In this essay I propose to examine three related developments in the world economy—first the changing structure of West European economies (particularly those of the Six Common Market countries); secondly, the factors determining the growth of world trade and, thirdly, the nature of present international capital movements. My conclusion will be that we are entering upon a period of much sharper competition amongst the capitalist powers, in which the industries of the Six are likely to move out on to the world stage and present a much greater challenge than heretofore to the positions which Britain has been able to hold on to in the face of United States world hegemony. The fashionable solution is for Britain to "enter Europe". It will be argued here that this is no solution; for British industry to concentrate its efforts in half of Europe plus half of Africa would be a mere narrowing of the struggle; that on the contrary our only hope lies in creating a framework for the growth of world trade as a whole, in which all the industrial powers can find room to expand their sales. If that cannot be done, we may expect to face very serious difficulties in our foreign trade, difficulties that will put at risk all our domestic economic plans.

In analysing some of the main changes that have taken place in the last ten years or so, we have to be careful in considering so short a historic period as a decade. Many of the changes recorded, like the structural change of employment involving movement out of agriculture, are likely to be irreversible; so also with the scale of foreign trade in national economies. On the other hand, population growth rates could change, especially in the U.S.A. and in West Germany, the latter swollen by a flood of immigration from East Germany that has now ceased. More important, different economic growth rates in any decade recorded by different countries could simply result from different historic phasing—later recovery from war-time destruction or greater war-time destruction, for example. It is significant that the countries with the fastest growth rates in the 1950s were the ex-enemy countries and other particularly heavily devastated lands, e.g. West Germany, Austria, Italy, Greece and Eastern Europe. There may even be an element of catching up over a longer period in the case of French recovery after two decades of slow growth. While growth rates in Western Europe and North America therefore may have varied in the 1950s from 7.4 per cent per annum in West Germany to 2.4 per
cent in the U.K., the annual average growth rate over the period from 1913 to 1956 varied only from 3.2 per cent in the U.S.A. to 1.6 per cent in the U.K., with West Germany registering a modest 2.1 per cent.

A full discussion of the causes of these different rates of growth has appeared in a recent U.N.E.C.E. study. What is most striking is that not only West Germany, which is most comparable to Britain in size of population and national income, but the whole European Economic Community has moved much closer to Britain in respect of income per head, proportion of foreign trade to national product and relative smallness of the agricultural sector.

One conclusion from these changes could be that it may now prove easier to reconcile structural and policy differences between Britain and the Six. Another must be that it will prove difficult for the Community to maintain the rate of economic growth of the last decade, and the Six will increasingly begin to share the same problems of achieving a rapid growth rate that Britain has been facing. If less labour is available to be transferred from the land, if past losses have been made good and, furthermore, if foreign trade is less easily expanded, once the trade diversionary effects of lowering tariffs inside the common market are worked out, then new problems both from the side of supply and from the demand side are going to face the Six. These are likely to be most acute in the case of West Germany which has been relying most heavily on moving labour from the land into industry and on expanding markets outside its own territory. It thus seems worthwhile to examine both economic structure and markets more closely.

**Structural Change in Western Europe**

The advantages of moving labour and other resources out of agriculture and into industry have been well documented. There are, however, evident limits to this process, first in the proportion of the occupied population that can be released from the land, secondly in the proportion that can be absorbed into industry as the demand for services grows with rising incomes and third in the rate of increase in industrial productivity itself, since this is generally a function of the economies of scale to be obtained from expanding markets. Thus, in Britain, with only 4 per cent of the occupied population engaged in agriculture and per caput wealth at a relatively high level, we have actually seen a reduction in the proportion of occupied persons engaged in industry. As much as 49 per cent of the occupied population in Britain are now engaged in providing services and transport, while the U.S.A. with a much higher level of income and 9 per cent engaged in agriculture has 60 per cent in services and transport. This leaves only 41 per cent in Britain and 25 per cent in the U.S.A. in industry, with respectively 7 per cent and 6 per cent in construction.
Both West Germany and Italy have brought the proportion of their occupied populations engaged in industry up to 40 per cent in the last few years and this cannot be expected to increase much further. Structural change, according to the United Nations report referred to above, has accounted for about a tenth of the rise in productivity in these two countries and this contribution may be expected not just to cease but to be reversed, as the service sector grows.

Studies of income elasticities of demand, both over time in any one country and between countries at different income levels, show in the higher income range enjoyed by industrialized countries a demand for services well above unity. This is especially large in the case of administration, education, welfare, etc. Productivity in services, however, is generally lower than in industry, though not so low as in agriculture. The importance for growth rates of structural change is not limited to the direct effects on productivity of labour moving from agriculture into industry and then into services as incomes rise. The indirect effects of having labour available from the land for industry in the first period and of losing it again from industry to a labour intensive service sector in the second period may be even more important. This is because in unplanned private enterprise economies a rapid growth of industrial output tends to be checked by labour shortages and to generate demands for imports which cannot be paid for by exports. Then balance of payments considerations or inflationary pressures or both require that governments intervene to deflate the economy. The result has been a discontinuous growth curve. Britain's experience here is typical, but West Germany, France and to a lesser extent, Italy, have been able to maintain a more continuous rate of growth; and this must have been due in no small measure to the availability of labour from the land to be drawn upon in periods of boom. West Germany had also, for many years, the great advantage of being able to import labour, and much of it skilled labour, from East Germany.

We may sum up this section by saying that the low starting points in income per head, the availability of labour from the land and from East Germany and the possibility of moving labour and resources into industry have all contributed to the more rapid rate of economic growth in the European Economic Community than in either Britain or the U.S.A. If these were the only contributing factors in rapid growth rates, one would be bound to conclude that the "miracle" of Western Europe was likely to be much more difficult to maintain in the future and had little or nothing to do with the establishment of the Common Market. In fact, there are, of course, two other crucial factors involved in raising productivity—the level of capital investment and the widening of markets so that full benefit may be derived from economies of scale.

To take first the factor of capital investment, correlations between
the rate of growth of output and the ratio of capital investment in the total national product are not apparent among a wide range of countries with very different levels of output per head. This is because of the much lower incremental capital/output ratios for countries at a low stage of economic development. If, however, we limit comparison to the more advanced industrial countries a quite strong correlation is revealed between the rate of capital input and the rate of growth of output. The E.C.E. figures show that both Britain and the U.S.A. have been investing a much smaller proportion of their resources and getting a much slower rate of growth in output than the Six countries in the E.E.C. In the last few years the investment ratio in Britain has been rising sharply to a figure much nearer that obtaining among the Six and is expected to rise to 20 per cent by 1970.

**The Connection between Foreign Trade and the Investment Ratio**

When we come to ask how the Six countries in the E.E.C. have been achieving these higher ratios of capital investment, we must examine first the results of their easier labour situation in both greater continuity of growth and the higher share of profits, with a lower share of wages, in the national income; and secondly, we must take into account the rapid expansion of export markets. The connection between a high investment ratio, and particularly a high investment ratio in manufacturing, and an expansion of exports is evidently close. For a high investment ratio must mean a relatively low consumption ratio and since the products of expanded manufacturing investment have to be sold, there is a danger of unbalance and overproduction, unless an increasing proportion of exports solves the problem.

Expansion of exports thus becomes important not simply for obtaining economies of scale in a wider market but for sustaining the ratio of investment. Of course government planning could maintain the balance between production and consumption, but in unplanned private enterprise economies there is a tendency for booms to raise profits faster than earnings and thus to raise the savings proportion and cut into the growth of domestic purchasing power. Since the war governments have generally acted (often because of balance of payments difficulties) in time to prevent this. A rapid expansion of exports compared with imports does the job for them.

