Editorial

The Australian nation is not given to introspective self-analysis. In this, it differs from some of the older, maturer countries. The United States in particular indulges in a great deal of self-examination and self-questioning. Indeed, at the present time it is looking hard and long at itself in the mirror and it does not seem to be altogether pleased with its own reflection. Its ideals, values, institutions and manner of life have become subjects of much critical investigation, and this introspective process seems to be giving rise to some measure of self-doubt and self-distrust.

It might therefore be concluded that we in Australia should leave introspection well alone, lest our confidence in ourselves be impaired and our capacity for achievement weakened. But it should not be assumed that, in the end, the United States will not derive benefit from its ready willingness to look frankly and critically at its own way of life. Moreover a self-satisfied complacency, based upon ignorance of ourselves, could lead us into troubles just as serious as those that arise from the timidities of self-doubt. To know oneself is, after all, the beginning of wisdom.

The English seem to have struck a happy balance between the perils of excessive introspection and those of no introspection at all. Somehow they have managed to combine a quite severe degree of self-criticism with the retention of their inner confidence in themselves and an extraordinary calmness in the face of often daunting difficulties and responsibilities.
Editorial (continued)

English people do not take their criticisms of themselves too much to heart. They are aware of their national weaknesses, but they do not brood on them. They love to poke fun at their special idiosyncracies; and it is perhaps the introduction of a comic element into many of their excursions in self-analysis that helps them to retain their balance and poise. They laugh at themselves and their own peculiar foibles, but they do not indulge in morbid orgies of self-denigration. Long experience has taught the English that there is nothing, and never will be, anything perfect in an imperfect world and they have learnt to accept themselves as they are. At the same time, the English people are acutely aware of their own national failings. In this, they may differ from us in Australia.

Perhaps Australia could derive some benefit from now and again having a good candid look at itself in the mirror. What would we see?

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It would not be unduly harsh to suggest that Australians are a self-absorbed people. Our own affairs, the things that touch us most directly and immediately, are paramount in our minds. To a large extent this is, of course, true of the peoples of all countries. But it is true of Australians in a very special sense. The larger nations of the Western World, notably the United States and England, carry great responsibilities not only for their own immediate welfare, but for the welfare of peoples spread all over the globe, indeed for the security and stability of the world as a whole. Consequently, their interests are wider than themselves and their horizons broader than the boundary limits of their own countries.

Australia, if we are to be frank, is mainly concerned with looking after itself and its own affairs. Pretty well the whole of our particular world is comprised of our own problems. This is not to say that we are unaware of the problems that beset other countries, or of the critical happenings that are going on in other parts of the world. The news sessions on our TV sets would alone prevent us from that. Nor are we unsympathetic toward the peoples of those countries who confront difficulties and dangers in their everyday lives which
we, fortunately, do not experience. It cannot be denied, too, that Australia is playing a growing part on the world stage through its participation in the many international organisations that have sprung up in the post-war years — the United Nations, the International Monetary Fund, the World Bank, the Colombo Plan, are examples. Nevertheless, it remains generally true that we in Australia are in the position of him who looks at life from afar. We are remote, not only geographically but also mentally, from the world’s troubles and distresses. The great tidal waves of the crises of the world, by the time they reach Australia’s shores, have become little more than a gentle wash — at least, in their impact on our consciousness.

Now this "remoteness" cannot be held against us. It is a more or less unavoidable consequence of our geographical position. It implies no lack of feeling, no lack of common humanity on our part; nor any unwillingness to accept responsibilities. Nevertheless, there is peril in it for ourselves! Australia is not the whole of the world. It is only a very tiny and relatively insignificant part of it — 10 million people in 3,000 million. We must not imagine that matters which seem of critical importance to us necessarily appear in that light to other people. The Australian who travels abroad must often be disturbed, and somewhat chastened, by the lack of interest and knowledge which he finds among peoples in other countries in Australian affairs. In the eyes of the world, Australia is after all a very "small potato". In these days of crisis and peril, there are too many momentous things going on for the larger powers to give us more than a second thought — and then only now and then. We may perhaps resent this, but, as a sensible people, we must recognise that it is inevitable.

The time has arrived when Australians should make a conscious effort to get themselves and their problems in the right perspective in relation to the larger world picture. This implies a little less self-absorption in our local concerns and a correlative wider understanding of the crucial events that are being played out beyond our shores and which must eventually shape the pattern of our future.

All this is not to say that when we feel our own Australian interests are endangered, we should not fight tooth and
nail to protect them. But we should be quite sure where those interests really lie. For instance, the Common Market! Will Australia's advantage be best served by a new Europe united by indestructible economic and political bonds, or by a reversion to the old Europe of strife and suspicions and racial hatreds? Can there be any doubt? And if there is no doubt should we not be among those nations adding our weight—small though it may be—toward the realisation of this stupendous new vision of European destiny?

Insularity, parochialism, narrowness—these are not the ingredients of a greater Australia, but they are dangers which threaten us more than most peoples although perhaps through no fault of our own. We can hardly be held responsible for our geographical position on the earth's surface. But that very fact should be making us doubly determined to avoid a narrow self-absorption in our own affairs and the limited perspective which comes from such absorption. In our considerable national resources and basic human material, we have great potentialities; but we can realise them only through the positive cultivation of a breadth of outlook which extends far beyond our own wide boundaries.
An Overseas Comment — II

This is the second of two articles by the Director of the Institute, Mr. C. D. Kemp, giving some economic impressions gained from his recent overseas visit:

The most important economic fact of the world today is the great economic prosperity which prevails throughout Western Europe. This prosperity is, without doubt, the outstanding single impression of my trip.

It is most evident, perhaps, in the Common Market countries, particularly Western Germany, France and Italy; but it is also to be seen in Britain, in the Scandinavian countries — Norway, Sweden, and Denmark — and, as we would expect, in Switzerland. In all these countries, production, trade and standards of living have been advancing rapidly so that in Western Europe generally living standards are reaching heights far above anything previously achieved. Within the Common Market area, the general advance has been spectacular, and here confidence in the future knows no bounds. While there is naturally great satisfaction at the strides already made, it is believed that this is only the beginning, and that standards of living will continue to gain ground rapidly year by year.

There has been nothing like this confidence before in modern economic history.

The most used (and abused) word in the economic jargon of today is "growth". This is on everyone's lips. It is the common practice in countries such as Germany and France to estimate what they will achieve in "growth" over the next 5 or 10 years and these projections seem to be backed by a strong conviction that they will be realised. I was told, with great seriousness, by a skilled statistician at the giant Institute of Economic Research at Munich (staff of 170) that the Institute had estimated that the growth rate of Western Germany over the next 10 years would average 4.7 per cent a
year. Even should the projection prove to be a little astray, a growth rate of 4.5 or 4.6 per cent should not cause undue worry. By the word “growth”, these countries mean not just “development” (as we in Australia understand development as a growth mainly in size) but a growth in all-round living standards. I don’t say that all the “great expectations” of the Western European countries will necessarily be realised, although the experts concerned seem to have little doubt that they will be.

