The 1950's

The 1950 decade started with the Korean wool boom and ended with a stock exchange and real estate boom. The former sparked off a growth momentum that still retained much of its strength at the end of the decade. The latter reflects the abounding confidence in the 1960's.

In at least two senses it was a “break-through” period for Australia. By the end of the decade the industrial face of Australia was assuming a look of undoubted maturity. But we had not only grown up economically; we had become, at last, a part of the world. To peoples, who some years ago would have had difficulty in pin-pointing our position on the map and who knew less than nothing about us, Australia had become a name to conjure with. Internationally, we had “arrived”. This, indeed, is perhaps the most significant fact of the decade.

By 1960 Australia had become a shining “land of opportunity” not only for Australians, but for wealthy overseas
investors as well as for their less fortunate brethren seeking wider horizons in the newer countries. Many things contributed to the awakening of world interest in Australia, from high-speed jet air-travel to the spectacular feats of its sporting ambassadors. But the most important was its own extraordinary economic expansion. Year by year the migrants flooded in; the capital flooded in; industries grew at a phenomenal rate; the V.I.P.'s of other countries came to see what it was all about. It seems safe to say that most of the V.I.P.'s were impressed with what they saw; but if they weren't impressed, at least they were surprised. Many of the popular preconceptions about Australia were shattered. The size and maturity of Melbourne and Sydney, the multiplicity and versatility of its industries, were eye-openers to those who had thought of Australia as a nation of wool-growers and wallabies.

The statistics of Australia's growth have been recorded many times and there is no point in repeating the story here. But, by any standards, it is a story so staggering that the majority of us have yet to grasp its magnitudes or to comprehend its full significance. The most surprising thing, in retrospect, is that such tremendous economic advances could be made without serious set-back. On at least two occasions—in 1952 and 1956—the economy, admittedly, was gravely threatened, but on each occasion good fortune and good management combined to avert disaster, and the rhythm of expansion was barely interrupted.

But we should under-rate neither—neither the luck nor the competence of the management. The luck was good; the management both at business and government levels was good, and the two together saw us through. If either had failed us—and it is well to remember this—the outlook at the beginning of the 1960's would be vastly different from what it is, different not, perhaps, so much in underlying economic strength as in the frame of mind of the people, in their attitude toward the years ahead.

Few people will dispute the good luck; some may question the good management. Admittedly it wasn't perfect, but since when is one entitled to expect perfection in human concerns? Certainly, if luck had deserted us, those responsible
for the direction of our economic affairs would have been reviled. But the element of luck is an essential ingredient in all success. In the whole history of cricket how many great innings have been played without so much as the suggestion of a chance? Not many! Because a batsman who records a big score is missed, we do not say that this removes any merit from his performance. And the fact is that some things, some of the economic goals we set ourselves ten years or so ago, which we thought then might prove difficult if not impossible, are taken for granted today. One of the most astonishing aspects of the last 10 years is that, despite precipitous rises and falls in export prices, the unemployment percentage never rose higher than 4% and for nearly all of the time was under 2%. This is a remarkable record, not bettered by any other country, and alone it suggests a high standard of economic competence in those responsible for great decisions.

Of course there were blemishes, and the most serious is the fact that the 1950 £1 note is worth little more than 10/- in 1960. It would be easy to call the 'fifties the “decade of inflation”; but the phrase would be misleading, a half truth which conceals the whole truth. Along with inflation (but not because of it) have gone great and enduring gains—the gains of full employment, of rising living standards, of unprecedented industrial peace, of a tempo of industrial and population growth rarely equalled by any country at any time.

But having said that, it would be wrong and dangerous to imply that “expansion plus inflation” is an economic formula that could succeed in the 1960 decade. In fact it would be certain to fail. It succeeded in the 1950's—or at least it did not fail—only because of a unique combination of circumstances which resulted in world commodity prices being, by and large, far above the level of Australian costs. That is no longer so. Moreover, the terms of trade, which have exerted such a decisive influence on the Australian economy throughout its history, are back to their pre-war position, and there are no indications that, in the years ahead, they will favour us so greatly as they did in the 1950's.
In the 1960's the formula must be "expansion without inflation". Unless that is observed there would, before long, be little or no prospect of expansion at all.

One of the most important lessons we learnt from the experience of the 1950's—and we did not learn it until the closing years of the decade—was that Australian prosperity and growth depend, above all else, on the size of our export income. For years we laboured under the delusion that the expansion taking place in the manufacturing industries would result in greater economic self-sufficiency and reduce our dependence on imports. "Import replacement" was the popular slogan. At the end of the decade the battle-cry has become "export or else". This is the reason, along with, but above, many other reasons, why inflation can have no part in the economy of the 1960's.

The 1950's was the decade of growth. It was the decade of many things. It was the decade of industrial peace (never was the record of man-hours of work lost through strikes so good). It was the decade of political stability (never were there fewer explosive political conflicts). It was "the decade of the gadgets". This is not mere facetiousness. Indeed, industrial peace and political stability are closely connected with the multiplication of the gadgets and its accompaniment, hire purchase finance. For the mass ownership of the gadgets—from washing machines to "pop-up" toasters—is revolutionising traditional political and industrial attitudes. The continued lack of success throughout the decade of the Labor Party stems primarily from the fact that they have failed to recognise the significance of the "gadgets".

At the beginning of the decade there were, for every 100 Australians—10 motor cars, under 10 refrigerators, well under 10 washing machines, 14 telephones.

Today there are, per 100 people—18 motor cars, 30 refrigerators, 20 washing machines, 20 telephones.

In 1950 there were no T.V. sets; in 1960, 2 out of 3 homes (in Melbourne and Sydney) had television.

All this, of course, does not reflect, in itself, any improvement in morals, or character, or understanding. It does
reflect a vastly higher standard of living for the wage-earners. The great majority are becoming "men of property" and men of property are conservative. What they have, they do not want to lose. This is economically, socially and politically one of the most portentous developments of the 1950's.

To catalogue all the significant features of the extraordinary 1950 decade would need a book. There were so many. But a few more must be mentioned. The discovery of new mineral wealth, for instance, uranium, the rich copper lodes at Mt. Isa, the massive bauxite deposits around Cape York. But the one thing most needed—oil—in spite of vigorous search, eluded us. Perhaps the 1960's will make good the deficiency. If so, the impact on the future of Australia, on its economy and development, could be explosive. Science contributed notably. The control of the rabbit pest alone added hundreds of millions of pounds to Australia's rural output, and brought in sight new vistas of wool production.