A major stimulus to the rapid economic growth of the Six has been the growth of their foreign trade. But most of this growth has been in trade among each other; the growth of intra-Common Market trade doubled in the four years 1960–4; and such trade does not of course increase the Six's exports over imports. Up to 1960 this intra-trade certainly did increase West German exports over imports and ran several of the other countries into serious balance of payments difficulties. Since 1960 not only West Germany but France and Italy too have been running large export surpluses outside the Common
Market. Indeed in 1964 and the first half of 1965 the Six countries have for the first time been increasing their exports outside the Community faster than they have inside, while imports from outside have been slowing down. There are two changes of structure involved here—first the rôle of foreign trade in the economies of the Six has been steadily increasing and secondly the share of exports going outside the Common Market has recently begun to grow. This last change should not be exaggerated: the aggregate share of the Community in world trade, that is excluding their intra-trade, has remained at just over 14 per cent from 1957 to 1964. It is the intra-trade that has been growing so fast.\(^7\)

The importance of the export surplus newly established by the Six countries with the rest of the world is that a large part of the surplus has been in trade with Britain and the U.S.A. And the Governments of Britain and the U.S.A. have each recently declared their intention of reversing their trading deficits and establishing surpluses themselves. If export surpluses are to be achieved by the U.S.A. and Britain as well as by the Six, the trade of the rest of the world will have to move into deficit. Since these eight countries are responsible for nearly one half of the world's exports, the other half is likely to find it hard to accommodate them. Trade has been growing fastest of recent years between the advanced industrial countries and this has tended to mean that some, West Germany in particular, have been growing fast and expanding their exports while others, Britain in particular, have been growing slowly and expanding their imports. Nearly all the advanced industrial countries have been exporting more to the less developed countries than they import from them, the gap being covered by running down reserves, receipts of various forms of aid, capital movements, credits and loans.

If aid and capital movements are maintained and world trade continues to grow at the very rapid rate of recent years, adjustments of different countries' surpluses and deficits are not going to be difficult; but if there is a check to growth the adjustments would be much more difficult to make and especially for Britain. In the decade of the 1950s world trade was growing at an average rate of some 6 per cent a year; in the 1960s so far the rate has risen to over 7.5 per cent per year (10 per cent in 1964).\(^8\) This rate of growth is faster than in any previous period in this century, comparing with rates of growth of between 5 per cent and 6 per cent in 1910 to 1914 and in 1921–9.\(^9\) What is more, world trade has begun to grow faster than world industrial output. This is particularly true of trade in manufactures, which has been growing in the 1960s at over 8 per cent per year, while output of manufactures has been growing by less than 6 per cent a year.\(^10\) Partly, this is the result of the increase of trade exchanges inside the Common Market, but the same trend is observable outside the Common Market too. This is against all historical precedent.\(^11\) After the
Second World War trade for a time rose more sharply than output as it recovered from the extremely low war-time levels; but this process ended in 1952. Thereafter and until 1958 industrial output was once more rising faster year by year than the total of world trade. After 1958 growth of both output and trade ran roughly in line until the sharp rise in trade in 1963. This has been maintained in 1964 and 1965.¹²

It may well be that 1963–5 have been exceptional years and that a slower growth of world trade may be expected. One forecast suggests that both world industrial output and world trade will rise by 6 per cent in 1966.¹³ This estimate depends upon the assumption that at least some countries (France, Italy and Japan) will be showing rapid economic expansion again after the present recession, while West Germany and Britain grow more slowly. The post-war trade cycle has tended to show rather sharper swings in world trade, particularly in manufactures, than in world industrial output, changes in trade generally following with a slight lag after changes in output. In the 1950s the booms in output in 1950–1 and in 1955–6 were followed by actual trade declines in 1952 and 1958. In the 1960s, however, no decline followed the boom in 1960 though the growth rates of world trade were not quite so high in 1961 and 1962. Can we expect the latest boom of 1963–5 to continue with only a slightly reduced growth rate in both output and trade? Much depends on the survival of the long boom in the U.S.A., which accounts for such a large part of world manufacturing output (30 per cent) and trade (15 per cent).¹⁴

If we examine the factors which have contributed to creating the recent exceptionally rapid rate of growth of world trade, we can distinguish those which may be expected to operate in the future:

1. Movements of capital, private and public, have been equivalent in value to about 9 per cent of world trade over the past decade. This figure may be compared with a capital movement figure of 3 per cent of world trade in the 1920s and only 2 per cent in the other period of rapid world trade growth—that between 1910 and 1914. In previous periods the whole capital movement has been private, but today about half of the $12 billion movement of the last few years has been public—loans and aid both of governments and of the international institutions. Most of the public capital has gone to the developing lands, but less than a half of the gross movement of private capital;¹⁵ and the private capital movement has been growing faster in the past five years. We may note several pointers to the future movement of international capital. First, the increasing concentration of private capital in movements between the already developed industrial lands means that it is not necessarily trade-generating. Indeed there is evidence which we shall examine later, to show that it may actually tend after a period of time to reduce the volume of world trade, by replacing exports with the output of subsidiaries.
Secondly, according to World Bank reports, the flow of private and western government capital to the less developed lands reached their peaks respectively in 1957 and 1961. The total movement of finance to these lands has also been reduced by the cutting back, after 1961 in aid from the Communist countries. Fortunately, there has been a rapid stepping up of loans by the World Bank and other international institutions in the last few years.16

Thirdly, servicing the interest on past borrowing by the developing lands has begun to absorb more than a third of the $8 to $9 billion annual flow of funds into these lands. Thus the annual increase in capital moving into less developed lands, which was amounting to about $300 million a year and helping to finance the $8.5 billion annual world trade expansion, has not only come to an end, but is likely from now on to be eaten into more and more by debt servicing.17

2. The United States provides not only the largest part, more than half, of the gross capital movement, both private and public, but also the largest single market for goods and services, more than a tenth of the world total for goods alone. United States imports of goods and services has been rising steadily throughout the 1950s and early 60s at the rate of about $1 billion a year. After 1958, however, the outflow of capital from the U.S.A. and the rising imports of goods and services ceased to be covered by U.S. exports of goods and services and net investment income. Between 1958 and 1963 the United States was in fact running a deficit on its balance of payments averaging $2.3 billions a year. From 1961 attempts were made by the U.S. Government to cut back the deficit by reducing the imports of services, especially shipping, and by holding the growth of military and other government aid. Imports of goods however, continued to rise and the deficit was not reduced until 1964, when it was brought down from over $2 billion a year to just over $1 billion. In 1965 it was almost eliminated.18 If the United States were to succeed in permanently eliminating the deficit and bringing the rise both in capital flow and in imports of goods and services under control, a most serious cut-back in world trade would follow. For something like $3 billion of the annual average growth in world trade of $8.5 billion may be said to have been financed by the United States in these ways.

3. Between 1956 and 1962 the less developed lands continued to expand their imports at $1.3 billion a year but were paying for their imports to an important extent by running down their reserves of gold and foreign exchange holdings, built up during the world war and Korean war. This they were doing to the tune of nearly $500 million a year. Moreover, if we exclude five countries which were expanding their reserves—Spain, Israel, Thailand, South Arabia and Malaysia—then we have to note that all the others were running their reserves down at a rate
of over $700 million a year. Between 1962 and 1964 there was some recovery in the reserves of the less developed lands thanks to a sharp recovery in their terms of trade. This recovery ended abruptly in the middle of 1964 and by mid-1965 these lands had run down their reserves—that is in one year only—by over $2 billion. They cannot be expected to continue doing this for long. For the $10.6 billion of reserves that the less developed lands held in mid-1965 was equivalent to only a third of the value of their 1964 imports. This may be compared with reserves held between 1951 and 1956 equal to half the value of their imports in those years. The reserves of the developed lands also failed to keep up with the growth of their trade, but in 1965 they were still equivalent to half the value of their imports, to be compared in their case with a figure of 59 per cent in 1956.19

4. Somewhat over half of the world's reserves consist of gold. Gold production has been rising in the period from 1954 to 1964 at a rate of about $1 billion a year in the capitalist world, with a rising trend culminating in $1.4 billion in 1964. At the same time, it is believed that in the Communist countries gold production has recently been running at $500 million a year.20 Because of the large purchases of U.S. and Canadian grain in the last two years, sales of gold from Communist countries were equal to their gold output at $500 million. This may have been the case also in 1965 because of the need to finance further grain purchases, which are expected to continue into 1966. An important aspect of capitalist gold output in the past has been that only about half of it has been entering each year into official gold holdings, available for financing world trade. The rest has been going into private hands. Between 1963 and 1964, however, over $1 billion of gold entered the reserves in place of the usual annual figure of $500 to $600 millions.21 This movement presumably reflected the high price of gold in the private bullion market set off by prospects of a rise in the official price of gold, which was attracting the private gold hoarders out into the market. It certainly gave a valuable boost to world liquidity which cannot be expected to be sustained.