Any way, whatever the future holds, the present is extraordinarily good, at least judged by any past standards. Even in Italy, whose standards of living in many parts are so terribly low, tremendous progress is being made. In the last 10 years, industrial production has doubled and, in the three years of the Common Market, the volume (not value) of Italian exports has risen by over 50%. In Western Germany, standards of living are far higher than ever before in German history. They are said to be 60% to 70% above 10 years ago and are claimed in Germany to be comparable with British standards. France is on the verge of joining the high-standard-of-living countries. I was told that average standards are now only about 10% below the British and the French seem confident that the gap will soon be bridged. Industrial production in France (as in Italy) has doubled in the last decade. Since the New Economic Policy under de Gaulle and the formation of the Common Market, the French economy has simply bounded ahead. The volume of exports in the last three years has jumped by 40%.

Outside the Common Market countries, I was greatly impressed by the general standard of life in the three Scandinavian countries, particularly Sweden. I did not see any signs of poverty, or any faint resemblance to a slum, in the main cities of any of these three countries. Progress, if not as spectacular as in the Common Market countries, has nevertheless been steady and well based. In fact, a recent authoritative calculation places Sweden second only to the United States (and above Canada) on the world standards-of-living ladder — a tremendous achievement for a country of 7½ million people. The Scandinavian countries are impressive from more points of view than the economic. They have worked out a way of
life which must be the envy of many countries in the world. They are refreshingly free of class divisions and have a strongly democratic outlook. Politically, these countries appear to have consummated a happy and fruitful marriage between "welfare-state" socialism and private enterprise capitalism. It is harder to find points of criticism here than it is in most countries, but one weakness appears to be the failure to keep pace with the tremendous new demands for housing in the capital cities. This has been caused by the steady migration to the cities from the country areas and by the sudden surge in the number of marriages. I was told that in Stockholm (without a doubt, one of the most beautiful cities in the world) young married people may have to wait up to seven years to get a satisfactory apartment. In the meantime they have to make do with one or two rooms, or live with parents.

In Britain, there has been a transformation both in material standards and in mental outlook since I was last there in 1951. London is a different city. The streets in the West End are jam-packed with Rolls-Royces, Bentleys, Daimlers and Jaguars, while, in this part of London, there appear to be proportionately almost as many Humbers and Rovers as we have Holdens or Falcons in Melbourne or Sydney. The dressing of the women, which was dowdy in 1951, is smart and attractive. The buildings, shabby and run-down 10 years ago, have been given a "new look" — paint and repairs have worked wonders of improvement in their appearance. "The City" itself (the financial centre) is being transformed and given a modern look by the fine, large new office blocks springing up everywhere. While (and more important than all these as an index of living standards) new workers' apartment blocks are being erected in place of the dark, depressing, slum-like buildings which line the railways out of London. These apartment blocks are the blood-brothers of the massive apartments which have been built along the East River in New York, but they are not nearly so huge or over-powering.

I was told by members of the staff of "The Economist", with some pride, that there had been a virtual revolution in the housing standards of the lower-income groups over the last 10 years. Apart from the new apartments themselves, such things as washing machines are now apparently the order
of the day, whereas, not so long ago, facilities of this kind were virtually non-existent. TV sets are of course everywhere. In 1951 food was rationed; today it is plentiful and varied.

These physical evidences of a new prosperity are borne out by the statistics. One of Britain's top economists estimated for me that average standards of living over the whole community were up nearly 25% on 10 years ago and workers' standards up still more — by nearly 35%. A leading British industrialist said to me that, in recent years, Britain had made a “break-through” to join the high-standard-of-living countries.

Perhaps of even deeper significance than the great improvement in conditions in Britain over the last decade, is the marked change for the better in the attitude of mind of the people. When I was there in 1951 the British people were still weary from their exertions during and after the war; their food was poor and lacked the calories necessary for health and vigour; the economy was in poor shape and there were even doubts as to its fundamental viability. All this induced an attitude of pessimism about the future. There was a kind of fatalism in the air — one felt that the British people were just keeping going in the hope that something would turn up to make things better. There is no sign of that attitude today. On the contrary, with the improvement in living standards has come a buoyancy and a bright, optimistic outlook that augur well for the future. Confidence has returned. This revival of the British spirit is, I think, one of the most important things that has happened in the world in the last ten years.

I do not mean to imply by this that Britain has no worries and that there are not weaknesses or shortcomings in the British economy. Britain still has a serious balance-of-payments problem which keeps recurring in a more or less acute form every few years and which just now is giving trouble. This has forced the British Government to institute various measures of fiscal and monetary restraint. I do not claim to have mastered the intricacies of this problem which is complicated by the fact that sterling is an international currency (this leads to frequent short-term speculative movements against sterling which at times are highly embarrassing).
But leading British economists and other people whom I questioned seem to be confident that the situation is not uncontrol-

able.

At the time of writing, the British balance of payments is, indeed, showing strong signs of improvement.

Professor Paish of the London School of Economics, who is regarded as one of the top economists in England at the moment and who is said to exert a strong behind-the-scenes influence on Treasury thinking and government policy, told me that the foundations of the British economy were basically secure and that there was no question of disaster being just around the corner. He said that Britain's difficulties had their roots in the chronic tendency of the British people to live just beyond their income. They wanted to have next year's standard of living this year. This tendency led to balance-of-payments difficulties or to rising prices (or to both). At present the former is the main problem. Prices in recent years have been relatively stable, rising at the rate of about 1% per annum. But even this slow rate of increase is regarded with disfavour by the experts. The leading British financial and economic writers are very severe critics of their own economy and this spate of criticism can sometimes lead the outsider (without inside knowledge) to seriously erroneous conclusions. Perhaps the critics themselves live rather too close to the scene of their strictures to see the whole picture in its right perspec-
tive. Whatever the weaknesses in the British economy today (and there are weaknesses) the facts remain that standards of life have improved immensely in the last decade (and are far higher than ever before in Britain's history); that between 1950 and 1960 industrial production has risen by 38% and output per man-hour in manufacturing by nearly as much; that the volume of exports has increased by 40%; that full employment has been well maintained throughout; and that in recent years: any rate, near price stability has been attained. These are considerable achievements.

Nevertheless, they do not satisfy the critics who draw unfavourable comparisons with the rate of progress in the Western European countries, particularly Western Germany and France. It is true that the bare statistical aggregates do not show up the British economy in a good light. Against the
increase of 38% in industrial production in Britain during the 1950's, Germany shows an increase of 150% and France of 100%. The "growth rate" in Western Germany has averaged 6% per annum over the decade and that of France 4% compared with Britain's less than 3%. Moreover, in recent years, particularly since the institution of the Common Market, the volume of exports of France and Germany has risen spectacularly compared with the rather meagre rise in Britain. The external payments' position of both France and Germany is strong where Britain's is weak. Here are some revealing figures of the movements in the volume of exports and imports over the three years, 1958 to 1960.

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<tr>
<th>Country</th>
<th>Exports</th>
<th>Imports</th>
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<tr>
<td>Belgium</td>
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<td>Denmark</td>
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<td>France</td>
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<td>Switzerland</td>
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<td>Britain</td>
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<td>West European average</td>
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Perhaps this table high-lights the reason why Britain feels she must get into the Common Market.

