation. The answer to this is that import controls probably result in much the same amount of price increase. If the controls take the form of tariffs then there is no question whatever but that the tariff will get passed on to exactly the same extent as devaluation to the customer. If the controls take the form of quotas, then in effect the supply of the commodities concerned to our market is reduced. Now what happens when supply is reduced and demand stays the same, or as CEPG envisage, is increased? Any school boy should be able to tell you that the prices concerned go up. CEPG however explicitly assume that prices will not go up as a result of quotas. In other words the laws of supply and demand do not operate when inconvenient for the advocates of import controls.

Another feeble reason for advocating import controls is that according to CEPG's calculation the pound will have to be devalued to 65 US cents by 1990 and that this would be impractical (1978 Review Ch 2, section 2). On the assumption that their calculations are correct, it is hard to see what is so impractical about this. The pound has been devalued against some of the stronger European currencies by an equivalent amount over the last twelve years without too much fuss and bother.

One last weakness in the import control argument should be mentioned. The advocates of free trade can produce some good and fundamental arguments as to why free trade is a good idea, why and by how much any given country benefits from it, and so on. In contrast the import control argument all too often takes the form of "whatever the level of imports is it ought to be less." It should be obvious which is the sounder argument.

Alternatives

There are numerous other weaknesses in CEPG's advocacy of import controls, but perhaps it should be noted in conclusion that the alternative to import controls, namely devaluation, is not free from demerits. Free trade per se will not guarantee this country prosperity; put it another way, a country which can barely supply half its own food and raw materials is skating on thin ice. The five million unemployed and mass emigration which CEPG portray is always on the cards, but the mere fact that we can afford so many foreign holidays and foreign cars is proof that we are for *the moment* a long way from this disastrous state of affairs. But given this state of affairs it is doubtful in the extreme that import controls would save the day.

Purchasing power of the £
taking value as equivalent to 100p in various years

1877	100												
1900	112	100											
1913	102	92	100										
1920	41	37	40	100									
1938	65½	58½	64	160	100								
1946	39	35	38	94½	59	100							
1951	29½	26	28½	71	45	76	100						
1967	18½	17	18	44½	30	47	62½	100					
1972	13½	12	13	32½	20½	34½	45	72½	100				
1973	12	11	12	29½	18½	31½	41½	66½	91½	100			
1974	10½	9	10	25½	16	27	36	57½	79	86	100		
1975	8½	7½	8	20½	13	21½	29	46	63½	69	80½	100	
1976	7½	6½	7	17½	11	19	24½	39½	54½	59½	69	86	100
1977	6½	5½	6	15	9½	16	21½	34	47	51½	59½	74	86½

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