The result of several years of balance of payments deficits run by the United States is that gold stocks are much more equally distributed among the developed industrial countries. The U.S. lost some $7 billion to continental European countries between 1957 and 1964. Her share of the world's gold reserves was thus reduced to the same proportion—about 37 per cent—as she held in 1928.22 Such a redistribution might be expected to serve as an encouragement to world trade, at least among the developed countries, but that certain other factors work in the opposite direction. First, strong holders of gold like France may be encouraged to require gold payment to settle payment deficits, as de Gaulle has already been doing, and this further restrict international liquidity. Secondly, the less developed lands, which are
still responsible for over a fifth of world trade, have gained nothing. Thirdly, U.S. government policies have been directed to reducing U.S. imports of goods and services and checking the outward flow of U.S. capital in order to stop the payments deficit and consequent run on gold. Fourthly the new holders of the world’s reserves—West Germany, France, Italy, Switzerland—show no signs of being prepared to run deficits on their balance of payments from now on.

5. During the period from 1954 to 1964 the Communist countries have been increasing their imports at a rate of about $1 billion a year; in 1964 the increase was nearer $1.5 billion. This process raised the Communist countries’ proportion of world trade from 10 per cent in 1956 to 12½ per cent of the total in 1962. With the very rapid growth of the capitalist countries’ trade in 1963 and 1964, the Communist share did not rise in those years. It is significant of changing trends that in the period 1956–64 trade between the Communist countries themselves fell from 80 per cent to 70 per cent of their total trade, while trade between them and the non-industrialized developing lands rose from 5 per cent to 12½ per cent of their total. Considerable support has been provided for this expansion by the provision of aid and credits. These rose steadily year by year to a peak of $1.1 billion in 1961. The next year the sum was halved, however, and it appears to have remained at the lower level ever since, which would be near to the average for the decade from 1954. There is no reason for supposing that this figure will be reduced and some reason for expecting it to be raised. Recent articles in the Soviet Economic Press forecast a further rapid expansion of Soviet trade with developing countries, based on the elimination of tariffs, signing of long-term trade agreements and provision of Soviet credits. China is also known to be expanding her trade and aid both in Africa and in South East Asia. It would be quite impossible, however, to estimate how soon the financial assistance of the Communist countries to the developing lands could be expected to be re-established at the 1961 level.

6. The last factor in the recent rapid growth of world trade must now be given its due weight. This is the expansion of the trade of the Six countries of the Common Market. Can this be expected to continue? By January 1965, 70 per cent of all intra-Community tariff duties had been cut; a further 10 per cent was scheduled for January 1966 and complete removal of industrial tariffs for July 1967, to be combined with the full introduction of the external tariff and of a common grain price level on that date. In the present situation of the French withdrawal from the Community Councils, one cannot be sure that the schedule will be adhered to. If it is not, then growth inside the Common Market may well be slowed down. If it is, then growth may be expected to continue, but this may well be increasingly at the expense of the trade of the Six with the outside world once the external tariff is fully introduced in 1967. This is the fear that is
leading British business men to demand further efforts to get Britain into the market, by some means or other. In either case it seems exceedingly unlikely that growth in the total trade of the Six can be maintained at the rate of the past years.

We may now sum up this extended review of the factors that have been at work in the recent very rapid expansion of world trade. The conclusion of our review must be that on almost every count the factors that make for world trade expansion have been weakening. The peaks of capital movement to developing lands, both from private and official sources, were reached some years ago: debt servicing and the output of local subsidiaries threaten to take the place increasingly of the international movement of goods. The United States has taken strong measures to cut back its annual payments deficit and annual outflow of gold, which have combined to finance at least a quarter of the annual growth in world trade. The developing lands have drastically run down their reserves in recent years and these were financing perhaps another tenth of the annual growth, and their terms of trade do not seem likely to move more favourably in the future so as to allow them to replenish these reserves. Only gold output continues to rise at a faster rate each year, adding to the world's gold holdings to the extent of a further tenth in the annual growth of world trade; but it is far from certain in the present confused state of international liquidity that the private hoarders may not take back again much of what they released in the last year.

The Communist countries are still maintaining the high level of their foreign trade, but they have reduced the financial assistance they were granting from the peak level of 1961, and this could reduce the growth of world trade by another tenth. Moreover, with a series of good crops, their huge purchase of North American, Argentine and Australian grain would cease, and these too have been adding nearly a tenth to the total annual growth in world trade. Finally, the meteoric rise of the Common Market countries' trade may be expected to slow down. While this expansion has been largely within the Market, where it has contributed about a fifth of the total annual growth in world trade, and while it has not made a specially large contribution to the growth of world trade outside the Market, any reduction in the growth of the internal Market, which led to pressure to expand outside, would have the effect of making the competition for a declining Market outside all the sharper. It is to a study of the nature of this competition that we must now turn.

World-wide Oligopolistic Competition

A large part of the present world division of labour is an artificial one between advanced industrial manufacturing countries and industrially underdeveloped primary producers, a division established by imperial power and maintained by free trade. Given time and oppor-
tunity most of the underdeveloped lands, restricted now to primary production, are likely to become industrial producers and to contribute industrial products to the world market. Already the developing countries are expanding their exports of manufactures, though not at the same rate as the developed countries; and it is significant that the Communist countries, most of whom were until quite recently confined to primary production, have been expanding their manufactured exports, mainly among themselves, but at almost twice the rate achieved in the rest of the world.²⁰ In the meantime, this part of the world division of labour is already changing; primary products are each year becoming a less and less important part of world trade exchanges just as in the years from 1953 to 1964 they fell from 54 per cent to 42 per cent of the total value of world trade. A part of this fall is due to the fall in relative prices of primary products over the period by about 10 per cent, but even in constant prices the drop in their share of world trade would have been from 54 per cent to 45 per cent. Moreover, the original basis of world trade which traditionally lay in an exchange between primary producers and manufacturers has been undermined. On the one hand, the advanced industrial countries are providing much more of their primary product requirements from their own resources, by increasing agricultural output at home and by increased use of synthetic materials, and from exchanging primary products among themselves. In recent years exports of primary products, especially of foodstuffs, from the industrial countries and to the non-industrial areas have actually been increasing faster than the other way round. The result of all these changes is that, not only does the greater part of world trade now consist of exchanges of manufactures, but the greater part also consists of exchanges between the advanced industrialized lands themselves (45 per cent of the total among the capitalist countries and another 7 to 8 per cent if the trade of the more industrialized countries in the Communist area is included).²⁷

In spite of these big changes, it is still the general assumption of economists that specialization and economies of scale provide the main rationale for international trade. The whole process of lowering tariffs in the Common Market is said to be based on this assumption and Britain's entry into the Market advocated so that we too may enjoy the advantages of this wider-tariff-free market. Classical economics would certainly support the view that any lowering of tariffs (with exceptions for infant industries) will lead to higher real incomes all round. The raising of an external tariff around a Common Market will of course have the opposite effect, if there are cheaper producers outside than inside. But in conditions of imperfect competition and oligopoly we need to examine rather closely the precise effect of an expanding export sector through free trade in any area. Great advantages accrue to those who are first in the field, whether we
are speaking of one country’s industries or of one firm in an industry. The argument is an extension of the argument for protecting infant industries from free trade. Backward economies that are open to world trade, as Dudley Seers has so often demonstrated, will simply remain undeveloped, because they can never get started on industrialization. This obviously applies as much to countries inside a free trade area as to countries in a world of free trade. But we must also note that a large firm or a few large firms that establish themselves in any market can generally exclude new-comers, unless these are themselves giants of international standing from some other area.