Nevertheless, I doubt whether these comparisons are, by and large, anywhere near fair to Britain. The German economy was virtually at a standstill in the early years after the war, while French industry also suffered terrible destruction during the war. Both economies, particularly the German, were revived by massive injections of dollar capital under Marshall Aid. In these circumstances, the scope for rapid improvement was far greater than existed in Britain.

The West Germany economy has also received tremendous help from the flood of refugees (about 13 million) which has poured in from Eastern Europe over the decade. A large
proportion of these refugees are skilled technical and professional people. Indeed, I was told by a highly placed expert in Western Germany that this flood of refugees had been one of the three main factors contributing to what has been called "the German economic miracle". The others have been the tough economic policy of Dr. Erhard and the stimulus of the Common Market. Thus, while the British population has been relatively stable, West Germany has had the assistance of an enormous accretion of skilled manpower.

But when all the allowances are made, there may still remain some grounds for the concern which is obviously felt in Britain. There is a strong feeling in many quarters that British industry and workers are too pampered and protected — the former by lack of external competition because of high tariffs and subsidies and monopolistic restrictive practices (I was told that the anti-monopoly legislation had yet barely touched the fringes of this problem); and the workers by over-full employment, trade union restrictions, and in other ways. One of the advantages claimed for Britain’s entry into the Common Market is that it would force British industry, through exposure to competition, to become more efficient and enterprising. Within the trade unions there is a great deal of industrial indiscipline, refusal to heed the advice of constitutionally elected officials, and the calling of unauthorised strikes. This is giving rise to much worry within the unions themselves.

The improvement in the British economy since the early 1950’s has been greatly assisted by the favourable turn-about in the terms of trade. Indeed, the movement in the terms of trade against the commodity-producing countries such as Australia has been of substantial help not only to Britain but to all the industrialised countries of Western Europe. A leading British economist, Graham Hutton, recently wrote: "We could not possibly have allowed our people so high a standard of life, based on soaring imports of things for producers and consumers, had it not been for the fall in the prices of basic foodstuffs and a few industrial raw materials since 1956, and our imports of capital".

Between 1951 and 1960, British export prices rose by 11% whereas import prices fell by 14%. On a base (1938
the terms of trade improved from 72 in 1951 to 94 in 1960. The contribution which this has made to the British recovery is undoubted. The fall in import costs has also helped to keep down prices by offsetting the rise in wage costs. I would not, however, wish to detract from the efforts which the British people themselves have made toward the strengthening of their economy. The manufacturing industries are now, despite some exceptions, fairly well equipped with modern plant. Ten years ago, much of Britain’s industrial capital was run-down and out-of-date. A leading financial authority in London told me that there was today a better realisation, right down through the British people, of the vital importance of efficiency and productivity and of the connection between these things and the standards of living they could hope to enjoy. I cannot help thinking that, all in all, the British economy has done remarkably well over the last ten years. Although there are weaknesses here and there, how many economies in the world can be given a perfect bill of health?

WHAT of socialism in Britain? As in Australia, I think it has little popular support at the moment. People are too well off today to give their support to rash experiments in nationalisation. Old-time socialism is, I believe, dead. It could only be brought to life by some far-reaching economic crisis compelling a savage reduction in living standards. This is almost inconceivable. The leaders of the Labour Party (I was able to interview Mr. Hugh Gaitskell and Mr. Denis Healey, the Foreign Affairs spokesman — both most likeable men of front-rank intellectual calibre) know this very well. Mr. Gaitskell thought the Labour Party had a good chance of winning the next election. This might well depend on whether or not the Conservative Government is successful in its negotiations to enter the Common Market — the prospects of a Labour victory would diminish if the negotiations succeed. I gathered, from what Mr. Gaitskell said, that, if a Labour Government were returned, it would re-nationalise the steel industry, improve the social services, and bring about certain reforms in the educational system.
What has really happened in Britain, and indeed in most of the Western European countries, is a marriage between two apparently “incompatibles”—private enterprise capitalism and welfare state socialism. This marriage is proving productive and fruitful in spite of the arguments that still go on between the two partners to it. I do not mean to suggest that the socialists—in Britain at any rate—will be satisfied to rest content with the present state of affairs. A very senior member of the Labour Party told me of two things the socialists would like to do! They are the democratisation of the monarchy and the reform of the House of Lords (not its abolition). At the same time, he did not seem to think it would be possible to move too far, too fast, in these directions because of the deeply ingrained conservatism of the British electorate. He said the British people were rather unique in the world—they liked their class distinctions and their traditional institutions based on these distinctions, and, however much one might deplore it, that was one of the hard facts which politicians could not ignore.

This marriage between capitalism and socialism is seen in its most advanced form in the Scandinavian countries. I suppose most Australians (I was certainly one) think of countries such as Sweden as representing an outstanding and apparently successful experiment in socialisation. This is far from the truth, even though Sweden has had a socialist government for the best part of the last thirty years. It is true that in Sweden and, for that matter, in Denmark and Norway, the welfare state concept has been taken further than in any other Western country. But the fact remains that the great part of industry is privately owned (possibly a greater proportion than in Australia and in countries such as Britain and France). Of the total number of people working in industry in Sweden, private enterprise employs about 90%, State and Municipal enterprise about 5% and the co-operatives about 5%. Taxes, as a percentage of G.N.P., in the three Scandinavian countries would be little higher than in Australia—in the 25 to 30 per cent range. Probably a far higher proportion of tax receipts in Australia would be spent on public developmental projects. In Sweden, the structure of the social cash benefits is comprehensive and has probably been more meticulously worked out than in any other country in the
world. The elderly people are a special care. Pensions in Sweden appear to be hitched in some way to the long-term gain in productivity. Much study has been given to the place of elderly retired people in the community. All this seems to be reflected in the “life expectation” in Sweden which reaches the extraordinary figure of 76, the highest in the world. In the Scandinavian countries, practically all education is provided by the State, as it is throughout most of the countries of the Western European continent. The visitor to the Scandinavian countries can hardly fail to be impressed. In their essentially democratic outlook, those peoples are in some ways more like Australians than any other people. They have, of course, virtues we lack, as we have qualities they lack. They are all clearly proud of their history, but they have not let traditions over-ride present needs. Indeed they have achieved a remarkably happy blend of the past and the present, the traditional and the modern. Although my visit to these countries was far too brief to permit anything in the nature of a considered judgment, nevertheless, I came away full of admiration for what I had seen and learnt.

As I have already pointed out, the German and French economies have made remarkable strides in recent years. Naturally enough, these peoples are proud of what has been achieved and confidence in their immediate economic future is running very high. They are prone to contrast the scores they are recording with the less spectacular figures in Britain, and their attitude to the British economy is almost patronising. There is no doubt that the Germans and the French are delighted with the Common Market and the added prosperity it is bringing to their countries, and they point out that the “dynamism” of the Market contrasts with what they call the economic near-stagnation in Britain. For reasons I have given, I do not think the comparison is nearly so unfavourable to Britain as the bare figures suggest and it is, of course, on these figures that their contentions are based. Nevertheless, the British themselves fear that the incentives of the mass market in the European Economic Community would give the Market countries great advantages over England as time goes on.

