

The European "Free" Market

Full or Associate Membership for Britain?

House of Commons Adjournment Debate, November 26

MR. HAROLD MACMILLAN, Chancellor of the Exchequer, opened the Debate, painting the picture as simply as he could "with rather a broad brush." In Venice, on May 1, the six Messina Powers—France, Germany, Italy, Belgium Holland and Luxembourg—had adopted as the basis of negotiation the Report produced by the Committee presided over by M. Spaak, of Belgium. Good progress was being made with the preparation of a treaty to create a Customs Union. All six Powers would progressively abolish all tariffs between each other and establish a common tariff against the goods of the rest of the world. Some tariffs *would* be raised and others *might* be lowered. [Our italics, ED., L. & L.]

It was "quite impracticable" for the United Kingdom to join such a Customs Union for that would involve sweeping aside the United Kingdom tariff and replacing it with this single common tariff. Goods coming into the United Kingdom from the Commonwealth, including the Colonies, would have to pay duty at the same rate as goods coming from any other third country, while goods from the Customs Union would enter free. Such an arrangement would be wholly disadvantageous to Britain and it was unlikely that the House would ever agree to treating Commonwealth imports less favourably than those from Europe. Nevertheless the desire for some kind of British association with the Customs Union was very widely felt. It was not based only on limited trade interests, vital though they were. One "tremendous reason" for such association was to ensure that these proposals, which were intended to unite Europe, should not divide it still further.

The ideal—"the dream of many of us"—would have been to have linked together in some still wider common market the Commonwealth countries, with their resources of food and raw materials and their rapidly developing economies, and Europe, a large manufacturing area with a great market for Commonwealth produce. But that had not been possible. The British Government proposed therefore that "the United Kingdom would enter a mutual free trade area with the Messina Powers, would reach it stage by stage with the Messina Powers and—this is important—with all other OEEC countries that wish to participate. The area would then consist of the Customs Union, that is the six countries as one unit, together with such other countries, including ourselves, as thought fit to join . . . Within this free trade area goods of every sort would *eventually*—I stress the word—be admitted duty free. Each country which is not a member of the Messina customs

union—this is the real difference—would retain its own separate and different tariffs on imports from outside the area. There would not be a harmonised tariff; each would have its own tariffs. It would retain its freedom of action to vary that tariff, subject to any international agreement by which it might be bound. National freedom of action would be retained in its own tariffs. It would also be retained in the field of duties designed to raise revenue rather than to protect home industry."

Trade was still partially restricted by import quotas imposed mostly for balance of payments reasons. These, too, would be progressively abolished between the members of the free trade area "subject to a strict proviso that they might be restored temporarily at any time by a country faced with balance of payments difficulties." These changes would take ten or more years to achieve.

"There must be one major exception to all this." Free trade could not be extended to "foodstuffs, whether for man or beast, whether in the raw, a manufactured, or a processed state. Foodstuffs must be extended to include drink and tobacco." It was "absolutely essential" that that exception should be made because of the reliance of Commonwealth countries and many of the Colonies on the preferential treatment their foodstuffs received in the British market. A determined effort had been made to build an efficient agricultural industry in Britain. "I think we all agree that some measure of support or protection is essential if we are to maintain it." Most European countries were similarly determined to protect their home agriculture. Acceptance of such an exclusion was "crucial" for the United Kingdom, otherwise "we could not proceed" with any such negotiation.

ADVANTAGES OF ASSOCIATION

If Britain remained aloof, her goods would have to enter Europe over tariff walls. That would place her at an overwhelming disadvantage relative to her European competitors. The "negative advantage" of association was that it would eliminate such discrimination against British goods. Industry would gain from the opportunity to increase production and specialisation. New opportunities would be presented. The United Kingdom and all Europe would be strengthened both absolutely and relatively and should be able to compete better in world markets. Britain's prosperity, as an exporting country, depended upon the prosperity of the countries which formed her markets. "Finally, the greater variety of imports available to the British con-

MAGNIFICENT JUSTIFICATION

Free Trade Through Tariffs

The "tariff weapon" forged in 1932 had been used by Labour and Conservative Governments since the war in negotiations for the reduction of tariffs. "What a magnificent justification of the policy to use this weapon if we could extend it not only for the reduction of tariffs, but the abolition of tariffs, over a period and covering a large area of Europe—and that by mutual agreement! It would, indeed, be fulfilling the very purpose for which the tariff weapon was largely forged."—HAROLD MACMILLAN.

sumer and the reduction in their prices should have beneficial effect upon standards of living."