The 1950's was the decade, too, of the Snowy River Project and all that it symbolised in the way of huge unprecedented government expenditures on public projects. In 1949 governments spent £142 million on capital works. In 1959 they spent £520 million. Even when allowance is made for the fall in value of the £, the increase remains vast. Nevertheless, the decade ended with the lag, and threatened lag, in essential services, from roads to schools, as one of the most acute problems facing the economy.

Taken in conjunction with the tremendous year-by-year expansion in private enterprise, government capital outlays brought expenditure on investment up to about one-quarter of all national expenditure—a ratio surpassed possibly only by the Soviet Union. Even so, there were some people saying that it was not enough. Whether it is feasible to maintain such a high ratio of investment in a free economy without inflation is a question to which the 1960's will have to provide the answer.

* * * * * *
The last 10 years have transformed our ideas about Australia. We began the decade with high ambitions, but with some diffidence about our ability to achieve them. We end the decade with even higher ambitions, but with the confidence and self-assurance that come only from successful accomplishment.

At this point of time, the end of one decade and the beginning of a new, we would do well to take a good critical look at ourselves. Where are the sources of possible trouble? What are our shortcomings? A tendency to over-confidence, even to national swollen-headness may be one. Our success in the 1950's should not be allowed to blind us to the fact that the 1960's is another decade which is certain to present difficult problems of its own. There is no inevitability about prosperity. The future has yet to be made and success has to be earned and re-earned.

For the continuance of large-scale development in the next 10 years we will need, above all, three things:—First, good average prices for wool; second, good seasons on the land; and third, a continued heavy inflow of overseas capital. We may get them all. And we may not. None of them, unfortunately, are entirely within our control.

Nobody knows what the 1960's will produce for Australia. The future seldom, if ever, runs according to expectations. But whatever turns up, we will acquit ourselves better if we do not let the successes of the 1950's go to our heads. "Of the perils of the soul among the most grievous are pride and certitude." Providence seldom bestows its gifts in such abundance that either men or nations can have everything they want. It would not be good for them if they could.
Inflation!

1960 has opened with ominous indications of a renewal of rapid inflation. Prices have been advancing, if not all along the line, at least on a very broad front. Over the last two or three years, prices have been rising relatively slowly, although not insignificantly, at a rate averaging slightly less than 3% a year. But unless something completely unexpected occurs, the price rise in 1960 is certain to be very much greater, perhaps around double that rate.

The upward surge in living costs has been greeted with widespread annoyance by the community. As always happens on these occasions of universal irritation, everyone has been busy blaming everyone else.

In this situation the Commonwealth Government acted with commendable promptitude. On February 21, the Prime Minister outlined the measures which the Government proposed to take to combat the inflationary pressure building up in the economy. These measures are now well known, and, with one possible exception, most people would agree with them. The exception is the virtual removal of the restrictions on imports which have existed since 1952. On the advisability of this step, legitimate doubts can be held on two grounds:—First, whether the future of the external position is yet sufficiently assured to justify the abandonment of import controls without the danger that the Government might be compelled to re-impose them in the not-distant future. The second is whether an increase in the flow of imports is likely to prove an effective anti-inflationary weapon. Time may erase these doubts but at present the removal of import restrictions seems something of a gamble, the consequences of which cannot be accurately foreseen.

The Government’s decision to intervene in the basic wage case at present before the Arbitration Commission and to oppose any further increase in wages at this juncture is a courageous political step and the measure likely to have the most important practical consequences. There can be no doubt that the re-birth of inflation, after some years of
comparative stability, is largely traceable to the 1959 basic wage and margins increases. Either decision alone might have been borne without too savage an impact on costs, but the two together made too big a meal for the economy to swallow without over-straining its digestive capacity. It must be conceded that the increase in margins contained a substantial element of industrial and social justice and, in retrospect, it seems a pity that the wage adjustment of last year could not have been confined to this aspect of the wage pattern.

As the effects of the basic wage and margins decisions have begun to seep into the price and cost structure, doubts have grown about the wisdom of the Commission's determinations. Certainly the sanguine expectations expressed by the Commission in the margins judgment about the effect of its decision on prices and costs are not being borne out by the passage of events. The Commission said: "We have looked at the increase which we propose to grant in this case in the light of the submissions about economic stability and we do not consider that such increases are so likely to affect that stability that the economy will be adversely affected".

Of course it would be unfair to single out the Arbitration Commission as responsible for the inflationary tendencies in the economy. Australia has been in the clutches of chronic inflation for the whole of the last decade and we are all in part to blame for the malady which has afflicted us.

In any free economy operating at full-employment levels, there is a tendency for incomes to rise faster than production. This arises from the natural human desire of everyone to improve their living standards and the belief that this can be achieved through increasing their money incomes. It is all very well to appeal for restraint—indeed it is right to appeal for it; it is right, as one newspaper has said, to create a climate of public opinion opposed to inflation—but the truth is that few of us can resist the temptation to try to increase our money incomes whenever the opportunity offers. It is in this natural human propensity that inflation has its seeds.

Unfortunately in recent years there has not been a really vigorous attempt to build a national opinion hostile to inflation. For quite a good part of the last decade we have been under the influence of a brand of economic thinking which
went close to suggesting that inflation didn’t matter. Doubts about the validity of this doctrine began to appear some two or three years ago; today it would be hard to find any responsible authority in the Western World who really believes in it. Moreover, apart from the undesirable economic and social consequences of long-continued inflation, it is clear that the great majority of people have become heartily sick of rising prices.

In his statement on inflation the Prime Minister, significantly, rejected the notion that slow or “creeping” inflation is harmless. “We believe”, he said, “that on all counts we are better off with a stable level of prices and costs.” The I.P.A. has argued this unwaveringly for the last 5 or 6 years; but whatever the situation in the 1950’s, it must now surely be plain to thinking people that the prevention of inflation must be a prime objective of economic policy in the 1960’s.

In the next decade Australia faces a huge task of expanding its exports in order to support a rapidly increasing population at even present standards of living. The task will be difficult enough in all conscience; if prices and costs continue to rise it will become completely unattainable. In recent years most countries have been making much more strenuous efforts to grapple with inflation than Australia and are meeting with some success. If Australia were to continue on the path of inflation in a world of stable prices and costs it could only be a matter of time before we were confronting economic disaster.