In both France and Germany hours of work are fairly long, averaging around 46 a week, including overtime which is general. In addition, in Germany at any rate, there is a
great deal of spare-time work, as earnings for extra jobs are apparently tax-free. In France and Germany there is virtually no unemployment. Cost of living in Germany has risen 25% in the last 10 years — 2% in the last 12 months. As an index of rising living standards, I might mention that Germany has 5 million private cars — 1 to every 10 persons (compare Australia, 1 car to every 5 persons). But, by 1965, there are expected to be 8 to 10 million cars. Present production is 2,200,000 cars a year, of which 50% are exported.

The French standard of living has been advancing rapidly — 40% above 10 years ago. I was told that it was now about 50% of the American standard of living. The shabbiness of many of the outer areas of Paris does not give an impression of a high living standard, but this is no doubt deceptive. There is comparatively little development of TV in France. The French temperament is apparently rather averse to hire-purchase methods of finance, the French being a nation of careful savers. In Germany and France, social service benefits are in large part financed by taxes which fall directly on industry. The cost of these benefits to industry means, in effect, an addition of something like 50% to the average wage.

The new economic policy instituted by de Gaulle a few years ago has been to France what the Erhard policy has been to Germany. The devaluation of the franc, which was one feature of this policy, was not accompanied by the usual inflation of costs because of tough measures of internal restraint. This has greatly improved the competitive position of French industry in export markets and has meant much to their economy. All in all, the French economy seems in robust health and the people are confident that the future will be better still.

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The rapidly advancing prosperity throughout the Western World is worth some reflection. I suppose most of us have lived too close to it to be able to fairly appraise, or properly comprehend, the extraordinary improvement already made, in the last decade and a half. After all, it is only a little over 20 years ago, when the economies of the so-called “advanced” countries took unemployment (and usually a pretty high level
of unemployment) for granted. Even for the majority of those in employment, economic insecurity was never far away. Many people, even in North America, did not have enough to eat. A high percentage of people, in Europe a very high percentage, were not so far removed from the "breadline". Even in Australia, I can remember when I was a boy at school that a good proportion of State School children walked the streets in their bare feet. We took that kind of thing for granted.

But, now, practically all the economies of the countries of the Western World are not only full employment "economies" but "social welfare" (not socialist) economies, which provide for nearly everyone not only a minimum standard of life, but adequate medical care, education and all the rest of it. Few people in the industrialised countries now have to worry about where their next meal is coming from. The discontents of today are those that arise from the doubts whether we can afford a car, or the latest fully automatic washer. Today we set our sights infinitely higher.

Moreover, 20 or 30 years ago, there were no strongly optimistic hopes about the future. Few people looked forward to, or expected, any year-by-year rise in living standards. Those in a "steady" job at what were called "good wages" regarded themselves as pretty well off if they could maintain that happy state. Today most people are far from satisfied with what they have got. They don't regard themselves as particularly fortunate this year, because they take it almost for granted that next year will be better, and the year after that better still.

Thus, over the last two decades, the peoples of the Western World have achieved what might be described as a "breakthrough" in living standards. Today they have an entirely new attitude of mind, a new psychology, toward their economies and what they expect from them.
The Future of Imports

THERE are considerable speculation and some disagreement in economic circles at the moment about the future level of imports.

One school of thought believes that with the expected recovery of the economy to full employment conditions in 1962/3, imports should not rise so steeply as to produce severe balance-of-payments difficulties.¹

But the other school foresees the likelihood of the recurrence of balance-of-payments troubles in 1962/3, because of a large increase in imports.

The views of the first school are argued with care in an article by Dr. A. R. Hall² of the National University, Canberra. Dr. Hall says that "the import hump of 1959 to 1961 owed relatively little to the decision to relax import controls in February 1960 . . . This hump was to a very large extent a reflection of the rate of growth and the level of the investment boom of this period". In support of this view, he points out that about half the increase in imports in 1960/1 could be accounted for by capital goods (including materials for capital purposes). The implication in this is that, had the boom not occurred, the import "hump" would not have been nearly so pronounced—perhaps more in the nature of a "bump". This, of course, is no more than a truism; the question still remains whether the removal of import licensing itself directly contributed to the boom by giving rise to an excessive surge of confidence throughout the community and by encouraging a too-rapid expansion of manufacturing capacity, especially in industries with a high import content.

Dr. Hall suggests that, with the cessation of the investment boom and lower real incomes, imports in 1961/2 should

1. This view is based on a continuation of export income and capital inflow around the levels of recent years.
be down to around £850 million, a decline of £230 million on 1960/1 levels. He estimates that, even with a relatively fully employed economy in 1962/3, imports should not exceed £950 to £1,000 million, mainly on the grounds that steel and motor vehicle imports should be much lower than in 1960/1.

Representing another view, Professor P. H. Karmel of Adelaide University, concedes that imports in 1961/2 may not exceed £850 million, because of the using-up of excess imported stocks accumulated in 1960/1 and the operation of the economy at less than full capacity; but he expects that with a pick-up in production and employment, the level of imports in 1962/3 will be a great deal higher than in 1961/2 and thereby probably bring about balance-of-payments troubles.

Estimation of the "normal" import requirements of the Australian economy, without licensing, and without slump or boom conditions, is made difficult by the fact that there is so little past information to go on.

Professor Karmel refers to an estimate, made some years ago, that when the economy was in a state of balance in 1953/4 (i.e. without inflation or unemployment) the level of imports, in the absence of licensing, would have been £780 million (or £100 million above the level actually permitted). He points out that the corresponding figure in 1959/60, when economic activity was at much the same level, was probably about £1,000 million (or £80 million above permitted imports). He notes that imports of £1,000 million in 1959/60 would have represented 15% of gross national product as compared with 17% for an import level of £780 million in 1953/4. Professor Karmel describes this fall in the percentage of imports to G.N.P. as "import-replacement". However, since real G.N.P. increased by almost 40% between 1953/4 and 1959/60, the absolute level of imports (without licensing) would have still grown by about 20% (in volume).

Import-replacement would contribute to a positive improvement in the balance of payments only if it slowed down

the rate of increase of imports below the rate at which exports were expanding. But, over the past decade, imports, despite restrictions for most of the time, have risen faster than exports. The essence of Australia’s dilemma has been well stated by the Reserve Bank of Australia in its latest Annual Report: “With full employment and sustained economic growth as major internal objectives, our demand for imports may well continue to grow faster than external demand for our exports.”

In estimating a sharp rise in imports in 1962/3, with the return of the economy to full capacity, Professor Karmel seems to have in mind a figure well above £1,000 million; for even that would only represent 11% or 12% of probable G.N.P.

Apart from years of stringent licensing such as 1952/3, and the period 1956/7 to 1958/9, one would have to go back to pre-war days to find a lower percentage of imports to G.N.P. Even in the depths of the depression, imports were about 10% of G.N.P., as compared with an average figure of 17% for the 1920’s. (Imports in relation to G.N.P. over the last 40 years are set out in Table 1 of the Appendix).