Precise and detailed forecasts of how British industry would be affected were not possible but no "great danger of enormous dislocations" was foreseen. The whole pattern of British industrial development had changed tremendously in the last seven years. The change was silently continuing. Some firms and industries would expand; others would contract. "Some individual firms may go to the wall, with all that that implies. I doubt whether there would be many." Present external pressures on Britain's economy would be increased by entry to a European free trade area. It was not simply a matter of wage rates, level of taxation, level of defence expenditure or the standard of social services although they entered into it. What mattered, whether Britain entered or not, was that she should be competitive. If she were or could become so, these proposals would increase her opportunities. But if not, they would certainly increase present risks. Difficult problems would have to be faced in any event; their solution would be hard indeed if the free trade area were formed and Britain stayed outside. There would have to be agreement to abolish export subsidies. Dumping was another problem. Safeguards to prevent currency manipulation would be needed.

IMPERIAL PREFERENCE

"I, for one, would be no party to any arrangements which drew us away from the Commonwealth." Nevertheless, some modification of Imperial Preference would inevitably result. Certain Commonwealth exports would have to compete within the United Kingdom on equal terms with similar products from Western Europe. However, the range of Commonwealth manufactured products so affected would be very small in relation to the vast market for food and raw materials which would be excluded from the free market scheme. About 90 per cent of present British imports from the Commonwealth would not be affected. Canada was the one exception to the general rule but she would retain her preference against the United States and she would gain from the gradual removal of quotas, which were the main obstacle to her trade. The Colonies would be free to join the free trade area but probably most of them would not wish to do so.

It remained the Government's policy, when conditions allowed, to make the £ convertible. The free trade plan, if it strengthened the wealth and prosperity of Europe, should strengthen the £ sterling. A common currency was not contemplated. Something had to be done. Britain could

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either stand outside these developments, or she could try to upset the plan and thus avoid taking any decision on the matter, or she could follow the course the Government had taken, which was to offer "our European colleagues in the OEEC proposals of a general character and to find out whether upon the basis of these a satisfactory outcome was possible." The plan could not be implemented overnight; it

would take more than a year to negotiate. After that treaties and other legal instruments would have to be prepared and ratified.

LABOUR'S VIEW

MR. HAROLD WILSON (Labour, Huyton), the principal Opposition speaker, said that what was being debated was not a Common Market or a free trade area. "It is an area of tariff-free trade, and that is as far as it goes." Nor was it a panacea for the economic ills of Britain or Western Europe. It was not a scheme involving the free movement of capital or the free movement of labour as those who were a little mesmerised by the "great American free trade area" sometimes thought. The positive advantages of what they were discussing were therefore much more limited and much more speculative than might have been thought by those who had been misled by such terms as "Common Market" and "free trade area." There were political advantages and Britain should enter the negotiations fully and frankly but there should not be excessive hopes of what the scheme would achieve economically. Few British industries would be likely to increase their productive capacity if there was the threat of the "quota axe" falling at any moment. Yet the right to impose quantitative restrictions was an absolutely essential defence.

Britain could not afford to stay out of this market leaving it free to German industry to over-run. Western Europe accounted for 25 per cent of Britain's trade while the Commonwealth accounted for 50 per cent. There was no need for the expansion of European trade to be at the expense of Commonwealth trade, but it would be unless the Government took immediate and specific action. Therefore it should re-introduce centralised buying and long term contracts for Commonwealth products. It was right to exclude horticultural and agricultural products.

Powers must be reserved to protect Britain's balance of payments and to impose exchange control, including control over capital movements. An essential condition was that the European Payments Union should be completely overhauled. There might be a central bank for the area to extend credit and perhaps "to take positive investment action in depressed sectors of the free trade area."

ROAD TO SOCIALISM

Policies of international full employment should underlie the whole conception. The Chancellor must preserve full freedom for all the policies necessary to maintain full employment and full production in Britain. There would have to be an effective Government policy for bringing employment, factories and industrial prosperity to areas that might be "badly hit over a period of years" as a result of the proposal under discussion. There should be positive action to improve labour standards and especially to improve social security standards. A specific clause should be written into the treaty to prevent the formation of international cartels or market sharing arrangements. Some countries had liberalised their dollar raw material imports more than Britain had; this country must be protected against their re-exporting those materials either in the raw or slightly processed form.