Whatever the disadvantages of declining districts within the free trade area and of monopoly profit that may follow for those firms that are best placed to expand, the advantages of specialization and economies of scale from the widening of markets even for a few firms are said to be overriding. Inside national frontiers competition may in any case not exist, so that lowering tariffs may increase rather than decrease competition. Or if competition does exist, the size of firms may be too small for least cost production and a wider market with larger firms may then lead to lower costs. The examples of the manufacture of computers, supersonic aircraft and rockets have recently been cited to show that even if a small country or firm had the resources to devote to such projects, the inevitable small scale of the operation would make such an individual effort hopelessly uneconomic and therefore uncompetitive with the giants. The alternatives for the small country or firm are to buy from the U.S.A. (or the U.S.S.R.) or establish an integrated market of similar size (e.g. in Western Europe). The disadvantages of the first course (or courses) are not only political and military but economic. The best brains and research will become concentrated in those countries where the most advanced industries are established; the smaller countries will be the losers.

It should not be concluded that the case for co-operation in manufacturing computers, aircraft or rockets adds up necessarily to a case for a free-trade area, let alone for entry into the Common Market. There might be other ways of establishing such co-operation by individual co-operative projects such as the French and British co-operation over the Concorde. There is little or no future certainly for the very smallest countries and the smaller firms unless they can widen their markets and scale of operation. The correlation between productivity and size of market is high; but there is also much evidence that the optimum size of plant is smaller than is often claimed. For a large number of products a quite small proportion of the market is adequate to sustain an efficient plant or number of plants in a country with a high standard of living. Professor Bain has suggested that a market of 50 million persons, as in Britain, is quite large enough for eight or more efficient plants to survive in all but a small minority of products such as aircraft and computers. Pratten and Dean's study
suggests that all the economies of scale would be achieved while having a dozen bulk steel making plants in Britain (but only two making sheet steel) and seven or eight oil refineries, while in the other industries they examined—book printing and footwear—there could be as many as fifty plants. The fact that there are already actually fewer firms in Britain today than these figures suggest, each having more than one plant, implies that the factors encouraging concentration in industry are not limited to those following from economies of plant size. The advantages to be derived from size in multi-plant large firms, however, are much more tenuous. Cheaper sources of finance and adequate funds for research and development are probably the most important. A recent N.I.E.S.R. study suggests, however, that State funds and especially Government civil research programmes could make up for inadequate resources in the electronics industry, where the threshold of efficient size is particularly high.33

The argument concerning the economies to be derived from specialization is even less easy to substantiate than that concerning the economies to be derived from a scale of operation beyond what is possible in a market of fifty millions at a high level of consumption. According to one study the evidence from the Common Market was that less rather than more country specialization in exports had developed up to 1961. What has developed is very obviously a geographical concentration of industry in the lower Rhine valley that embraces four of the Six countries; and this result of lowered tariffs and other measures of integration may have very important economic advantages. It should not be lost sight of, however, that the disadvantages for the areas that do not participate in this regional development may be very great indeed, as they already are in national units where growth is concentrated in one region and others decline. It is not entirely fanciful to imagine Britain inside the Common Market becoming the Scotland of Western Europe. The economic advantages of central location around the largest concentration of population in any free-trade area are very great. Concentrations of population and of industry reinforce each other; but a market economy tends always to undervalue the social costs involved.

What we have to determine is how far the pressure of large companies to expand into wider and wider markets is simply a function of the economies of scale and specialization and how far other factors are involved. It was the conclusion of Evely and Little's study of an earlier period of concentration—the end of the nineteenth century combinations—that "their object was frankly monopolistic: to secure a share of the trade sufficient to give them control over prices and output" and in summarizing their work on the period between 1935 and 1951 they add "Every merger may embody an element of the desire to restrict competition". Since Evely and Little's study the rate of concentration has increased steadily, not only in Britain but in the
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U.S.A., Japan and the Common Market. A report which provides data on the merger movement in that of the Employers' federation which represents the interests of industry in the Six at Common Market headquarters, comes to the following conclusion:

"With few exceptions the largest of them (the large European companies) have reached dimensions corresponding to the size of their national markets, and they could only with difficulty base further expansion on external markets which the whim of tariff policies could close to them at any moment. It is only through consolidating a wide internal market that they can today formulate in new terms development policies calling for the expansion of production units, research and sales. Expansion in size alone is neither a universal nor a uniform requirement in an enlarged market."

If nevertheless concentration continues, and there is plenty of evidence that it does, then there must be presumed to be other factors involved besides technical economies of scale and specialization. Leading American companies, the same report reminds us, have sales two or three times larger than those of the largest companies in the Common Market; but what is much more important, the assets of the companies are on average no larger. The American companies' advantage in other words lies not in size beyond a certain point but in efficiency and productivity once a certain size is achieved.

According to Fortune Magazine, of the top 500 companies in the world 306 are United States' companies, and 17 Canadians; 53 are British and 38 Japanese; while 75 are based on the Common Market—33 West German, 25 French, 7 Italian, 4 Dutch (plus 2 Anglo-Dutch), 3 Belgian and 1 from Luxembourg. It is the overwhelming hegemony of the American firms that is worrying industrialists everywhere, and especially the makers of computers, aeroplanes and motor-cars. Anxiety is especially acute in the Common Market, where U.S. investment trebled in the seven years after 1956. The take-over of Olivetti and Machine-Bull by U.S. companies was a particularly traumatic experience for Italy and France, as was the extension of American interest in Ford and Rootes for Britain.

Herr Hans von der Groeben, a member of the Common Market Commission, recently outlined to the European Parliament a five-point programme for removing restrictions on company growth across remaining internal Common Market barriers and concluded that "all these measures will make international activity, co-operation and mergers between Community companies easier; they will eliminate various forms of intra-Community market distortion, and make Community firms more competitive in world markets." What we are watching is the growth of inter-national giants, with plants established in many different parts of the world. The aim of each of the giants in this situation is to eliminate small-scale competition by large-scale..."
operation and then go on to establish and maintain a position in an international struggle of the giants.

Some of the reasons are clear. First, the establishment and perpetuation of brand names among consumers the world over requires resources that are only available to the top companies. Tigers were being put into the tanks of motorists' cars in the summer of 1965 in every country of western Europe. Secondly, we may take the words of the Chairman of the Beecham Group, which has £6 million assets overseas:

"Perhaps the biggest advantage possessed by an international company, operating in this way, is the energizing effect of existing in several different environments; new marketing techniques are appraised in good time; new products wherever they first appear are noted; successful innovations by competitors are brought to everyone's attention. In addition, the international company itself can experiment with different policies in different markets." 43

Such "experiments" may include switches of production made between plants in different countries to offset the influence of strikes, wage claims, taxation changes, tariffs and other restrictions. The "appraisal" of new techniques and new products "in good time" is a euphemism for a whole network of commercial and industrial espionage to watch new research and developments, and ensure that patents and licences are effectively policed. Finally, agreement can be reached among the giants themselves—tacit or explicit—that the most damaging forms of competition, particularly price competition, may be avoided. "Cartels", as the standard American work on the subject concludes, "provide a relatively stable framework within which conflicting interests may be reconciled by manoeuvre, bargain and compromise." 44

And membership is only open to the big boys.