In drawing attention to the very high import propensity of the Australian economy during a boom, Dr. Hall is undoubtedly on sound grounds. But he may not take sufficiently into account the almost automatic increases in import demands which arise from a rapidly growing population and labour force. It must be remembered that by the end of 1962/3 there will possibly be nearly 400,000 more people in the country than in 1960/1 and, assuming full employment, around 150,000 more people at work. Unless per capita demands for imports can be reduced, the import requirements of the economy would increase each year by at least 2% — that is the approximate average annual rate of population increase.

A survey of imports per head of population (in 1960/61 prices) is set out in the table on the following page showing that per capita demands have not fallen over the 1950’s. For comparative purposes the pre-war figures are shown, and also estimates for 1961/2 and 1962/3 based on Dr. Hall’s estimates of total imports of £850 million for this year and a maximum of £1,000 million next year.
### REAL IMPORTS PER HEAD (in 1960/61 £'s)

<table>
<thead>
<tr>
<th>Year</th>
<th>1929/30</th>
<th>1930/31</th>
<th>1931/32</th>
<th>1932/33</th>
<th>1933/34</th>
<th>1934/35</th>
<th>1935/36</th>
<th>1936/37</th>
<th>1937/38</th>
<th>1938/39</th>
<th>1939/40</th>
<th>1940/41</th>
<th>1941/42</th>
<th>1942/43</th>
</tr>
</thead>
<tbody>
<tr>
<td>Petroleum Products</td>
<td>4</td>
<td>8</td>
<td>9</td>
<td>9</td>
<td>9</td>
<td>10</td>
<td>10</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Motor Vehicles and Parts</td>
<td>7</td>
<td>12</td>
<td>9</td>
<td>8</td>
<td>9</td>
<td>10</td>
<td>5</td>
<td>7</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other Producers' Materials</td>
<td>33</td>
<td>37</td>
<td>34</td>
<td>30</td>
<td>35</td>
<td>40</td>
<td>25</td>
<td>34</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital Equipment</td>
<td>9</td>
<td>18</td>
<td>17</td>
<td>17</td>
<td>19</td>
<td>21</td>
<td>18</td>
<td>19</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Consumer Goods</td>
<td>15</td>
<td>14</td>
<td>16</td>
<td>16</td>
<td>19</td>
<td>18</td>
<td>19</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>All other</td>
<td>4</td>
<td>5</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>72</td>
<td>94</td>
<td>89</td>
<td>82</td>
<td>92</td>
<td>104</td>
<td>80</td>
<td>93</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Notes:
1. Until the mid 50's this item largely comprised refined petroleum products, but in recent years over 70% of petroleum imports have been producers' materials.
2. Fully assembled chassis now comprise about 20% of total motor vehicle imports and to a large extent this item must also be regarded as "producers' materials".

Source — Commonwealth Statistician & Reserve Bank of Australia.

The most significant fact thrown up by this table is the dominant influence of producers' materials in the fluctuations which occur from year to year in the size of Australia's total import bill. In other words, these fluctuations are accounted for quite largely by variations in imports of producers' materials. This is not only because of the high proportion which producers' materials comprise of total imports (roughly half, if materials for the petroleum and motor vehicle industries are included) but also because of their susceptibility to changes in the level of economic activity in Australia and in economic policy. Imports of consumer goods also vary but their influence on the total import bill, whilst by no means unimportant, is not so pronounced because of the smaller magnitudes involved. Apart from the effect of the investment boom in 1960/1, imports of capital equipment have been fairly constant in per capita terms. The large fall in prospective expenditure on imports in the current year (1961/2) is, in the main, accounted for by a reduction in the imports of producers' materials (other than petroleum products) from £50 per head in 1960/1 to an estimated £30 per head in 1961/2.

Ignoring the temporary excess stocks' position, it seems clear that imports are at present being kept in check, only because industrial activity is depressed. Total factory produc-
tion in 1961/2 will probably be little above 1958/9 levels when imports of "other" producers' materials per head were about 20% greater than the likely figure for the current year. If factory output and employment is to be restored to anywhere near former levels then a sharp increase in imported materials must be expected. The maintenance of the development and migration programme also means a continuing heavy demand for capital equipment and no relief can be expected from this quarter so far as imports are concerned. Even if the migrant inflow is reduced, the bulge in the number of new entrants into the work force and in the marriageable age groups will keep up the demand for capital goods.

It must come as a surprise that imports of consumer goods during the first quarter of the current financial year reached the substantial total of £44.4 million. This is only £3.6 million below imports for the corresponding quarter last year, when the import boom was at its height, and is over £8 million higher than the same quarter for 1959.* Indeed, if piece-goods and floor coverings are disregarded, imports of consumer goods in the July/September quarter of this year are little lower than in the same quarter of last year— notwithstanding the severe down-turn in trade and the existence of excess stocks. It is clear that practically the entire brunt of the Government's deflationary measures (so far as their impact on overseas buying is concerned) has fallen on imports for use in manufacturing industry.

Part of the explanation of the continued high level of imported consumer goods may lie in the fact that a surprisingly high proportion come in the "essential", or at least "near-essential", category. There is no doubt, too, that finished goods from abroad have a strong attraction for the Australian buyer, in some cases possibly because of superior quality, and in general because of their "novelty" appeal and the desire of the purchaser to possess something "different". Since the removal of dollar restrictions there has been a striking increase in imports of consumer goods from United States, from £9 million in 1959 to £21 million in 1960. For over 20 years, the Australian consumer had been denied access to American products so lavishly advertised in the magazines. It was, therefore, only

* See Appendix — Table II.
to be expected that once restrictions were ended, this pent-up demand should lead to an upsurge in imports of American textiles, chemists' lines, foodstuffs, books and a wide variety of recreational and sporting goods. Consumer goods' imports from Japan are, in the main, still subject to licensing. The large increase in Japanese imports, from £42 million in 1959/60 to £65 million in 1960/61, mainly took place in component parts, capital equipment and textiles for secondary industry.

It will be interesting to watch the figures for imports of consumer goods in the coming months as the economy recovers and as surplus stocks are worked off. In any case it seems likely that in the longer term the strong demand for imported consumer goods will persist.

The Commonwealth Government has repeatedly stated that it has no intention of re-imposing import licensing. But whether this policy will prove practicable, only the future will show. It will of course depend on three unknowns, all of which it is impossible to predict with any degree of precision—the future level of exports and capital inflow and the demands of the economy for imports.