As far as the coming months are concerned, it has to be recognised that the damage has been done. Inflation is under way. The recent wage increases are inevitably being worked out in higher prices and living costs. It is the nature of inflation to be self-perpetuating. The very rise in prices now occurring will light a fire of dissatisfaction among income-earners and will set in train a further series of demands for higher money incomes. The rising cost-of-living, indeed, will be one of the main arguments advanced to justify further increases.

A policy to beat inflation that stands any chance of success must be firmly based on the principle that the total
money incomes of the community—and this includes all classes of incomes, wages and salaries, business and farm incomes—must not be permitted to rise faster than the productivity of the community. The Government seems to have had this point in mind in deciding to intervene in the current basic wage case.

One of the weakest points in our defences against inflation at the moment is the fallacious notion which abounds about the rate at which it is possible to increase production per man over the whole economy. The idea has somehow got abroad that in a modern industrialised economy, substantial increments in productivity are achieved year by year and this idea has clearly affected the thinking of governments, wage-fixing authorities, trade unions and employers. Unfortunately, professional economists and statisticians in Australia have done little to dispel it. The idea of rapid gains in over-all productivity can find no support in advanced statistical researches into long-term productivity trends in Australia or in other countries.

In a recent article, a leading American statistician, W. S. Woytinsky, states that, over the last 12 years, the average yearly gain in production per head of population in the United States is 1.5%.

Work done for Australia indicates a figure for the period since the war of somewhere between 1% and 1.5%.* Yet since 1950, money wages have increased by about 110%—an average rate of increase of almost 8% a year.

It is possible, of course, to show that despite the great increase in money wages in recent years, real wages have increased only moderately. For instance, since 1954, notwithstanding the November marginal increase and frequent basic wage adjustments, the real nominal wage of a fitter has risen by only 3%. Facts such as these are seized upon by the unions to substantiate claims for further large wage increments on the grounds that the worker is not getting his share of the rapid advances in productivity supposed to be taking place. The truth, however, is that the small rise in real wages,

* In this connection see article "How Fast Does Productivity Increase", I.P.A. Review, April/June, 1959.
Despite the substantial increase in money wages, is clear evidence that productivity has not been improving at anything like the rate popularly supposed. Consequently, the efforts to achieve higher living standards through boosting money wages have been largely futile, and have simply resulted in rising prices.

While it is true that in particular industries, or even in the manufacturing sector as a whole, spectacular gains in productivity may occasionally be registered, this is seldom, if ever, true for the economy as a whole. Manufacturing after all, makes up not more than about a quarter of the economy, and in the great part of the economy, which includes all the services of trade, finance, government administration and public utilities, productivity gains from year to year may be virtually non-existent. This must have the effect of reducing the average annual productivity increase over the whole economy to a very modest amount. Yet, with a sublime disregard of economic fact, prominent people have claimed that Victoria has increased its productivity by up to 8% in the last 12 months!

Productivity in Australia can be affected, of course, from year to year by changes, which are sometimes quite sharp, in the terms of trade. When the terms of trade are favourable and farm incomes are high the disposition has been to grant substantial wage increases. But when the terms of trade are adverse there has been no off-setting tendency to reduce wages—and there may be sound economic reasons for not doing so. The proper policy, therefore, would be to adjust wages in the light of average long-term productivity gains rather than of the gains of any one year, arising from temporarily favourable terms of trade.*

The basic desideratum of wage policy should be to ensure that wages over the long term rise as fast as, but no faster than, average movements in productivity. For this purpose

* This point is well made by Professor Karmel of the University of Adelaide in a paper published in "The Economic Record", December, 1959. He says—"The variation of real wages with every sharp fluctuation in effective productivity would be undesirable, since sharp fluctuations in productivity (from seasonal causes) and in overseas prices do occur fairly frequently. Hence it is the trend value of effective productivity which is relevant. Accordingly, as far as money wages are concerned it is the trend values of domestic productivity and export prices to which attention should be paid."
Inflation! (continued)

An outside maximum of 2% a year should be kept in mind; but a safer figure would be 1%. If this principle of relating wage adjustments to a realistic conception of productivity gains is not observed, then, as sure as night follows day, prices will rise. (We have made suggestions in another article in “Review”—See page 16—on reforms in wage-fixing methods so that this objective will have some prospect of realisation).

But incomes may increase faster than productivity from causes other than the decisions of tribunals concerned with wage and salary adjustments. Incomes can be pushed up too rapidly under the pressure of excess demand. Excess demand could arise in a stationary economy; but the likelihood is far greater in a rapidly expanding economy such as the Australian at the present time.

An expanding economy necessarily requires huge quantities of capital to employ, house, educate and provide for the general health and welfare of the rapidly growing population. An extra-heavy demand for capital thus becomes superimposed on the natural pressure for rising standards of consumption. A conflict inevitably arises between the demands for consumption and the demands for capital. It is out of this conflict that excess demand and thus inflationary pressure is likely to be generated.

Through the 1950's, and particularly in the early years of the decade, the striking discrepancy between award wages and actual wage earnings is evidence that excess demand has been at work. Indeed the gap between award and actual wages has not infrequently been used by industrial tribunals as a reason why award wages should be adjusted upwards to accord more closely with the level of wages actually being paid. Unfortunately, this has not had the effect intended. For the increase granted in nominal wages has for the most part been added to actual wages paid, with the result that the discrepancy has remained as before.

The rate of expansion is one of the most complex issues in Australian economics at the moment, and no issue arouses more fierce emotional responses. But emotion is of little help in the solution of economic problems and only serves to create an atmosphere in which calm and considered assessment becomes impossible. It is difficult, however, to resist the con-
clusion that the rate at which Australia is pursuing development has been a strong contributory factor in the great inflationary movement of the 1950 decade. In our view a policy aimed at stable prices, which has any chance of being politically acceptable, would have to take this into account. Any review of inflation which leaves this factor out of account would certainly be seriously incomplete. The strong probability is that the Australian economy is just over-stretching itself in the general urge for rapid expansion and development. A somewhat more modest, although still rapid, rate would certainly make the solution to inflation very much easier. To ignore this problem, or to deny that it has any relevance to inflation, is simply to run away from the prospect of any real solution.

Recently there have been proposals from highly placed people for a vast increase in government spending on capital works (of the order of 25%) to overtake the serious lag behind the community's needs in many essential services. It has been suggested that, if necessary, the extra finance should be raised by levying heavier taxes. This proposal goes a long way beyond the realm of political practicability.