The large firms are responsible for the greater part of the exports of any country. The U.N.I.C.E. report quoted above noted that 50 West German companies were responsible for 30 per cent of West German exports. Larger proportions have been reported for the top 50 British companies. But the whole logic of the oligopolistic competition we have been examining requires more than exports; it demands investment across national frontiers. In foreign investment, the role of the oligopolies is far more important than it is in exports. In 1957, according to the United States Census, 45 firms were responsible for 60 per cent of direct foreign investment, 300 firms for 90 per cent. United States' companies had, of course, established subsidiaries in Britain long ago; a half of the U.S. companies now established in Britain were already here in 1914, according to J. H. Dunning. But Dunning also makes it clear that these are now nearly all very large companies operating under oligopolistic conditions. Three quarters of the U.S. firms in Britain are in industries where the five largest firms
(the U.S. firms amongst them), are responsible for over 80 per cent of the output.

For any firm to move from exporting to establishing subsidiaries in a market will be the result of many different considerations, and in the last decade British firms have increasingly been following American precedent and establishing subsidiaries overseas. Foreign investment is of course no new development for British capital. Before 1914 and again after the First World War this outflow of capital was of two kinds. The chief of these was rentier investment in foreign and colonial government stocks and in government guaranteed railway and utility stocks. These provided a safe and remunerative outlet for savings and served to keep up the rate of return on capital. Secondly, there was the much smaller part (10 per cent of the total in 1913) invested in mines, oil wells and plantations. This served to expand the output of certain key raw materials for British industry. An even smaller part (a little over 5 per cent) was invested in industry and rather more (8 per cent) in banking and finance. In other words, only a quarter was direct investment in companies. The main advantages accruing from all this investment were first that the transport costs of imported food and raw materials were greatly reduced and secondly that markets were opened up for exports where economic development followed the investment. This was very largely in Europe itself, in North America and in the White Dominions. The colonies had received only an eighth of the total investment by 1913—10 per cent in India and 2½ per cent in all the other colonies—though the 20 per cent in South America might be regarded as semi-colonial. The gain to Britain was not so much in colonial tribute—though this was not inconsiderable—but in the markets in the expanding economies of the new nations overseas. These provided not only a stimulus to higher productivity in industry at home but also an important element of stability when the home market was depressed.

These facts are repeated again here (they are dealt with at much greater length in my book After Imperialism) partly because the picture of a British economy that has for fifty years been largely dependent on colonial tribute has once more been presented as fact—this time by Dr. Nkrumah, President of Ghana, with the enthusiastic support of Mr. Palme Dutt in the Daily Worker—partly because they are necessary to the understanding of the real nature of the new wave of British overseas investment since 1945, and equally of United States capital movements which are now much the larger. An important part of the recent total flow of funds has consisted of Government aid and loans. This has amounted to about a third of the total for Britain and nearly two thirds for the United States. Of the private investment only a small part is now portfolio investment by private individuals—about 12 per cent in Britain, 20 per cent in the U.S.A. The rest of the private investment (today more than half) is direct
investment and reinvestment by companies in their subsidiaries overseas. This is the significant new development. In the five years from 1958 to 1962, £1,500 million were added to the direct stake of British companies in businesses abroad; that is an addition of nearly 50 per cent to the current values, about two thirds of it by reinvestment of profits but about a third by fresh capital. By investing some $16,000 million abroad United States companies also added over the same period nearly 50 per cent to their direct stake in foreign companies.

By far the largest single share of these huge sums has gone into the oil industry, which took 28 per cent of U.K. direct investment and 33 per cent of U.S. direct investment between 1958 and 1963. Mining took another 4 per cent from Britain, 10 per cent from the U.S.A. From both countries over a third of the totals has gone into various branches of manufacturing industry. This is a major change from the situation existing before 1914 or between the wars. The direction of investment has also changed. There had already been big changes between the wars, as the result of the sales of British-owned government and railway stock in Europe and the United States. By 1938 15 per cent of British investment was in India, another 10 per cent in the other colonies and in Middle East Oil and another 20 per cent in Latin America, making about half the total in underdeveloped lands, rather more than half of the private business total. This position has been once more sharply reversed by the post-1945 wave of investment. Less than a third of this has gone to less developed lands, despite the huge oil investment in the Middle East, Venezuela and South East Asia. The United States' private investment has also been mainly in developed lands, only about a third of the total going to the less developed. These figures are partly the result of the direction of portfolio investment, which is almost entirely concentrated in cross investment between developed lands. They follow mainly from the great increase in direct company investment in manufacturing, in which both for Britain and the United States well over two-thirds of the funds have gone into the more developed lands. More than a third of the American total of direct company investment went to Canada and another fifth to Europe. In the case of British companies, nearly a quarter went to Australia and New Zealand, 12 per cent to Canada and 8 per cent to the U.S.A., and 10 per cent to Europe.

It would be hard to fit a classical economic explanation to these facts. The movement of capital is not to areas of cheap labour or even of cheap local non-risk capital, although most U.S. firms in Europe and European firms in the U.S.A. are reported in the U.S. Census to find most (80 per cent) of their non-equity capital in the local market. What is more, although the profits of the overseas companies of United States' firms are higher than those of their home companies, this is not apparently true in the case of British firms. J. H. Dunning states
that "in 1962 the net profits to net assets ratio of U.K. firms in the major industrial areas (abroad) worked out at 5.8 per cent, compared with 5.9 per cent at home". In *The Financial Times* annual surveys of the Trend of Industrial Profits, the return of net profits on net assets for companies mainly operating overseas (i.e., those in the Raw Materials section) has not been more than marginally higher than the return on home industrials since the early 1950s. The oil companies' returns have actually been consistently below those of manufacturing companies operating mainly at home.

What is particularly remarkable is the extent of cross-investment of firms in the same industry, particularly between Britain and the U.S.A. It is not only in the oil and motor industry that this is happening—Shell operating in the U.S.A., while ESSO and Texaco operate in Britain, *Dunlop*, *Leyland* and *Massey Ferguson* in the U.S.A. offsetting *Goodyear*, *Ford*, *General Motors* and *International Harvester* here—but in many other industries the same picture may be found.

There is no difficulty in understanding the investment in oil and other raw materials in terms of securing control over supplies. The evidence of cross investment does not however suggest that the advantages gained were primarily from specialization. Our picture is of international companies that cannot survive in their own markets against foreign competitors unless they in turn establish a position in their competitors' markets. At first, they may export from factories as home, but, to quote the Chairman of *Beechams* again, "from the first moment (they will) always (have) to set up their own marketing organization" and then "if you are in a mass market, you must aim at achieving a certain minimum share of the market to have a viable business. In any major country, the size of that share is bound to make it economic to set up your own factory sooner or later." What then happens to exports? does the output of the new factories replace or supplement exports? The Chairman of *Beechams* is anxious to emphasize that it is "additional business which could not be obtained in any other way. *Beechams* could not achieve any export sales of tooth paste to the U.S.A. but through its local company sells £4 million worth and this generates £100,000 worth of related exports". Capital equipment must also be exported in setting up foreign plants. According to Dunning, "a quarter of American exports of machinery are currently bought by U.S. subsidiaries abroad" and Dunhing supports Beechams' chairman with evidence from Canada that "Four-fifths of U.K. firms with manufacturing subsidiaries in Canada claimed that their exports had been either raised or unaffected as a result of local production". On the other hand, Dunning quotes two sets of figures which really contradict this thesis. "Between 1957 and 1962 manufacturing production in U.S. foreign-owned plants rose by more than a half, compared with an increase in the foreign sales of American manufactured goods of only 73 per cent. The income of U.K.
panies abroad as a proportion of income earned at home rose from a third in 1955 to over two fifths in 1962.60

Some further evidence may be adduced from the figures for the direction of U.S. and U.K. exports and overseas investment to suggest that local production tends to reduce the growth of direct exports, once the initial capital equipment has been installed from the home country. The largest part of U.S. capital exports in the decade of the 1950s went to Canada (37 per cent), thus raising the Canadian share of U.S. foreign investment up to 34 per cent of the total. But Canada's share of U.S. exports of goods did not rise but actually fell over the decade from 19 per cent to 17.5 per cent.61 Similarly with the U.K., while the Sterling Area took 67 per cent of U.K. capital exports between 1946 and 1959, thus raising its share of the total to 60 per cent, the share of U.K. exports of goods going to this Area first rose up to 1956 but has since fallen from 44 per cent to 35 per cent in 1964. More particularly, while Australia and New Zealand had 21 per cent of direct British industrial company investment between 1958 and 1962, thus raising their share of the total to 17 per cent, the share of U.K. exports of goods taken by them fell from 11 per cent in 1956 to 8.5 per cent in 1964.62 The increased investment of capital both by U.S. and U.K. firms in the Common Market has so far carried with it an expansion of direct exports of goods; but after the initial capital equipment has been installed, it does not seem to be unreasonable to expect that the same process may be repeated here too.