The history of the 1950's raises the question whether, with the economy operating at full capacity, external balance can be maintained without direct controls over imports. Of course, it is always possible to reduce imports by means of more or less severe measures of internal deflation. But it is hard to see how the use of the deflationary weapon is consistent with the government's accepted policy of rapid development and population growth.
## APPENDIX

### TABLE I — IMPORTS AS % G.N.P.

<table>
<thead>
<tr>
<th>Annual Average</th>
<th>Imports f.o.b. £m</th>
<th>% G.N.P.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1920/1 to 1929/30</td>
<td>180</td>
<td>17.0*</td>
</tr>
<tr>
<td>1930/31 to 1934/5</td>
<td>65</td>
<td>9.5</td>
</tr>
<tr>
<td>1935/6 to 1939/40</td>
<td>112</td>
<td>12.0</td>
</tr>
<tr>
<td>1945/6 to 1949/50</td>
<td>322</td>
<td>16.0</td>
</tr>
<tr>
<td>1950/51</td>
<td>742</td>
<td>20.4</td>
</tr>
<tr>
<td>1951/2</td>
<td>1,053</td>
<td>27.2</td>
</tr>
<tr>
<td>1952/3</td>
<td>514</td>
<td>12.2</td>
</tr>
<tr>
<td>1953/4</td>
<td>682</td>
<td>15.0</td>
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<tr>
<td>1954/5</td>
<td>844</td>
<td>17.2</td>
</tr>
<tr>
<td>1955/6</td>
<td>821</td>
<td>15.4</td>
</tr>
<tr>
<td>1956/7</td>
<td>719</td>
<td>12.5</td>
</tr>
<tr>
<td>1957/8</td>
<td>792</td>
<td>13.6</td>
</tr>
<tr>
<td>1958/9</td>
<td>797</td>
<td>12.8</td>
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<tr>
<td>1959/60</td>
<td>926</td>
<td>13.5</td>
</tr>
<tr>
<td>1960/61</td>
<td>1,088</td>
<td>15.1</td>
</tr>
</tbody>
</table>

*estimated

Source — Commonwealth Statistician

### TABLE II — IMPORTS OF CONSUMER GOODS

<table>
<thead>
<tr>
<th></th>
<th>July/September 1959</th>
<th>July/September 1960</th>
<th>July/September 1961</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£ million</td>
<td>£ million</td>
<td>£ million</td>
</tr>
<tr>
<td>Tea</td>
<td>3.7</td>
<td>3.5</td>
<td>3.8</td>
</tr>
<tr>
<td>Coffee</td>
<td>0.8</td>
<td>1.0</td>
<td>0.8</td>
</tr>
<tr>
<td>Fish</td>
<td>1.6</td>
<td>1.6</td>
<td>1.3</td>
</tr>
<tr>
<td>All other Foods</td>
<td>1.4</td>
<td>2.3</td>
<td>2.6</td>
</tr>
<tr>
<td>Whisky, Cigarettes, etc.</td>
<td>1.0</td>
<td>1.0</td>
<td>1.1</td>
</tr>
<tr>
<td>Clothing and Accessories</td>
<td>1.2</td>
<td>1.8</td>
<td>1.8</td>
</tr>
<tr>
<td>Piece Goods</td>
<td>3.7</td>
<td>4.2</td>
<td>2.8</td>
</tr>
<tr>
<td>Floor Coverings</td>
<td>1.5</td>
<td>2.8</td>
<td>1.5</td>
</tr>
<tr>
<td>Household Equipment</td>
<td>4.5</td>
<td>5.0</td>
<td>4.7</td>
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<tr>
<td>Books</td>
<td>2.3</td>
<td>2.8</td>
<td>3.5</td>
</tr>
<tr>
<td>Goods for Amusement and Recreation</td>
<td>3.8</td>
<td>4.5</td>
<td>4.2</td>
</tr>
<tr>
<td>Drugs and Medicines</td>
<td>3.0</td>
<td>3.1</td>
<td>3.4</td>
</tr>
<tr>
<td>Re-exports and Passengers' Effects</td>
<td>1.7</td>
<td>2.2</td>
<td>2.6</td>
</tr>
<tr>
<td>All Other</td>
<td>5.9</td>
<td>12.2</td>
<td>10.3</td>
</tr>
<tr>
<td>TOTAL</td>
<td>36.1</td>
<td>48.0</td>
<td>44.4</td>
</tr>
</tbody>
</table>

Source — Commonwealth Statistician
BOOKLET ON OVERSEAS IMPRESSIONS

During his trip abroad this year, the Director of the Institute, Mr. C. D. Kemp, sent back to the I.P.A. office reports of observations on the places he visited and on some of the people whom he interviewed. Extracts from these reports have been published in booklet form under the title “Impressions on Tour.”

A limited number of copies of this booklet is available at the I.P.A. office. Readers of “Review” who feel they would like to have a copy will be sent one on application to the Secretary of the Institute.

Some of the subjects on which Mr. Kemp has commented are as follows:

American Life Today
New York
American Economists
Anti-Monopoly Proceedings
Washington
The I.M.F. and Per. Jacobsson
Ottawa
Mr. Coyne
London
Mr. Gaitskell and Mr. Healey
Common Market
Paris
Algeria
The French Economy
Berlin
The Eastern Sector
West German Revival
Why Britain Feels She Must Get Into The Common Market

By

PAUL BAREAU

Paul Bareau is regarded as among the best financial and economic writers in London and as an authority on the economics of the Common Market. He was associated for some years with the late Sir Oscar Hobson on the "News Chronicle" (which has now ceased publication) and is now the Editor of "The Statist," a well-known financial journal, which began publication in 1878.

In this article, he has answered a number of questions which we have put to him concerning Britain's application for membership of the Common Market.

The movement which is taking Britain towards the European Common Market has now such momentum behind it that in my view it cannot be stopped. Britain's application for membership of the European Economic Community and its Common Market was not made without very serious and searching reconnoitring of the ground. It was known at the time that difficulties would arise, not only in reconciling Commonwealth preferences with membership of the Common Market, but in fitting agriculture into the pattern of Europe's common agricultural policy and (a somewhat simpler problem) of reconciling this move with the recent signature of the European Free Trade Association Convention. On each of these three points reservations have been made, but I find it difficult to believe these conditions can lead to a deadlock and failure of the negotiations which have now begun between Great Britain and the countries of the European Economic Community.

The unusually concerted and outspoken opposition to this move which was expressed by other members of the Commonwealth at the Accra meeting of Commonwealth Finance Ministers, has not been allowed to deflect the British
Government from the course on which it embarked with the application for membership of the Common Market. This is not to be regarded as "a slap in the face" for the Commonwealth; rather is it the expression of an "I know what is good for you better than you do yourself" attitude on the part of Her Majesty's Government.

It was after the Conference at Accra that Mr. Edward Heath, the Minister who will be primarily concerned with the negotiations, made his initial speech to the Ministers of the six Common Market countries in which he repeated the reservations on the above-mentioned three points, but at the same time accepted the economic implications of the Treaty of Rome which created the European Economic Community. This speech did much to weaken the opposition to Britain's entry into the Common Market which still subsists among certain members, and notably in France.

It was also after the Accra meeting that the three political parties in Britain held annual conferences at which the prospective move into the Common Market was among the major points of discussion. The Liberals, as was to be expected, voted wholeheartedly in favour of membership of the Common Market. At their conference there was one opposing speaker and his was the only vote cast against the motion. At the Labour Party conference the official motion was understandably noncommittal. As Mr. Hugh Gaitskell, the leader, remarked to a critic who has accused him of sitting on the fence, "where else do you expect me to sit?" The official motion was that the Labour Party was opposed to British membership unless certain conditions could be satisfied.

At the subsequent Conservative Party conference the official motion was couched in more positive terms but came to the same thing. It avowed support for British membership of the Common Market provided certain conditions were fulfilled. At the Conservative Party conference, where opposition to this move had been expected to take violent form and perhaps even to undermine the authority of the leadership, the debate proved an ignominious defeat for the opposition.