Unless accompanied by direct government controls, it would add fuel to the fires of inflation which are already burning too merrily for the economy's comfort. What too many present-day thinkers overlook is that the community never readily acquiesces in a reduction in its standards of current consumption. On the contrary, it fights bitterly to resist it and if the attempt is made by higher taxes or otherwise, people will scratch round for every possible means of maintaining their customary level of spending. These means include agitation for higher wages, a greater willingness to run into debt and a reduction in their savings. Higher taxes also tend to cause businessmen to raise their prices and to encourage them to indulge in spending in directions which help to minimise taxation. This is apart from the direct effects of higher taxes on incentives of wage and salary earners to increase their efforts and of businessmen to strive for economies when a good part of any gains are taken by the Treasury. There is more than a little truth in Mr. Colin Clark's selection of 25% of national income as the outside limit to which taxes
Inflation! (continued).

can be raised without being seriously inflationary. (The level of taxation in Australia is already at about this figure.)

In a free or substantially free economy, it must be seriously doubted whether, beyond a certain point, it is possible to restrict consumption in the interests of increased capital investment without incurring the certainty of inflation. In recent years Australia has been investing 25% or more of its gross national product. This is one of the highest rates of investment in the Western World, and it has gone along with quite a substantial amount of inflation.* Efforts to further increase the proportion of resources devoted to investment, would certainly lead either to even more inflation or to a tightly controlled economy.

The suggestion of a massive increase in public works expenditure can therefore be dismissed as an essay in "airy-fairy" economics, politically impracticable and economically suicidal.

*   *   *   *   *

To sum up: The Commonwealth Government’s policy to contain inflation is undoubtedly on the right lines. Control of bank lending and a balanced budget are the orthodox instruments of disinflation. The intervention in the basic wage case is to be commended. Whether the measures go far enough to achieve the Government’s goal of bringing inflation entirely to a halt may be doubted. In a climate of exceptionally rapid economic expansion, a credit “squeeze” cannot be taken too far and a balanced budget is difficult to achieve. If inflation is to be beaten, and not merely moderated, the following basic points of policy must, in our view, be observed.

* The Council on Prices, Productivity and Incomes advising the British Government, gives the following figures of investment as a percentage of gross national product for different countries. In the light of the Australian rates of around 25%, the figures are indicative—

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<td>Western Germany</td>
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<tr>
<td>Italy</td>
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<td>Denmark</td>
<td>19%</td>
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A most revealing figure is the estimate given for Russia of 25%.
1. Annual wage and salary increases must not, in general, exceed the *average long-term gain* in productivity of the economy.

2. The assessment of productivity for this purpose should be based on the most advanced statistical researches into this problem in Australia and other industrialised economies and not on popular general notions.

3. Employers should observe moderation in their pricing policies and thus show that they accept their share of the responsibility for the prevention of inflation.

4. The rate of expansion of the economy should be carefully studied, having in view the rate which can be safely undertaken without inflation. The total resources available to the economy, and the political obstacles to the enforced restriction of consumption in a free economy, are factors which impose limits on this rate. An expansion programme which involves a rate of capital investment higher than the present figure of 25% of Gross National Product is certain to have inflationary consequences. In the end, inflation will not accelerate the process of expansion, but, by weakening the economy, will seriously impede it. We will get further faster in the long run by maintaining the basic stability and strength of the economy.
New Methods
of Wage-Fixing Needed

The margins determination of the Commonwealth Conciliation and Arbitration Commission in the Metal Trades Award in November, 1959, following hard upon the heels of the substantial 15/- increase in the basic wage in June of the same year, has precipitated widespread unease about the present methods of wage adjustment. No sooner had the Commission given its decision to increase marginal rates of pay by 28%, than the unions announced that they would apply for a further rise in the basic wage early in the current year.

It is clear that the whole approach to the fixation of wages in Australia is in need of urgent re-examination. If present methods are adhered to, then the economy will be faced with the prospect of a continuous inflation of prices and costs.

At the present time the wage-fixing process under the Commonwealth Conciliation and Arbitration Commission is founded on two primary concepts—first, the concept of the basic wage and, second, that of a yearly review of this wage based on “capacity to pay”. The basic wage has been part of the wage-fixing procedure for half a century. The yearly review is of recent innovation. It had its origin only in 1956 when the Court in rejecting an application by the unions for the restoration of cost-of-living adjustments, stated: “The Court considers—fortified by the Judges’ experience of considering from time to time Australia’s capacity—that a yearly assessment of the capacity of Australia for the purpose of fixing a basic wage would be most appropriate. We would encourage any steps to have the Court fulfil such a task each year.”

In recent judgments, members of the Commission have made it clear that they regard the new procedure of an annual review of the basic wage as a substitute for the system of cost-of-living adjustments which was abandoned in the 1953 judgment. It must be seriously questioned whether this procedure is wise.

The retention of the basic wage concept as the main standard for adjusting wages throughout the Australian
economy is also of dubious wisdom; it certainly has no logical basis. Combined with the new procedure of an annual review, it is likely to give rise to difficulties in the future and could, at times, place the Commission itself in an embarrassing position.

* * * * *

The adoption of an annual enquiry represents a complete departure from all previous experience of wage fixation since the Commonwealth arbitration authority was established back in 1905. Until 1956 it seemed to have been accepted, even by the unions, that full-scale enquiries into the basic wage, based on capacity to pay, would be held only at intervals of some years and then only when there was reason to think that some major change affecting economic conditions had occurred. In the 20-year period beginning in 1935 and ending in 1955 there were four alterations only in the real basic wage. There were, of course, numerous adjustments to the money wage under the system of quarterly cost-of-living adjustments.

It is not without significance that when the Court decided to discontinue the quarterly cost-of-living adjustments in 1953 there was no suggestion of replacing their inclusion in awards by any other procedure. Not until 1956 was any serious consideration given to the idea that, if the automatic adjustment clauses were deleted from awards, some quid pro quo should be provided as a substitute. In his judgment in the 1959 Enquiry, Mr. Justice Kirby said: “I would emphasise that the annual review of the amount of the basic wage by a Presidential session of this Commission is a substitute in every way for arbitrary adjustment by an index which has to do with one factor only of the many making up the economy.”

