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The United Kingdom: Promoting export by saving

Intereconomics

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COMMENTS

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

low, prices are also to be kept low and stable, so that the country will not quickly lose the advantage of currency devaluation. But the objectives can only be approached part of the way by the planned budget reductions, at least during 1968. There are a number of reasons for this: on the one hand, some economies, especially in the field of defence, will show their full impact only after several years; and on the other hand, most of the cuts are only cuts in growth rates. In other words, during the financial year of 1968/69, government spending will still continue to rise though only in line with assumed general production growth, by 4.5 per cent. If, however, the Government is in earnest about wanting to push up exports by 10 per cent and private investments by 7 per cent during 1968, its own spending will have to be reduced even more drastically, or private consumption must be mercilessly shrunk. As the lion's share of public spending is fixed by statute, no really worthwhile savings in public expenditure can be made to act quickly, and demand can be brought into line with the production potential only by holding down private consumption rigidly. This is the reason why the British Chancellor of the Exchequer has already announced big tax increases for his 1968/69 budget.

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Commodities

Strategic Stockpiling

After the last war had ended, proposals to stockpile strategic raw materials could hardly be applauded as an original concept. However, the vast volume and the highly diversified composition of the raw material reserves accumulated by the United States since 1946 under the Strategic and Critical Materials Stock Piling Act have been unique. The stockpiling programme has been expanded in scope several times, in 1950, by the Defense Production Act, and in 1954, by parts of the Agricultural Trade Development and Assistance Act. These successive steps have eventually led to the American Administration holding in its stockpiles over 70 individual commodities. From the end of the World War II, there have been recurrent discussions of the question as to which kind of material should be hoarded. It seemed to be a basic assumption in all such talks and consultations that certain important metals, e.g. copper, zinc, aluminium, and tin, would always be strategically important and so vulnerable that they would have to be stored against an emergency. Feverish price rises registered during the Korean war and temporary tightness of supplies during the Suez crisis of 1956 had also demonstrated how sensitive to disruption were the markets of these metals.

In 1967, however, any observer of the commodity markets must get quite a different impression. In spite of military escalation in the Vietnam war, and in spite of the brief period of costly fighting

between Israel and its Arab neighbours, all industrial raw materials, including all the "typical" strategic commodities, showed a trend to weakness.

Yet all these facts do not prove that it had suddenly become superfluous to keep in stock important commodities and semi-finished processed raw materials for military reasons, for the price trends of 1967 must be understood in the context of a recession that has become clearly visible in a number of industrialised countries, including the US, the UK, and last but not least also the Federal Republic of Germany. The US Office of Emergency Planning is on the point of publishing the results of a scrutiny of the strategic requirements of raw materials during 1969-71, and this may well lead to a reversal of the present trend of running down the strategic reserves, through selling them off.

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US-Restrictions

The Border Tax vs the Kennedy Round

The negotiations of the Kennedy Round which eventually achieved average tariff reductions of about 35 per cent have been the most successful talks of their kind in the entire history of GATT. A number of countries, among them the United States, have put into operation the first part of the agreed cuts in import duties as from January 1, 1968. The EEC will follow suit on July 1, 1968. Among the aims of the United States' initiative in opening the Kennedy Round of tariff negotiations was the desire to improve its balance of payments which, for a long time, had suffered from a deficit. These hopes of the Americans have not come to fruition.

On the contrary, it must be expected that there will be sustained pressure on the international payments situation of the United States, which will also result in a continued drain upon its gold and hard currency reserves. To overcome these difficulties, President Johnson has proposed a number of restrictive measures, one of which, according to the new Border Tax Bill of the Administration, is intended to place upon all imports of the United States an additional 2.5 per cent surtax and to promote exports by a corresponding tax remission of 2.5 per cent. As the official reason for proposing the erection of such new obstacles to international trade, the Administration quoted the introduction of the "added value tax" by the EEC countries, upon which the border tax, its application and refunding on exports, has been modelled in order to equalise the indirect tax burden on goods produced and sold inside the US.

It is, of course, preferable for imports to be burdened with such measurable levies, than by physical restrictions through import quotas, yet even so, the disadvantages of the new measures are great. The main risk the United States would incur by their enactment is that of provoking retaliatory measures of the countries affected.

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