About 10 per cent of United States' annual outflow of capital has been coming into the U.K., just enough to maintain the U.K. share of the total United States' foreign investment at 10 per cent. The U.K. share of direct U.S. exports of goods has, however, stayed at around 5 per cent since 1950. That is strikingly below the share of capital export, particularly taking into account that less than half of our imports from the U.S.A. are of manufactured goods. The position of British trade and investment in the United States market is that somewhat under 10 per cent of both British capital and goods have been flowing to the U.S.A. There has been a slightly rising share in goods and a slightly falling share in capital, as far as one can tell without adequate figures for the British oil companies' investment stake in the U.S.A.63 This evidence is not conclusive but it does suggest that, far from an expansion of exports always following increased foreign investment, as was the case in earlier periods of heavy international capital movements, the very reverse process may occur. We have some figures for West German capital exports.64 Over the twelve years from 1952 to 1964 the annual average figure was some 600 million marks or only about an eighth of the comparable British figure but by 1964 this had risen to 1,200 million marks or a fifth of the British total. Over 50 per cent of this investment has been in Europe, 13 per cent in Switzerland alone, 16 per cent went to North America and 18 per cent to South
American. This capital flow seems to have helped the growth of exports, for the share of manufactured exports from Germany going to Europe rose in this period from 55 per cent to 66 per cent of the total, while the share going to North America rose from 6.5 per cent to 9 per cent. On the other hand, the share of West German exports going to South America fell from 12 to 5 per cent. This last development was probably as much due to the slow growth and economic difficulties in South American countries as to the possible replacement of direct German exports of goods by local production of West German subsidiaries, but the figures are suggestively similar to those we noted in British experience in the Sterling Area.

It is also noteworthy that, while 5 per cent of West German exports have been going to Africa (nearly a third of them to South Africa), over 9 per cent of West German capital has been finding its way there. Since 1959 West German firms have rather strikingly increased their direct investment in less developed lands, actually doubling this in the one year 1964. Even though West German official aid has been reduced recently, the result is a sharp increase in West German provision to these lands to a figure in 1964 almost equal to Britain's. Both countries are now supplying about the same proportion (a quarter) of these funds for development in the form of private company investment. The proportion of the total private capital investment from both Britain and West Germany going to less developed rather than more developed lands remains small, but while British firms have not been increasing their investment in the less developed lands of recent years, this sharp increase from West Germany takes on added significance. The direction of West German capital as of other Common Market capital is the less developed lands of Southern Europe or of Africa which are either already associated with the Six or are discussing association.

What we may conclude from this survey of recent international capital movements is that the concentration of capital is now in cross-investment among the advanced industrial countries; and this cannot be expected to have the same trade-generating effect as the earlier movements of capital—at the end of the nineteenth and the beginning of the twentieth centuries. This will be true whether or not the result of the oligopolies establishing subsidiaries in other countries is to reduce the level of direct exports which would otherwise have taken place. For a mere swopping of capital among advanced industrial lands cannot encourage economic growth, and so international exchanges, to the same extent as the provision of capital for economically developing lands. We may also have some doubts whether direct company investment in developing lands is likely to be so beneficial to economic growth as was the provision of capital for governments and ports and railway companies in the earlier period. Too often the giant oligopolies do no more in an underdeveloped land than capture
from small local companies an already developed market for a limited range of products. This argument is examined at length in my book *After Imperialism*.

**The Implications for the British Balance of Payments**

We must now attempt to tie together the various threads in the argument of this essay and estimate the implications for the British economy and particularly for the British Balance of Payments. In the first section we noted the increasing approximation of the economic structures of the Common Market countries, and particularly of West Germany, to that of Britain with a greatly reduced agricultural sector and much increased dependence on foreign trade. In the second section we found reasons to believe that the recent very rapid growth in world trade was unlikely to continue owing to the probable ending of the large annual movement of reserves from the United States, and from the developing lands, mainly into Europe, and owing to the probable slowing down of intra-Common Market trade as the internal tariff reduction programme is completed. In the third section we examined the forces behind the very large post-war movements of international capital and recognized the dominant position in these movements of the giant oligopolies, whose investments have largely been in each other's territories as extensions of their competitive positions. These may be more likely to reduce than to expand the movement of goods in world trade and certainly tend to concentrate trade and wealth in the more developed lands, at the expense of the developing lands.

What we have now to recognize is that everything points to a very considerable sharpening in the international rivalry of the giants and in the international contradictions that their rivalry engenders. For any individual oligopoly the source of funds for establishing and expanding foreign enterprises arises either from its export earnings, so long as the government at home permits it to use these, or from ploughing back the earlier earnings of its foreign enterprises. Herein lies the extreme importance for such companies of earning and controlling easily convertible currencies, and particularly dollars and pounds sterling. The major difficulty for the firms which can earn these currencies is that the overall balance of payments' positions of their home countries may deteriorate in such a way as to force their governments to restrict their power to use these currencies as they would wish. We may add that is all too evident that, if the establishment by large national firms of foreign subsidiaries leads to a reduction of direct exports of goods without any additional income flowing back from the overseas subsidiaries, because this income is being ploughed back into them, then their home countries' payments balance is likely to deteriorate rather sharply. It may be possible for the smaller firms to step up their exports to provide the necessary foreign earnings, but this is unlikely to be easy, since the larger firms tend in the first place to be
the major exporters and, secondly, by their very overseas operations to be making life more difficult for the smaller exporters from the home country in the markets where the giants have set up local plants. We have certainly witnessed recently much government pressure to encourage small firms into the export market.

It is not surprising that British industrialists have been insisting to the Labour Government that the period of restriction imposed by the Government on British companies' overseas investment shall be brought to an end as soon as possible. The balance of payments deficit has of course to be set right, but the larger industrialists do not wish this to be done at their expense. However, there was little or no sign of exports in 1965 even nearly equalling imports, let alone providing a surplus for paying back the loans that covered the 1964 deficit on the balance of payments. The trade gap in the second quarter of 1965 was still running at above £40 millions a month (it had averaged £45 million a month in 1964) and the better showing in the third quarter still left a monthly gap estimated at over £25 million. But the trade gap is only the beginning. There are the "invisibles" to be considered too. Shipping and air transport nowadays no longer earn a surplus. Foreign travel shows a net loss, which rises every year. The government has so far been unable to reduce its overseas expenditure. All these together with the private transfers of immigrants and others amount to another £25 million a month to be covered by insurance and other services provided by the City of London and by the net receipts on account of foreign investment. This last is a net figure after deducting the payments to foreigners on their investments in Britain, including not only the post-war loans but the new loans needed to cover the deficits of the last two years. In fact the current account on trade and invisibles for the first half of 1965 still showed a deficit of £80 million with the payments on the North American loans, deferred in 1964, still to be paid. And this does not include the capital account; nearly half of the £756 million deficit in 1964 was on the capital account. Despite the government measures to control the outflow of capital, there looks like being a deficit on capital account once more in 1965 of the order of at least £160 million to add to a current account deficit of over £200 million for the whole year.