The statement of the Court in 1956 can be said to amount to an open invitation to the unions to apply each year for a review of the basic wage. In his 1959 Judgment, Mr. Justice Kirby stated that, in his view, “a period of one year—in the absence of exceptional circumstances calling for a different period—remains . . . . the ideal period between reviews of the basic wage.”
New Methods of Wage Fixing Needed (continued)

It is true, of course, that labour is entitled to its full share of the fruits of increased productivity. It is true also that, over the long term, productivity can be expected to increase with improvements in technology and in managerial competence. But latest researches have thrown grave doubt on whether our present methods of measurement of productivity even roughly estimate the actual long-term rate of improvement. They have suggested, indeed, that these methods may seriously disadvantage the unions.

The prospect of an annual wage controversy cannot be viewed with equanimity. Such a situation is hardly one which will contribute to better industrial relations or to the promotion of a greater sense of responsibility for the national welfare on the part of either employees or employers. Such is the nature of arbitration, the unions will be encouraged each year to make extravagant claims for wage increases far beyond the capacity of industry to support.

The unions, naturally, have not been slow to take advantage of this invitation and it seems that in the future Australia is to be saddled every year with a prolonged and detailed enquiry by the Commission. It is interesting to speculate whether, if the Court had refrained from intimating its desire for an annual hearing, the unions would have applied each year for a rise in the basic wage. The probability is that they would not. The whole cast of mind of organized labour toward wage fixation, formed by over fifty years experience of arbitration, would, in all likelihood, have pre-disposed them against doing so. After all, the cost-of-living system was abandoned in 1953; but it was not until 1956 that the unions again lodged a claim for a wage increase. No application was made in either 1954 or 1955.

But there are more serious disadvantages attaching to an annual review. In recent basic wage judgments, the concept of productivity has come to occupy a larger and larger place in the Commission's deliberations. While in the 1959 Case the members of the Commission were, on the whole, agreed that productivity cannot be accurately measured, there is no doubt that it had a large (and certainly in Mr. Justice Foster's Opinion, a decisive) influence on the Commission's determination.

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But there are more serious disadvantages attaching to an annual review. In recent basic wage judgments, the concept of productivity has come to occupy a larger and larger place in the Commission's deliberations. While in the 1959 Case the members of the Commission were, on the whole, agreed that productivity cannot be accurately measured, there is no doubt that it had a large (and certainly in Mr. Justice Foster's Opinion, a decisive) influence on the Commission's determination.
very substantially exaggerate the true rate of increase. But if wages over the long-term rise faster than productivity, then there is nothing more certain than that price inflation will result.

In the Australian setting, the presumption that wages can rise (or at least not fall) each year in step with productivity intensifies the danger of inflation. In Australia, unlike, say, the United States, productivity does not increase from year to year with any regularity. On the contrary, it fluctuates widely, because of sudden changes in the terms of trade and in seasonal conditions. Is it likely that, in years when there may be quite serious falls in productivity, a wage-fixing authority would reduce wages? The whole history of wage adjustment in Australia suggests that it is most unlikely. Moreover, the wage-fixing authority would have reason on its side. A wage reduction is always to be avoided except when there is no alternative. It would certainly give rise to industrial bitterness and unrest and promote political dissension; in addition, by reducing demand, it would run counter to modern economic beliefs concerning the maintenance of full employment. But if it is difficult or undesirable to counter-balance wage increases awarded in good years by wage reductions in bad years, there must result a strong tendency to continuing inflation.

A crucial problem in all democracies today is how to prevent wage rises from out-stripping gains in productivity. Under the intensified union pressure for wage increases which can be expected to result from a yearly review concerned with "capacity to pay", the dimensions of the problem are greatly magnified.

It is interesting to note that the independent economic council (of which the eminent economist, Sir Dennis Robertson, was a member), appointed by the British Government to advise it on matters concerned with prices, productivity and incomes, rejected the idea of a yearly adjustment of wages in accordance with the growth in over-all productivity. The main grounds for the rejection appear to have been that wage increases in industries whose productivity lagged behind the national average would push up costs and prices in those industries, whereas prices in industries in which the advance
in productivity was greater than the average would tend to be sticky. "The process of wage inflation would, therefore, be built into the system". The Council added: "This is apart from the point already made that such a procedure seems to involve too definite an endorsement of the doctrine that in a progressive community the general level of prices should never be permitted or encouraged to fall as an alternative to a rise in money incomes".

Businessmen and members of other sections of the community can scarcely be happy about the holding of these yearly investigations. If wage rates are liable to wide variation at such short intervals, employers would find the efficient planning and administration of their businesses increasingly difficult. In giving judgment in the 1957 Enquiry, the Arbitration Commission said that: "Frequency and unpredictability of price and wage changes renders the planning of any business or financial transaction very difficult". And it added, "The clerical work involved in the calculation of new rates of wage, ordinary overtime, 'penalty', shift, and piece-work, in any substantial enterprise or organisation has been a costly burden upon its resources".

* * * * * *

A PART from the doubtful wisdom of a yearly review of wages, the question arises whether the basis by which wages are adjusted in Australia has become out-dated.

The main means of awarding wage increases today is through changes in the basic wage. A 15/- increase in the basic wage means not just a 15/- increase in the wage of the hypothetical basic wage-earner, but a 15/- increase in the wages of skilled workers (under Federal awards) throughout all gradations of the wage structure. But the basic wage, as originally conceived as the wage necessary to provide the lowest-paid worker and his family with the necessities of civilised living, has little meaning or relevance under modern conditions. There are a number of reasons why this is so.

(1) Loadings and increases in the last twenty years have raised the basic wage well above the level deemed
necessary to provide a minimum standard of comfort. The basic wage which used to be assessed *primarily* on a "needs" basis has come to be assessed on the basis of the "capacity of industry to pay". As a minimum "needs" wage the basic wage has no longer any meaning.

(2) Because of various loadings it is hard to find anyone who actually receives the basic wage. As a former Chief Justice of the Court pointed out, it is difficult nowadays to discover a person who can be described as a basic wage-earner.

(3) Child endowment has further lifted the standards of the hypothetical basic wage-earner above a strictly "needs" basis.

(4) The full employment economy has meant that the "family income" is today generally much higher than before the war. Not infrequently the wife engages in full-time or part-time work. It is also very much easier for children of working age to get jobs at good wages.

The basic wage is, thus, in fact, a "wage" that is not paid to anybody. It is not even a wage designed to ensure that the wage-earner gets at least enough to support himself and his family at a bare standard of comfort. *It has become, in effect, a standard or starting point, which the Commission finds it convenient to use for adjusting wages throughout the entire wage structure in accordance with its assessment of what the economy can support.* But the continued use of the basic wage for this purpose—especially since the innovation of the yearly review—is giving rise to harmful anomalies and could prove a serious embarrassment to the Commission itself. Is it not possible to find a more realistic, more logical and simpler basis for wage fixation?