It can thus be said that Britain's move towards the Common Market is being made on a broad political front, albeit with some reservations. This, however, is not to say that the opposition will not become much more vocal as and when some of the specific implications of membership of the Common Market become apparent. As the Prime Minister, Mr. Harold Macmillan, truly said in his closing speech at the Conservative Party conference, "it is a bracing cold shower we shall enter, not a relaxing Turkish bath."

When, therefore, the damage which may be caused to certain specific industrial interests as a result of entry into the Common Market becomes more plain, we can expect the opposition, even if it be minority opposition, to become much more vocal than it has been hitherto.

Britain's decision to apply for membership of the Common Market is widely recognised here as one of the most momentous that this country has ever had to take. It is comparable with the Repeal of the Corn Laws 115 years ago, with the decision to abandon free trade and adopt protection in 1933, perhaps even with the decisions made in 1914 and again in 1939 to resist the attempts of another nation to conquer and dominate Europe, and perhaps the world. This is an issue of profound economic and political significance for Britain and for the Commonwealth. Some of the problems raised by it have been summed up in a questionnaire that was sent to me by the Director of the Institute of Public Affairs. The best way of trying to throw some light on the points which particu-
larly interest Australia is to answer these questions as they have been put to me.

**QUESTION:** Why did Britain not go into the Common Market when it was first formed?

**ANSWER:** Britain was given the opportunity of co-operating with the other six countries in the preliminary work which led to the drafting of the Treaty of Rome signed in March 1957. That preliminary work began in July 1955 after the Ministers of the six countries of the European Coal and Steel Community (there had been a Common Market in coal and steel between these countries since 1952) had passed a resolution in Messina suggesting that the common market should be extended to the whole of the trade between them. The British Government sent observers to these discussions in Brussels. When these observers were asked by the Chairman whether they were participants, or merely lookers-on, they had to admit that they could not be regarded as participants. They were then politely asked to leave the discussions. This was in the summer of 1955. That was the moment at which the British Government lost the chance of influencing the shape of the Treaty of Rome and giving the Common Market the character and philosophy that Britain wished for it. Britain renounced that opportunity because the Government did not believe that the project was a feasible one and felt that to keep representatives in these discussions was a waste of valuable time and effort. Britain underestimated the realism and potential of this move towards uniting Europe.

Another reason for Britain's hesitation may well have been the echoes of Britain's traditional "balance of power" policy towards Europe. For many centuries Britain has attempted to prevent the emergence in Europe of a really dominant power. That is why Britain fought Philip's Spain in the 16th century, Louis XIVth in the 18th, Napoleon in the 19th, Kaiser Wilhelm and later Hitler in the 20th. The tradition of keeping aloof from Europe except to maintain the balance of power probably induced us after World War II to wash our hands of any attempt to unite Europe, and thus to avoid that concentration of power which we had always opposed and against which we had in the last resort fought. If this was one of the reasons for not joining in this movement, it was based on poor logic because the dominant and potentially hostile power is not to be found in Western Europe but on the other side of the iron curtain. In fact, adherence to the balance of power policy should have led us from the start to help and participate in this movement to unite Europe economically at first, but politically later.

**QUESTION:** What is the cause of the apparent sudden change of British attitude towards the Common Market, leading to the British Prime Minister's announcement of Britain's intention to apply for membership?

**ANSWER:** That question can best be answered in the words of M. Jean Monnet spoken to me in the early 1950's when he was still head of the European Coal and Steel Community, but was already thinking of wider plans to extend the Common Market to the whole of the trade between these six countries. He said then that it was unlikely that Britain would come in at first because "there is one thing you British will never grasp: an idea; and there is one thing you are extremely good at grasping: a hard fact. Therefore we will have to make Europe without you and then, when you have grasped the fact that Europe is uniting, you will have to come in — but on our terms."

The change in the British attitude was due to the fact that it was suddenly realised that the Common Market was a
The Common Market (continued)

reality, and a very dynamic reality, and
that exclusion from it would be ex-
remely damaging to British interests.
The Common Market has provided the
most rapidly expanding market for
British goods over the past five years. In
order to protect that market a number of
large British industrial firms have decided
to establish plants on the Continent of
Europe. The largest of these projects is
a £100 million investment by Imperial
Chemical Industries to build large chemi-
cal installations near Rotterdam in the
Netherlands. This showed that British
capital would in its own self-defence
have to emigrate in order to protect its
growing European market. These British
investments will help to build up larger
units and more efficient industrial groups
in the Common Market which, in the
course of time, will compete in third
markets, and even in the Commonwealth
with products of British labour and
materials. This migration of capital to
the Continent would have increased if
Britain was to remain outside the Com-
mon Market.

There is no doubt, too, that the British
Government's change of front on this
subject was due to a better realisation of
the political damage that would be
cau sed to the unity of the free world if
Europe was to be divided into competing
economic blocs — the Six and the Seven
— discriminating against one another in
their trade and economic policy. The
need for greater cohesion was fully ap-
preciated in Britain but it was also
stressed as a result of discussions be-
tween the British Prime Minister, Mr.
Macmillan, and President Kennedy early
in 1961. The United States in these dis-
cussions said they would be prepared to
pay the price of being discriminated
against in their trade with Europe if
Western Europe were to turn its back on
its economic divisions and by uniting,
strengthen the Western Alliance against
Communism.

It is, therefore, a combination of eco-

nomic and political arguments which has
cau sed the change of British attitude to-
w ards the Common Market.

QUESTION: What economic gains
does Britain hope to achieve through
membership?

ANSWER: The greatest gain is the
opening up of a European market of
more than 250 million people, whose
standard of living is already high and is
rising fast. This year British exports to
Western Europe have been running at an
average of £100 million a month, where-
as last year the corresponding figure was
£85 million a month. Western Europe
has in fact become the most rapidly ex-
panding outlet for British manufactures.
In anticipation of the Common Market
being established, a great deal of Ameri-
can capital has been moving to the Con-
tinent of Europe and invested in the set-
ting up of subsidiaries. For example, the
large American chemical firm, Duponts,
have chosen to establish their main
manufacturing European subsidiary in
Belgium. A good deal of this capital
would probably have been canalised to
Britain if there had been less uncertainty
about our ultimate membership of the
Common Market.

A Common Market between the coun-
tries of the European Economic Com-
munity and those members of the Euro-
pean Free Trade Association which find
it possible to reconcile their political
commitments with membership, would
open up new opportunities for enterpris-
ing firms whose horizons have, until now,
been limited to their own domestic mar-
kets and whose foreign trade has been
handicapped by tariffs and quotas. The
advantages of a mass market are the
basis on which the industrial strength and
supremacy of the United States were
built. A large market of this kind allows
enterprises to grow commensurately with
the opportunities that are offered to them.
Larger markets make possible larger units in industry. Such larger units are already in process of formation on the Continent of Europe. The need for size derives not only from the opportunity to serve wider markets but also from the latest technical developments in industry. The scale of capital investment in such industries as aircraft construction, nuclear power and heavy engineering and the immense expenditure on research needed to keep them ahead of their world competitors will demand a scale of enterprises which only a large internal market can sustain.