The Opposition regarded this plan "not as a generalisation of a free economy, but as a change of policy which will require very fundamental changes of internal policy in this country. This is our chance, our one chance to increase investment, and in our view this will mean more controls, more positive Socialist planning measures, more positive use of public ownership, not only to increase the total volume of investment in this country, but also to direct that investment more purposively into the industries we most need to expand . . . Therefore, I say to the Chancellor, 'Enter the negotiations with our encouragement and support.' I give the pledge that Her Majesty's Opposition, so long as it remains the Opposition, will not be found ranging itself on the side of any protectionist lobbies in this country."

UNEMPLOYMENT FEARED

MR. GERALD NABARRO (Conservative, Kidderminster), thought the debate had been conducted in an artificial atmosphere. In the Midlands grave anxiety was felt by both employers and employees in a wide range of industries as to what would happen if all tariff protection against European manufactured imports were removed. For instance there was the glass industry at Stourbridge and the pottery industry in Stoke-on-Trent both heavily protected by tariffs. "I can see a whole gamut of industries facing massive difficulties if tariffs are removed"—whether arbitrarily and unilaterally or over a period. It would become increasingly difficult for the motor industry to compete abroad if it were "deliberately undermined" by removal of tariff protection. If there were a common market with both Italy and Britain as members, unemployment would be imported from Italy. Since 1952 Britain had been flooded with cheap Belgian cotton carpets. The Belgians had been deliberately subsidising the growth of Congo cotton, thus placing their carpet manufacturers at a great advantage over British manufacturers. Under a common market arrangement it would be nearly impossible to suppress "unfair trading practices" of that kind.

Britain was the most heavily taxed nation in Europe. There would be approximately equal terms for trading if

it were possible to have one uniform scale of direct and indirect taxation for all the Messina countries. But without that British manufacturers would be under a manifest disadvantage. Imperial preferences would be whittled down or eliminated. "I believe that this is not to the best long term advantage of the Commonwealth, Empire and the United Kingdom."

WARM LIBERAL WELCOME

MR. ARTHUR HOLT (Bolton, West): "On behalf of the Liberal Party, I welcome most warmly the proposal for a common market. I speak as a free trader and as a member of a constituency which is predominantly textile." During the last five years Empire trade, which accounted for nearly 50 per cent of Britain's total trade, had been stagnant and extremely erratic. Britain most certainly had not a bright future in Empire trade. But world trade had been expanding rapidly and was now about 21 per cent in volume greater than it was five years ago. European trade had been expanding to an even greater extent. The Government must adopt a positive attitude; it was intrinsically and basically a major British interest that the proposal should succeed.

It had been fascinating as a free trader "to sit here this afternoon and listen to protectionists advocating this very liberal and free trade measure." It had been suggested that Members should not become involved in free trade and protectionist arguments. But some of those arguments were basic. For instance, how could home demand be increased by putting on a tariff and pricing a commodity beyond the reach of the ordinary person? Until people recognised how fallacious were protectionist arguments, and realised that tariffs never did any good to anyone, there would not be enough support in the House to face the difficulties which would have to be overcome. "Whether a country is prosperous or not depends entirely upon the level of demand. It had nothing to do with tariffs; tariffs have always been utterly irrelevant."

The "hoary old fallacy" that a protected and stable home market was necessary as the foundation for an export industry was nonsense. Many industries had been built up in which 70 to 80 per cent of production was exported. For about 30 years the textile machinery industry had been exporting some 95 per cent of its output.

What was going to be done about the "most favoured nation" clauses under the General Agreement on Tariffs and Trade? There were three alternatives. Firstly, under Article 24 of GATT, Britain could reduce her tariffs step by step with Europe, leaving them unaltered against the rest of the world. Secondly, re-negotiation of those clauses could be postponed until the common market had been in operation for several years, when it might be possible to lower tariffs against third countries to some extent. Thirdly, the "most favoured nation" clauses could stand. That would mean that as Britain lowered her tariffs with Europe she would lower them against the rest of the world. In that way Britain would be brought into the position she was in in the 1860's, when she became a free trading nation in manufactured goods.