Under the new order of things, increases in the basic wage tend to occur every year, whereas adjustments to "payments for skill" or "margins" are much less frequent. Prior to the 1959 Margins Judgment, the last increase in "margins" was made in 1954—five years previously. But every increase in the basic wage reduces the relative value of "margins" and
therefore lessens the incentive for the wage-earner to improve his skills. This could prove serious in an age of automation when the demands of industry for highly trained workers are certain to grow rapidly and when a prime purpose of wage policy should be to ensure that skill is adequately rewarded.

There is a graver drawback. With two separate wage determinations—one concerned with a base rate and one with grades of skill—both substantially based on the concept of "capacity to pay", there is always a danger that total wage rises will exceed the capacity of the economy. The practice of adjusting the basic wage every year and "margins" only occasionally could easily put the Commission in an unenviable and embarrassing position.

Suppose that soon after raising the basic wage in a particular year, claims for an increase in marginal remuneration are lodged. The Commission quite reasonably may not have anticipated that such claims were to be made at that stage. It may consider that in granting the rise in the basic wage it had exhausted, for the time being, the capacity of industry to find anything more by way of wage payments. In such circumstances it might quite properly feel itself obliged to refuse the demands. But such a decision would probably cause dissatisfaction among the unions and it could be reasonably argued that the comparative position of skilled and semi-skilled workers was not being sustained.

The fact that in the November, 1959, Margins Judgment the Commission affirmed that "capacity to pay" had not been exhausted by the 15/- basic wage increase awarded a few months previously, does not mean that such a situation might not easily arise in the future. This danger did not exist, at any rate in an acute form, when the objective of the wage-fixing authority, in relation to the basic wage, was mainly to maintain the purchasing power of the wage intact. It has arisen only since the "needs" basis has been abandoned in favour of "capacity to pay" and, more especially, since the basic wage determined by this latter concept has been reconsidered every year.

(Among those countries with national wage-fixing authorities the Australian practice of separate hearings is
unique. It is followed by no other country. The New Zealand authority, for example, fixes a wage for unskilled, semi-skilled, and skilled workers at the one hearing.)

To meet this situation it has been proposed that, in future, applications for an increased basic wage and an increase in margins should be heard concurrently. The Commission would then be in a position to make its decision on both the basic wage and margins having in mind the total increase in wages which the economy could support. This proposal has some merit.

There may, however, be both legal and practical objections to it. The legal objections could, no doubt, be overcome by amendments to existing industrial legislation. The practical obstacles might not be so easily disposed of. The unions, after all, cannot be compelled to apply to the wage authority at one and the same time for an increase in both the basic wage and margins. Indeed there are obvious tactical reasons why the unions would probably prefer to do otherwise, on the principle that two bites at the cherry will give a bigger mouthful than one bite. Has not the time come to abandon the basic-wage concept for the purpose of wage adjustment? It has no longer any reality. It is merely a convenient standard. There is no logical reason why the Commission should not follow the practice of considering the whole of the wage (i.e. the basic wage portion and the part comprising margins for skill and other special loadings) as one wage and adjust this wage as it saw fit. This could be done by the simple expedient of making wage adjustments in terms of a percentage variation on existing awards covering both skilled and unskilled workers. This procedure would eliminate the need for separate basic wage and margins hearings.

Let us assume that the Commission, after considering the capacity of industry, determined on an increase of, say, 2%. All wages coming under the Federal jurisdiction would then be raised by 2%. A relatively unskilled man receiving, say, £14 a week would get an increase of 5/7; a highly skilled man on £22 a week, one of 8/10. This procedure would have several important advantages:
(1) It would greatly simplify the wage-fixing process since there would no longer be need for separate hearings for the basic wage and margins.

(2) It would automatically preserve the comparative position of the skilled as against the unskilled worker.

(3) It would lessen the danger of inflation which could arise from separate determinations on the basic wage and margins. Moreover, it need not, in practice, preclude alterations to marginal rates where the desirability for such alterations was indicated by changes in the financial circumstances of a particular industry or by changes in the nature of occupations brought about by technical or other causes.

* * * * *

The present principles of wage fixation are the product largely of an earlier and very different era of industrial and economic conditions. With the rapid advance of technology, the need for at least maintaining the position of the skilled worker is today even more important than before the war. In all democracies the objective of cost and price stability has come to be of major concern—second only in importance to full employment. It is of special significance in Australia where the level of exports will largely determine the standard of living and the pace of future development. The Commonwealth Conciliation and Arbitration Commission may need to pay even more regard to the effect of its decisions on the price and cost structure than in the past. To assist the Commission to do this, the principles and methods of wage fixation should be such that the danger of inflationary wage decisions is reduced to a minimum. The abandonment of the basic wage concept and the proportionate adjustment of all wages at a single hearing would be the simple, logical, and sensible way of promoting these objectives.
Europe's Economic Integration — A New Chapter

by GEOFFREY S. BROWNE

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The article describes the important developments of the Common Market and the Free Trade Association in Western Europe and discusses their impact on Australia.

The Atlantic economic conference held in Paris in the middle of January saw the end of one chapter in European history and may well have marked the beginning of a new one. The chapter which has ended started soon after the war. Then a weakened and exhausted Europe looked for the means of recovery in two directions: economic co-operation between the countries of Western Europe and aid from the United States of America. In more precise terms, 1948 saw the establishment of the Organization for European Economic Co-operation and the beginning of Marshall Aid. These events set the pattern for the next decade.

With O.E.E.C. Europe entered a period of freer trade unprecedented since the 19th century and contrasting strongly with the era of protectionism which had marked the period between the two great wars. This development provided the background to Europe's economic recovery, but was only made possible by the massive flow of funds—both in the form of aid and private investment—from the U.S.A.

Now, however, the situation has changed in a number of important respects. Firstly, Europe has recovered and is more prosperous than it has ever been.
At the same time, the whole concept of economic co-operation on which recovery was built has been thrown into the melting pot by the emergence of two economic groupings: the Common Market of "the Six" and the European Free Trade Association of "the Outer Seven." Moreover, just as Europe is becoming a partner rather than a dependant of America, the U.S.A. itself is facing balance-of-payments difficulties. These factors provided the background to the Paris conference. The present article will examine the questions that have been raised by this new situation.