The relationship between the outflow of direct company capital and the inflow of earnings on this capital needs to be rather carefully examined. For even when capital outflow in the form of new investment is checked by the Government, the reinvestment of company overseas earnings may still go on and this of course enters properly into the deficit because had the profits overseas not been reinvested overseas they would have flowed back as income into the current account. In fact nearly three-quarters of the gross earnings of direct private capital overseas has been flowing back in recent years and only one quarter has been reinvested. Roughly the same proportions apply in the
U.S.A., but there is one big difference. The reinvestment of earnings provides two thirds of the annual additions to overseas capital holdings in the case of U.K. firms but only one third for U.S. firms. The large outflow of new capital for U.S. firms means that in their case the total of new capital and reinvested earnings in any year may actually be as large as the gross earnings in that year; in the case of U.K. firms the total of new capital and reinvested earnings has been on average less than half the annual gross inflow of earnings. This means that the whole operation now results in a positive gain to the U.K. balance of payments but there is not so much room for cutting back on new capital as in the case of the U.S. operation. In fact one may say that the great wave of post-war investment overseas by British firms has begun to pay off.

Since 1958 the gross annual outflow of British private capital of all sorts has remained fairly steady as £300 million a year (the 1964 figure of £400 million was exceptional); but since 1961 gross earnings have risen sharply from £600 million to £860 million in 1964, and the 1965 figure seems likely to top the £1,000 million mark. This gives a return after local taxation and depreciation of somewhat less than 10 per cent on the estimated £15,000 million of British overseas investment (including short term claims). At this rate of return an annual addition of £300 million of investment should add £30 million of investment extra to the invisibles in the Balance of Payments. This figure makes no allowance for companies only just beginning to receive a return on their investment, but it does suggest that the net additions to the balance of payments from private overseas investment cannot be expected to clear the deficit.

The position becomes rather more serious, when we take into account the fact that alongside British investment overseas, there is the large foreign investment in Britain. Annual payments to foreigners on interest, profit and dividends have risen to a total of £500 million. In the short run this is partly covered by new capital flowing into Britain or being reinvested here at the rate of about £240 million a year. Total U.K. liabilities are now some £13,000 million, including over £2,500 million of direct investment, £700 million in oil companies investment here, £2,500 million of Government long-term debt and more than £6,500 million of short term balances.

There has been a steady increase in this short-term debt over the past years, which has in the absence of balance of payments surpluses in fact been covering the annual outflow of long-term investment. The sterling crisis of 1964-5 has in reality been the signal that this balancing act can no longer be continued; a surplus must henceforth be earned. If devaluation is ruled out, only a massive improvement in British exports or physical controls imposed on imports, or both combined, will bring the Balance of Payments into line and produce the £1,000 million that has to be repaid to our creditors. The National
Plan suggests that exports need to be raised by an annual 5.6 per cent a year instead of the average 3.4 per cent over the past decade. To do this with world trade expanding at 8 to 10 per cent a year is one thing; to do it with world trade expanding at 5 to 6 per cent a year would be quite another. But that is the best prospect we can hold out. In the present framework of international trade, even if British industry could be quite rapidly modernized, for British firms to maintain and even raise their share of world exports after 14 years of steady decline may be regarded as exceedingly difficult if not impossible.

**The Prospect for Britain and the Common Market**

We have looked in detail at Britain's Balance of Payments and the difficulties of working off the deficits. But we have noticed earlier that the United States has also been trying to reduce its deficit. Some of the European countries as a result are finding it more difficult to earn a surplus for their oligopolists' foreign investment. The picture of all the advanced industrial nations trying to earn surpluses is a terrifying one, not only because the competition is likely to become very much sharper in a world market that we have seen to be probably unlikely to continue expanding as fast as it has in the past, but also because the traditional method of expanding exports is by some measure of deflation at home. The result of world-wide deflation among the more industrialized countries would mean a world slump. Fortunately the governments of these countries know this, but the pressure of the oligopolies behind them is strong. Inside their own countries, governments know how to prevent deflation going so far as to lead to slump, but in the world economy as a whole understanding is not so good, neither are the remedies so clear nor the will to apply them so strong. There are plenty of ways in which the purchasing power of the poorer lands could be maintained in order to support their own growth and with it that of the richer lands, as British loans in the nineteenth century supported growth in both Europe itself and the lands of European settlement. A beginning could be made with the long-term trade agreements with Commonwealth countries, upon which the Labour Party put so much stress in its election manifesto. Those who do not believe that such remedies are even on the agenda at the present time—and the sceptics include members of the Cabinet as well as the Left—should read the official publication of the F.B.I. on the subject. There can be no answer to any of the problems we have examined in this essay by opting out of the markets of the poor but developing lands and joining the rich half of Europe, where most of the practices criticised by the F.B.I. are to be found at their worst. Let us look at them.

The relationship of the Six to their associated territories inside and outside Europe and to possible new associates is becoming more and more important, if we may judge by the space given to these matters
There is now a queue of applicants for associate membership as the direct result of the discrimination inside the Common Market in favour of the products of already associated countries. The preferences favouring France's ex-colonial territories have brought several African countries into the queue. Agreement on terms for free trade and free capital movements has already been reached between the E.E.C. and Nigeria which sends almost 40 per cent of her exports to the Common Market. Kenya, Uganda and Tanzania are in the queue, while negotiations about their future status are under way with Tunisia, Morocco and Algeria, whose trade with the Common Market together equals all the Common Market trade of the other African States combined.

If all these African countries were in fact to associate themselves with the European Community together with the present African associated territories, then Africa would be divided almost exactly in half—in terms of territory and population—half in the Common Market and half outside. This is a prospect fraught with danger, both politically and economically. The challenge to Britain's relationship with the Commonwealth countries of Africa, in terms of both markets and political influence is obvious. Some response will evidently soon be required. But it is far from clear that going into the kind of political and economic framework that the Common Market now provides is the right solution. In the first place, while markets are opened in Europe to African products, free entry is also to be established for European manufactures into the African markets; and this is tantamount to saying that the African countries shall remain primary producers. For without protection they can never build up their infant industries. There are also important obstacles in the form of taxes for African products to overcome in the Common Market countries even when tariffs are lowered. One of the U.N.C.T.A.D. papers estimated that eliminating taxes on cocoa and coffee, mainly in the E.E.C., would increase the earnings of the developing lands by some $170 million a year. This makes the annual aid of the Six to their African associates of $100 million a year, to be stepped up to $150 million from 1965, seem small indeed, especially since none of it is for industry. The second reason why the Common Market provides the wrong framework for expanding Britain's trade and particularly trade with developing lands lies in the very nature of a Common Market, that it is a Customs Union. Entry is advantageous for the preference it gives to member countries' goods over the goods of those outside. It has no purpose if it is all-inclusive. Thus we saw that Africa would be divided almost exactly in half. That is already happening to Europe. When Greece and Turkey became associated members, Jugoslavia began negotiations to protect her tobacco and dried fruit sales. The association of Algeria, Tunisia and Morocco prompted Spain to apply in order to protect her sales of citrus fruit.
and Eire have been negotiating and Denmark watches unhappily from outside as old markets are lost to member producers. Even if Britain and the other E.F.T.A. countries were to join the Common Market, Eastern Europe would remain outside. The Poles, Czechs, Hungarians, Roumanians and East Germans would lose important markets, not to mention present suppliers of the Western European market in the rest of the world. Such a reshuffling of partners is no solution to the problems of expanding world trade.