Land & Liberty

DEFINITELY NOT FREE TRADE

MR. JOHN EDWARDS (Labour, Brighouse and Spennorth), from the Opposition Front Bench endorsed the conditional approval accorded by Mr. Harold Wilson and other Labour speakers. If a treaty was negotiated and ratified, there could not be any question of Britain "pulling out" of the arrangements after the first four years as the French had been suggesting at one stage during the recent Paris talks. The Report of the Messina Powers was "singularly little known. I believe that it is not possible even now to get the copy in English." A White Paper should be published as soon as possible with the Report as an appendix.

That Report made clear that this was "not just free trade, but free trade with a difference—and an enormous difference. As one turns over the pages and sees the proposals for an adaption fund, an investment fund, the harmonisation of social policies and all that kind of thing, one realises how far removed were the authors from any ordinary free trade concept . . . Unless many of the things that we have talked about to-day are written into the treaty, it will be just a partial free trade area and not free trade with a difference. It will, in fact, not be very different from the classical concept of natural liberty."

Success in this matter would depend "upon how far we are able to depart from ordinary free trade principles. We want such a difference that perhaps some day someone will find a suitable name for a system in which the forces involved in the free play of the market are helped sometimes by planned intervention and the social consequences are mitigated by common services and individual and special aid."

Replying to the Debate for the Government, MR. PETER THORNEYCROFT, President of the Board of Trade, said that this was not a cut-and-dried detailed plan. It was extremely complex. The talks with the Commonwealth, with industry, and with the Trades Union Congress, and now this debate all pointed to the need for discussions with Europe. Free Trade in agriculture and horticulture would make nonsense of "our" agricultural policies, involving heavy losses to either the farmer or the Chancellor and would break up the relationship with the Commonwealth. The principle behind the Government's proposals was that Britain must be able to compete. If quota restrictions were reimposed for protective purposes under the guise of balance of payments reasons, or if the removal of tariffs in Europe was matched or replaced by a continentally wide organisation of cartels, the whole object would be frustrated and "we should all have failed in the object which we set out to achieve." There was a good chance of securing good creditor policies in Europe if Britain entered the free trade area.

Double pricing and export quotas presented a particularly difficult, special problem to discuss. Lists of strategic goods would be closely scrutinised to ensure that they were not designed "to defeat the advance to a free trade area." The woollen industry had nothing to fear from

A STRIKING ADMISSION

Tread Gingerly With Vested Interests

MR. FREDK. MULLEY (Labour, Sheffield Park): *"The only really effective argument which I have heard for excluding foodstuffs from the scheme is that if we are going to have trouble with pressure groups and with the Federation of British Industries, why should we have trouble, at the same time, with the National Farmers' Union? From a practical point of view there is much to be said for taking on these pressure groups one at a time."*

MR. PETER THORNEYCROFT (President of the Board of Trade) indicated assent.

freer trade. The Lancashire textile industry would get its fair share of the great opportunities that were opening out ahead.

There was general agreement that labour and wage rates should be levelled up rather than levelled down. In that respect the International Labour Organisation and the trades unions in Europe had an important part to play. No doubt in any agreement reached much would be written about the objects of full employment. But what mattered was not what was written into an agreement but that there should be demand. "If we want more jobs we need more demand and a wider market."

"If the taxation imposed by this Government, or what I sometimes think is a still higher taxation forecast by the Opposition, is really detrimental, it may be an argument for adjusting taxes but it is not an argument against going into a Common Market."

The support received from Mr. Holt, the Liberal free trader, was welcome but "these proposals differ from the free trade advocated by the Liberal Party. This is not a unilateral lowering of barriers in a small area whatever anybody else may do. It is a mutual freedom in a large common European market." It should be possible and necessary to obtain a waiver under the General Agreement on Tariffs and Trade whereby the European countries and the United Kingdom would be permitted to remove their tariffs against each other's goods and to leave their external tariffs subject to the same rules as existed to-day.

Dangers lay ahead. No doubt when the scheme came into effect much would be blamed upon it. However, a market of 250 million offered prizes—to exporters, traders, merchants, financiers and bankers—which should not be underestimated. Nor should the danger be forgotten of staying outside, allowing the European bloc to be dominated by Britain's principal competitor, Western Germany. "I would defend these policies not on the negative but the positive approach. I would defend them not for the dangers they avoid, but for the hopes which they give. Here, in Europe, we have the cultural centre of the free world. We should not leave it Balkanised, divided and weak, but growing closer together, stronger, more compact and linked through us with a great Commonwealth and Empire."