The Common Market

The Common Market of France, Germany, Italy and the Benelux countries has now been in operation for just over a year, long enough to make some tentative estimates of how it is working and in what direction it is moving. But first of all it should be made clear that the impetus behind the Common Market is not only, and perhaps not even primarily, economic. This was already shown by the events which led to the signing of the Rome Treaty in March, 1957. The Messina Conference of 1955, which laid the basis for the Treaty, followed on the demise of the European Defence Community which the French Assembly had failed to ratify in the previous year. The other main antecedent was the European Coal and Steel Community which in 1952 established a common market for coal and steel among the six member countries. Although the establishment of the Common Market can in some ways be interpreted as part of the general European moves towards greater economic cooperation, its political antecedents have an important bearing on later developments. Further emphasis has been given to this by the subsequent policies of President de Gaulle and Chancellor Adenauer. These were foreshadowed in a speech made by Winston Churchill at Zurich in 1946 when he said:

"We must turn our eyes away from the horrors of the past towards the future. If Europe is to be saved from infinite misery and indeed from final doom there must be an act of faith in the European family and an act of oblivion against all the follies and crimes of the past. . . . I am now going to say something that will astonish you: the first step in the re-creation of the European family must be a partnership between France and Germany. In this way only can France recover the moral leadership of Europe. There can be no revival of Europe without a spiritually great France and a spiritually great Germany."

Both President de Gaulle and Chancellor Adenauer would presumably accept these prophetic words as a basic definition of their policy. They found in the Common Market an excellent instrument for putting the partnership between their countries into operation. In the United Kingdom the proposition that a close Franco-German alliance was of primary importance to Western European stability has been accepted by both Labour and Conservative governments. However, when faced with the reality of this policy it was found that it could also hurt some British interests. In the political field, it has recently made more difficult the British idea of a deal with Russia, while in the economic sphere it became involved with the whole question of Common Market discrimination. It is the latter which is of particular interest in the present context.

The Common Market Treaty provides for a transition period of between twelve to fifteen years during which a complete economic union of the member countries will be effected. The transition period is divided into three stages during each of which certain steps have to be taken; the first of these came into operation on January 1, 1959. The measures to be introduced include the gradual abolition of tariffs and quotas between member countries, the establishment of a common external tariff and unified commercial policy towards non-members, and numerous other measures designed to support
the customs union and to promote economic integration. A number of supranational bodies have been set up to supervise these developments.

**Failure of the Free Trade Negotiations**

The reaction to the Treaty by other European countries, led by the United Kingdom, has mainly been concerned with the effects of the tariff and quota provisions. The originators of the Common Market Treaty believed strongly that it would be impossible to establish a real economic union unless the external tariffs of member countries were brought into line. This is for the most part to be achieved by introducing a common external tariff based on the arithmetical average of the duties levied by the member countries' four customs areas. As internal duties are abolished this will clearly lead to discrimination against third countries. The fear of discrimination—not only through tariffs but also through import quotas—gave rise to the attempts to introduce a European free trade area comprising the Six together with the rest of Western Europe. The proposals for a free trade area emanated from the United Kingdom and differed markedly from the provisions of the Common Market Treaty; they were in fact intended to be limited to purely economic matters. Most important, perhaps, member countries were to retain their separate external tariffs against non-members. There is no need to describe in detail the protracted negotiations which dragged on for some two years before finally breaking down in the autumn of 1958, but some indication of the differences of opinion is relevant to the present position.

There were three main subjects on which it proved impossible to reach agreement. The basic disagreement on the external tariff has already been indicated: the Six felt it to be essential for the maintenance of equal competitive conditions within the area and as a symbol of their economic coherence, while the Scandinavian countries and Switzerland wished to retain their own low tariffs and, more important, the United Kingdom felt that it would not be able to maintain Imperial Preference in a complete customs union. This question raised the second area of disagreement. From the beginning the French objected to the undue advantage that the United Kingdom would enjoy as a member both of the Commonwealth and a European free trade area. Suggestions that some of the advantages of Imperial Preference should be extended to all free trade area countries were turned down by the United Kingdom. Agriculture provided a stumbling block: the Six wanted a common agricultural policy extended to all members of the free trade area, while the United Kingdom wanted to have agriculture largely excluded from the free trade provisions.

Whatever the difficulties and differences of opinion on these questions might have been, it is difficult to avoid the conclusion that if both sides had wanted a purely economic settlement, an acceptable formula could have been found in each case. The fact remains that the Six, particularly the French, did not want this sort of settlement: they were, and still are, preoccupied with making their own Community work and did not wish to endanger their cohesion by entering into a wider purely economic association. This goes a long way towards explaining the attitude of the French, who exasperated the British negotiators by producing a new problem each time a solution seemed within reach on one of the outstanding questions. The basically political preoccupations of the Six have only gradually become appreciated by other countries; they also have some considerable bearing on what might be achieved by the newly formed Free Trade Association of the "Outer Seven".
Europe's Economic Integration—A New Chapter (continued)

The COMMON MARKET countries

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<th>Country</th>
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Australian trade with COMMON MARKET countries

1958/9

**EXPORTS £140 MILLION (17% of all Exports)**

- **WOOL AND SHEEPSKINS**: 76%
- **ALL OTHER**: 5%
- **MACHINERY**: 23%
- **CHEMICALS**: 11%
- **TOYS, CAMERAS ETC.**: 6%
- **MOTOR VEHICLES**: 15%
- **TEXTILES**: 17%
- **OTHER METAL MANUFACTURES**: 9%
- **GRAINS AND OTHER FOODS**: 13%

**IMPORTS £84 MILLION (11% of all Imports)**

- **ALL OTHER**: 19%
- **MACHINERY**: 23%
- **CHEMICALS**: 11%
- **TOYS, CAMERAS ETC.**: 6%
- **MOTOR VEHICLES**: 15%
- **OTHER METAL MANUFACTURES**: 9%

The graphs on P. 28-29 have been prepared by the IPA, which accepts responsibility for them.

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The Free Trade Association

The Free Trade Association was formed as the result of two connected policies. It is intended to be in itself of economic advantage to its members, but it was also devised as a reply to potential Common Market discrimination and as a means for bringing about a wider European settlement. The latter reason was the immediate cause for its formation after the breakdown of the free trade area negotiations. The United Kingdom, Sweden, Norway, Denmark, Austria, Switzerland and Portugal agreed that the formation of an association by them would put them in a stronger position in any future negotiations with the Six. Two further arguments also carried weight. First, that the fear of discrimination would make the Six more eager to reach a wider agreement, and second, that the example of a free trade area in working order would facilitate future negotiations. Before examining these arguments it may be worthwhile to take a quick look at the differences between the provisions of the Free Trade Association and the Common Market.