There is also a negative aspect to the answer that must be given to this question. The economic gains that Britain hopes to achieve will also come through the shock to those parts of British industry which have become weakened and debilitated by high tariffs. British industry in the post-war era has become one of the most highly protected in the world. In this fact lies one of the reasons for our recurring crises. The shock treatment of keener competition which has wrought miracles with a somewhat antiquated French industry over the past three or four years, should have an even more salubrious effect on British enterprise.

QUESTION: Are British industries and the level of industrial costs likely to prove competitive with the industries of the European countries?

ANSWER: The answer to this question is in part that which was given to the previous question. The economic gains which Britain hopes to achieve can only be secured if British industry is competitive enough to seize the opportunities given to it in the Common Market and also to hold in check the competition of European goods in the British market. The point to bear in mind, is that British industry must be competitive if the British standard of living is to be held at anything like its present high level. Other countries do not owe us a living. If we cannot stand competition with Europe we shall before long lose our markets elsewhere, including the Commonwealth. The performance which British industry is putting up in Europe fortunately suggests that large segments of it are fully competitive and will, therefore, be able to take advantage of the opportunities which a move into the Common Market will create.

QUESTION: What is the general British attitude towards the political aspects of the Common Market?

ANSWER: The Treaty of Rome says very little about the political objectives of the European Economic Community apart from a preamble which states that "the Heads of States of the six countries are determined to establish the basis of an ever closer union between the peoples of Europe." Nothing as yet is known about the precise form of federation or confederation which this Community may in the future adopt. It is bound to be many years from now before any real sacrifice of sovereignty has to be made by member countries, except in such matters as fixing the common tariff, accepting common rules for the control of monopolies, giving greater freedom for movements of workers and in general harmonisation of social security arrangements. Such sacrifice of sovereignty is, however, made whenever a country becomes a member of an international institution whether it be the United Nations or the International Monetary Fund. With countries, as with individuals, some sacrifice of complete freedom of action is one of the conditions of civilised existence. Britain accepts the political objectives of the Treaty of Rome; that was stated categorically when Mr. Edward Heath addressed the Ministers of the Six members in Paris last October. No attempt, however,
has been made to define the form which this closer unity will take. Ideas on this differ widely within the Common Market. General de Gaulle refers to it as L'Europe des Patries, i.e., a Europe of Sovereign States. It is significant that the Treaty of Rome, unlike the Treaty forming the European Coal and Steel Community has placed the centre of authority not on the Commission of the European Economic Community but on the Council of Ministers, i.e., not on a collection of supra-national civil servants but on the Governments of the member countries. On some issues the Council will have to be unanimous. On others majority voting will operate. What is envisaged is the closest possible collaboration between the Heads of State of the member countries. The United Kingdom Government is in favour of pursuing this objective and strengthening the co-operation that already exists under the North Atlantic Treaty Organisation.

QUESTION: How would British membership affect the Commonwealth and in particular the economies of Commonwealth countries, such as Australia?

ANSWER: British membership of the E.E.C. would affect the Commonwealth just as the admission of Britain linked to the world-wide institution of the Commonwealth would be bound to affect the E.E.C. When Mr. Menzies declared that British membership of the Common Market would not wreck the Commonwealth but would profoundly affect it, he was right. But the Commonwealth is in constant state of change and evolution. The emergence of republics owing no allegiance to the monarchy yet remaining within the Commonwealth is evidence of this adaptability and flexibility which, I believe, is the condition of survival of this institution. I see no reason why the close and intimate consultation which, with one or two glaring exceptions, has been part of the essence of Commonwealth relations, should not continue unchanged if Britain became a member of the E.E.C. If the E.E.C. were to become a true federation — the United States of Europe — that verdict might have to be altered. But I see no prospect of such a political evolution of E.E.C. in the foreseeable future.

As for the economic effects of British membership of the E.E.C. on the economy of Commonwealth countries, these will depend in part on the outcome of the negotiations between Britain and the Six in which the reservations about protecting Commonwealth interests will be translated in annexes to the Treaty of Rome. There is no doubting the determination of the British Government to see that these interests are safeguarded. This will probably be done through arrangements, commodity by commodity, for maintaining free entry for Commonwealth produce into Britain — subject to ceilings determined by the previous flow of trade. Much will depend on the precise form of association of Commonwealth countries with the E.E.C.

The following generalisations are relevant:

(a) The British market for Commonwealth goods could lose its importance if Britain, isolated from the European Common Market, were to sink into decline relative to the dynamic economy of Europe.

(b) Commonwealth preferences are losing their importance anyhow. Their impact has been reduced by inflation and, in many cases, by the initiative of Commonwealth countries which, in the course of GATT negotiations, have bargained reductions in preferential margins against tariff concessions from other non-Commonwealth countries.

(c) If the Commonwealth wants to retain its share of the expanding market in Europe, it will fare better by having a
spokesman within the E.E.C. prepared to argue the case for Commonwealth interests.

(d) The Commonwealth would not endure long if the country at the centre were to lose its economic strength and vitality. Within limits this is a case where "What is good for Britain is good for the Commonwealth."

QUESTION: How would Britain’s entry into the Common Market affect British investment in Commonwealth countries?

ANSWER: For a time it might cause a reduction in such investment, for there can be no doubt that membership of the Common Market would be followed by new industrial collaboration between British and Continental firms and financial links would be forged.

On the other hand, if Britain remained outside the Common Market the need to protect their trade in Europe would compel many British firms to set up subsidiaries in the Common Market. Such precautionary moves have already been made by Imperial Chemical Industries, the Bowater Paper group, Standard Motors and many other firms. If Britain joins the Common Market this will allow more of the industrial expansion to be made at home. This would leave a larger part of the capital available for export to be canalised to Commonwealth countries.

A Common Market, including the whole of Western Europe, would generate more capital for investment outside Europe. Already countries like Germany are beginning to appear as exporters of capital to the Commonwealth. That movement would grow if Britain joined the Common Market.

QUESTION: What odds would you give on Britain’s entry into the Common Market and when would it be likely to take place?

ANSWER: The odds are very much in favour of Britain’s entry into the Common Market. The economic arguments are overwhelmingly in favour of such a move.

The political arguments are more evenly balanced; but the need to strengthen the free world against the enduring menace of Communism must tilt the balance in favour of joining.

There are certain influences within the Common Market which want to keep Britain out because they fear that British membership would weaken the political content and cohesion of the E.E.C. These views — and they are to be found mainly in France — are decisively outweighed by those of the Europeans who want Britain in because of the political ballast and stability which British membership would give to Western Europe.

The negotiations will be tough and difficult. The problems of the Commonwealth will give the greatest trouble. Then will come those of British agriculture, those of Britain’s partners in E.F.T.A. — and finally, the institutional questions involving political objectives and the supra-national character of the European institutions.

If I had to guess, I would say that we shall know definitely by next May or June whether the negotiations are likely to succeed; that the details will have been settled by September-October and that Britain will have become a member of the E.E.C. by 1st January, 1963.
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