It would be very unwise, however, to underestimate the importance of the outward development of the Six. Aid to the African territories may yet be small; the investments of the European Bank in Greece ($14 million) and Turkey ($5.5 million) still smaller, but private investment is growing rapidly, not only in the Sahara oil and natural gas, but in manufacturing plants in Greece and Turkey and in Spain.*

When we talk about the Six, we are talking nowadays about a group of countries that have immense wealth. Their gold and foreign exchange reserves combined together are now far in excess of those of the United States ($21 billion compared with $16 billion out of a world total of $72 billion). Their combined exports (including intra-trade) are nearly equal to a quarter of the world's total. The question, whose answer the world anxiously awaits, is whether they can stay together and how they will use their great wealth. Their whole experience to date has been inward-looking. They have developed their internal self-sufficiency. More than half of their trade is now with each other and the associated territories. The central bargain between France and Germany in establishing the Common Market was that France would open her markets to West German industry on condition that West Germany opened hers to French agriculture. So far, the West Germans have reneged on their part of the bargain and this year succeeded in tying the agricultural agreement to a simultaneous extension of the supra-national powers of the E.E.C. Commission, an extension which they must have known de Gaulle would not accept. This was the reason for the General's withdrawal from the E.E.C. Council at the end of June. Some people supposed that when the West German elections were over, Dr. Erhard could be more accommodating; but this was to misunderstand West German thinking. Undoubtedly the West German farm vote has been crucial in the past to the Christian Democrats, just as the French farm vote is to de Gaulle. But today, farmers in West Germany are much fewer in number and the West German Government is much more anxious about the trading arrangements of its industrialists.

For many years, more and more of West Germany's exports have been going to the other Common Market countries, capturing an increasing share of the market (14 per cent in 1963 compared with 10 per cent in 1958); this growth was checked in 1964 and for the first time in many years West German imports grew faster than exports
and moreover her exports actually grew faster outside the Common Market than inside. Both trends continued in 1965. West Germans cannot be expected to increase their imports of French agricultural produce, if they can buy cheaper produce elsewhere. Once they saw that the market for German manufactures in France was no longer expanding, the West German Government was bound to see the advantages of using its large import market to win new trading partners for its exports. For West German industry to be too closely tied to French agriculture would be to lose its room for manoeuvre in a fast changing international trade situation. If parts of the Commonwealth and E.F.T.A. can be lopped off and associated with the Six, this would be good for German industry; but it would be better still if free entry could be won for German manufactures into the whole of the Commonwealth and E.F.T.A. including the British market itself. What stands in the way of this happening, as the West Germans well know, is not just de Gaulle's personality but the need for major concessions to be made by French agriculture to British Commonwealth and E.F.T.A. food suppliers. It would be manifestly stupid for the West Germans to lose any opportunity of getting more freely into these British markets as the result of being too closely tied to French agriculture.

May we then expect to see moves by West Germany to bring Britain into the Common Market, even at the expense of France? I think that this is extremely likely. Should we then be prepared to join in such circumstances? I think not. Firstly, the present weak position of much of British industry, combined with our geographical location on the periphery of the concentrated market of North-West Europe, suggests that the U.K. would lose heavily in a free-for-all with West Germany. All that we have seen of international oligopolistic competition would suggest that West German industry with its huge reserves of foreign exchange would soon be establishing plants in Britain and elsewhere in the richer parts of E.F.T.A. and the Commonwealth. Secondly, and much more important, none of this would do anything to solve either Britain's or the world's problem of the widening gap between the few rich and the many poor. Britain and the Six with half of Europe and perhaps half of Africa inside the Common Market would not only tend to divide the world's trade even more than now into protected water-tight compartments, but also to concentrate still further the world's wealth among a few rich nations at the expense of the rest.

Furthermore, for Britain to enter the Common Market, even after winning concessions from French agriculture for the sake of Commonwealth and E.F.T.A. farmers (not to mention our own food prices!) would be to throw away a strong bargaining position for a quite inadequate objective. The British, E.F.T.A. and Commonwealth market accounts for more than a quarter of the world's people, and considerably more than a quarter of the world's trade. Its strength
should be used to win world-wide trade expansion. There is little sign that the Six, or even the Five, if Britain joined them, would begin to liberalize their trade with the rest of the world; for this would be against the very nature of a customs union. Nor is there any sign that they could be persuaded to part with some of their huge reserves to finance an expansion of world trade and particularly the trade of the developing lands; for their oligopolists will be pressing to use existing reserves and build up new reserves by further export surpluses in order that they may strengthen their positions among the giants in the already industrialized lands. One may now despair of a new initiative from the Labour Government for a world-wide non-discriminatory expansion of trade and aid, based in the first instance on the Commonwealth, E.F.T.A., the Communist bloc and other developing lands, which could still win back countries like Nigeria, Yugoslavia or Austria that are being driven in self-defence to join the Common Market. But nothing short of this would replace the political and economic power blocs built up in the past years by forms of world economic co-operation that would unite rich and poor alike.

The best that can probably be hoped for now is that the British Government will be forced to impose import controls before it is too late and the Treasury has plunged us into a further long period of stagnation by additional measures of deflation. The most likely outcome seems to be that devaluation will come in the end; and the danger then is that it will be sold to us as a condition of entry into a supposedly dynamic and "infectiously" prosperous Western European community, with all the consequent hazards for our national development and the development of our old trading partners. We cannot hope to be saved from this disaster by General de Gaulle for a second time. Denied his guaranteed high prices in a tightly-built-in market for French agriculture in West Germany, the General's recent overtures to Britain may well indicate a realization of the possibilities of capturing instead the large British food market, even if this means a rather more flexible framework for agriculture in a European community with Britain inside. And that is an offer that one can only hope the British people will have the good sense to decline, however cleverly the offer is baited.

NOTES

1. See especially the Journal of Common Market Studies, July 1965, Symposium on "The Future of Britain's Relations with Europe".
4. Ibid.
5. Some Factors in Economic Growth in Europe in the 1950s, ch. iii.
8. Ibid.
17. Ibid.
19. Ibid.
39. Ibid.
42. For future readers the reference is to a massive advertising campaign by ESSO Petroleum Company carrying the slogan "Put a tiger in your tank".
43. H. G. Lazell, in a speech to The National Liberal Forum, 9 November 1965, published as a pamphlet under the title *The Role of the International Company*.
47. J. H. Dunning, American Investment in British Manufacturing Industry, 1958, ch. i.
48. For the ensuing paragraph see M. Barratt Brown, After Imperialism, 1963, ch. iii and iv, and especially tables 5 and 8.
49. R. P. Dutt, Daily Worker, 4 November 1965, reviewing Dr. Nkrumah's Neo-Colonialism — the last stage of Imperialism.
51. Ibid.
52. M. Barratt Brown, op. cit., ch. iv.
53. Board of Trade Journal, op. cit.
54. For this reference and for much stimulation in writing this section I am indebted to Stephen Hymer of Yale, whose dissertation on "Direct Foreign Investment and International Oligopoly" I have been privileged to read before publication.
56. The Trend of Industrial Profits—a table published in The Financial Times generally on the second Monday of the New Year.
57. H. G. Lazell, op. cit.
58. Ibid.
60. Ibid., p. 37.
63. Same sources as 61 and 62, for the whole of this paragraph.
64. Handelsblatt, 8 April 1965.
70. Ibid., and International Financial Statistics and Survey of Current Business.
74. National Plan, p. 81.
75. See a whole series of articles by Lombard in The Financial Times, especially those on 19 July 1965 and 4 August 1965.
77. Federation of British Industries, Overseas Trade Policy, 1963, especially paragraph 17, p. 7.
78. European Community, especially April 1964, "Africa looks to Europe".
79. Ibid.
81. European Community, April 1964.
82. European Community, July 1965.
84. Statement to the Press by Gen. de Gaulle, Paris, 9 September 1965, reported in European Community, October 1965, p. 3.