The rules governing the removal of tariffs and quotas within each area are similar in both cases. The Seven will in fact reduce tariffs at the same rate as the Six (Portugal is an exception and will be given a longer period in which to abolish tariffs); quotas will be globalised and gradually enlarged in both areas and there are arrangements for ensuring that no quota will be excessively small in the early stages. On practically every other issue the provisions of the two treaties are poles apart. The external tariff is a case in point. In the Free Trade Association members will maintain their individual tariffs towards third countries (as proposed by the United Kingdom in the earlier free trade area negotiations). Deflections of trade will be avoided by limiting free trade area treatment to goods covered by one of two conditions: firstly, if less than 50 per cent of their value consists of materials imported from outside; or secondly, if they have been produced by certain processes within the area. In most cases, importers will be free to choose whichever condition they prefer, but textiles will for the most part have to conform to the process rule. A further modification applies to a number of raw materials which will be granted area treatment whether they are produced inside the area or not.

The internal regulation of the market will be far looser in the Free Trade Association than in the Common Market. The latter contains an elaborate machinery for helping backward areas, re-adapting redundant industries, and harmonising social and taxation policies. The Free Trade Association Treaty does not have any similar provisions although it does contain rigorous rules of competition including a ban on export subsidies and the requirement that public-owned industries should compete fairly. These are not supplemented by rules dealing with private cartels as in the Common Market Treaty. Furthermore, the Common Market gives far greater supranational powers to its institutions than envisaged in the far less elaborate system of the Seven.

There remains one further important difference between the two treaties: the Common Market countries will apply a common agricultural policy, while trade in agricultural products in the Free Trade Association will in effect be covered almost entirely by bilateral agreements between members.

The Effects on Australia

It may here be of interest to point out in broad terms the possible effect of the two associations on Australia. Basically two conclusions apply both to the Common Market and the Free Trade Associa-
tion. Australia is likely to lose in so far as tariff discrimination will help competitors within the two areas; Australia is likely to gain in so far as economic integration will stimulate economic growth and, therefore, the demand for imports. In addition Australia may gain through the establishment of the Free Trade Association in so far as it will facilitate greater United Kingdom exports of goods containing materials imported from Australia.

To give some specific examples of these general trends, Australian exports of lead and zinc to Common Market countries are likely to be affected by preferential treatment given to lead and zinc imports from French and Belgian Africa. On the other hand, exports of wool to the Six will benefit from a low or nil tariff and the prospects for more rapid economic advance. Food exports to the Six may suffer through the introduction of a common agricultural policy, but on the other hand exports of feeding stuffs should benefit from increases in livestock production under the same policy. The creation of the Free Trade Association is unlikely to have any detrimental effect on Australian exports to the United Kingdom, but the formation of an association of the Six and the Seven could have a serious effect on Australian food exports to the United Kingdom. The remainder of this article will examine what the prospects are for such an association coming into existence.

**Future Prospects for European Integration**

The attitude of the Six and the Seven has already been indicated. The Six remain primarily concerned with working out the various provisions of the Common Market Treaty which will turn them into an economic unit. Their work along these lines since the beginning of 1959 has shown that there is general willingness to reach agreement on even the trickiest of these provisions. The desire to achieve economic and political unity has made considerable inroads even into the traditionally protectionist attitude of the French, and the Six remain strongly against entering into any agreement which could weaken their cohesion. They are also well aware of the fact that time is on their side. As the implementation of the Common Market Treaty continues they will appear increasingly as a single unit and will consequently strengthen their position in any future international negotiations.

In these circumstances the aim of the Seven to use the Free Trade Association as a means for facilitating negotiations with the Six may be found to rest on wrong premises. Neither the fear of discrimination in the markets of the Seven nor the demonstration that a free trade area can be made to work is likely to appear as particularly relevant to the Six, since neither point touches their basic objections to a European free trade area. The Six have in fact tried to bypass approaches made by the Seven by talking in terms not of a European but an Atlantic settlement. This has several advantages from the point of view of the Six: first, it proves their liberal intentions; second, it would be less likely to weaken their cohesion than a purely European settlement; and third, it is unlikely to come about for some time. In the meantime the search for a long-term European solution remains in abeyance.

Last year a new development brought unexpected support to the Common Market suggestion of an Atlantic settlement. This was the emergence of balance-of-payments difficulties in the U.S.A.; these have since then largely governed U.S. economic policy towards Europe. One result has been that the U.S. Government viewed with suspicion the possibility of a rapprochement between the Six and the Seven, since it feared that this could
Europe's Economic Integration—A New Chapter (continued)

lead to further dollar discrimination. At the same time, the U.S. Government has continued to support the Common Market since its political objectives fit in with American policy, but it has been distinctly luke-warm towards the purely economic association of the Seven. These factors dominated the recent Paris conference.

The outcome of this conference was hailed as a success by most participants. This should not be allowed to disguise the fact that it achieved agreement only on matters of procedure. The future of Europe's trade relations is to be examined by a twenty nation committee, while a four man committee of officials will examine the question of supplementing O.E.E.C. with an Atlantic organization. It is clear that the attitude of the U.S.A. as well as the differences in approach between the Six and the Seven precludes any immediate solution. It is true that American policy still contains a number of uncertainties and has not yet been fully worked out. Mr. Maudling, in a recent visit to the U.S.A., tried to dispel American fears by stating that under a wider European settlement the more rapid growth of Europe's economy would provide better prospects for U.S. exporters, that the opportunities for U.S. investments in Europe would improve, and that the level of Europe's external tariffs would tend to be lower than under the present split. It remains to be seen to what extent U.S. policy might be modified in response to arguments such as these.

Nevertheless, during the present year the U.S.A. will be pre-occupied with the Presidential election so that the U.S. Government is unlikely to visualise any Atlantic agreement for another twelve to eighteen months. By that time the Common Market will be well on the way towards full economic integration. For the moment, the Seven can hope for little more than ad hoc solutions to questions of immediate discrimination, while in the long run they will have to appreciate more fully the impetus behind the Common Market and its political—no less than its economic—objectives. Only then will the door be open to a new alignment of the West's economic strength.