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## Spain: Austerity follows devaluation

Intereconomics

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# COMMENTS

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## NAFTA

### The Atlantic's Wide Open Spaces

The renewed failure of Britain's attempt to enter the European Common Market has led to repeated canvassing of a plan to lead the UK and its partners in the EFTA into a wider free trade union where they would be linked in one single-tariff zone with the United States and with Canada. The concept of close partnership between Europeans and Americans in the framework of a North Atlantic Free Trade Association (NAFTA) is inevitably seductive, but under existing conditions, projects of this kind appear premature.

NAFTA would not be a substitute for Britain and other EFTA countries joining the European Economic Community, and economic integration across the wide open spaces of the Atlantic would require much more than free trade between a number of smallish nations. What sort of partners would be the UK, Eire, Denmark, Austria, Portugal, and a number of others who are no more than splinters of a dismembered European economic area, for the integrated industrial power-centre and mass market of North America? NAFTA, on the other hand, would not be in a position to force Europe into an economic union, which, in practice, means that the EEC could not be browbeaten into joining the enlarged Free Trade Area. The unfortunate dismemberment of the all-European market and economic area would thus only be deepened, and the split which has hitherto prevented Europe from taking its rightful place as an equal partner side by side with the North American economic bloc would be further than ever from being healed. If we wish for worldwide, Atlantic integration, there is no other way leading to this target than regional European integration. To achieve the merger between EEC and EFTA is therefore our present priority task. To start constructing NAFTA now would mean to engage on constructing a bridge whose pillars on our side of the Atlantic have not yet been built. re.

## Spain

### Austerity Follows Devaluation

After three years of carrot-and-stick policy to stabilise the country's rapid economic growth, the Spanish Government decided to follow a policy of strict austerity now that the Peseta has been devalued. Both wages and prices are to be kept fixed throughout 1968 through partial stop mechanisms, and this together with rigorous

reductions in public spending is to keep inflation under control. In addition, some taxes have been increased, and company earnings above a certain ceiling are to be absorbed by taxation.

By proclaiming these measures, the Spanish Government has implanted a general feeling of insecurity in the minds of the Spanish business community. There is no doubt that neither devaluation nor a policy of economic austerity, nor even the two combined, will strike at the roots of Spain's economic weakness, which lie in the feeble productivity of Spanish agriculture and industry. Vivid growth of the Spanish economy, which occurred during recent years, has mainly led to massive expansion of consumption and consumer goods production, whilst the relative weight of investment goods manufacture declined. Devaluation will now make the imports of investment goods, indispensable for Spain, more expensive, which will lead to an even weaker structure of its national economy.

It is true that price increases and deficits in the balance of trade can be reduced by deflationary policies, but this means only tinkering with symptoms of the disease. To avoid the evils of a permanent stop-and-go policy after the British model, Spain must not postpone any longer complete reconstruction of its obsolete economic structure. The Second Development Plan, whose publication is imminent, might make a start in this direction, e.g. by taxation measures that favour the ploughing back of profits into business by companies. ri.

## The United Kingdom

### Promoting Export by Saving

The British Government's economy programme plans a reduction in State spending over the next two budget years totalling about £716 million. By far the most severe cuts will be made in defence spending. An accelerated recall of British troops from east of Suez will enable the authorities to make do with fewer soldiers altogether, and this will lead to an estimated savings in 1969/70 of £110 million and in 1972/73 to another reduction in expenditure of about £250 million. Over and above these cuts, £400 million more are to be saved by cancelling the purchasing orders, already placed in the US, for 50 F 111 long-distance fighter-bombers.

The Government, with its enforced economies, wants to achieve two interrelated objectives: firstly, in order to enable economic growth led by exports, it intends to enforce a redeployment of the national resources; and secondly, by keeping home demand