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Devaluation no Panacea

Under the pressure of the rapid deterioration of the British exchange situation, Mr Wilson decided on a devaluation of the pound. After the failure of the controlled expansion, this measure could no longer be evaded. The devaluation is gaining special significance with regard to Britain's planned EEC membership. For, the opponents of an accession, ranged around General de Gaulle, never left room for doubt that the new partner's economic reorganisation is the most important prerequisite to Britain's admission. Therefore, the pound devaluation was often interpreted as the entrance fee to be paid by Britain. But will this really suffice to bring the country the anxiously desired stability and economic growth?

It is true, the decline of export prices and the rise of import prices—as a consequence of the devaluation—will entail a short-term improvement of the trade balance. But simultaneously, prices for imported raw materials and semi-finished products, which are necessary for the production of export goods, will rise. Moreover, the upward movement of living costs may result in an aggressive wage policy by the trade unions. And the possibly inherent advance of production costs will probably in the long run jeopardise again the improvement of the trade position, which at any rate depends not only on prices. There seems to be little sense in wanting to cure the insufficient competitive position of the British economy merely by correcting the exchange rate. For its causes are mainly of a structural character. Therefore, a long-term planned structural policy must supplement the devaluation.

So, if a durable amelioration of the trade balance must be questioned, this is applicable to an even greater extent to the balance of capital transactions. Already now, further long-term credits to back the pound are indispensable, the redemption of which inevitably burdens the balance of payments anew. Moreover, due to the British pound's function as an international reserve currency, there exist many short-term obligations. The sudden withdrawal of these means will time and again precipitate new currency crises. This can only be avoided, if Britain, on the one hand, effects the funding of its obligations and, on the other, abandons the burdening reserve currency function.

The devaluation meant only curing a symptom, a measure which certainly is necessary but not at all sufficient for the country's economic reorganisation. If Britain intends to reach this aim before joining the EEC, economic policy must start at the source of the chronic crisis. But even then the road to the Common Market is by no means open. Further great concessions will be imperative above all in the political sphere, for the EEC is to be much more than a free trade area pure and simple. The ultimate aim of the EEC's development is the political integration of its member states with each other. France believes that Britain would disturb the equilibrium established between the Six and thus prevent the progress of integration between them, for it stands to reason that, the more candidates for integration exist, the more difficult grows any unification of basic assumptions and actions, especially if the UK should insist on continuing to play its part as a big power, and if a larger number of EFTA members obtains the admission to the EEC. If we want to make the EEC a community that is more than the sum total of its members, all its members must cede a large part of their sovereign powers to the EEC Commission. Stronger powers of the Commission would be synonymous with the advance of internal integration, enabling the Community to have a greater say and to act more forcefully towards the outside world. It would therefore be timely now for the EEC member states to require Britain to proclaim its willingness to comply with these conditions unambiguously. A first important step has been taken, others will have to follow!

Dietrich Keschull