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THE COMMON MARKET AFTER DE GAULLE

Part II: Britain at the Door

by Jon McLin

71-138

Doubts about whether uncertain, future benefits will offset certain, immediate costs have cooled the British ardor for joining the EEC. Some of the doubts reveal much about what the Community is and is not. The main issues in the forthcoming negotiations are already discernible.

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January 1970

"After having totted up the sums and eliminated the imponderables--trying to quantify some of them--it may well be an act of faith." Thus does a senior official of the British Foreign Office frankly describe the way in which a decision about joining the Common Market, if it comes to that, will be made.

Perfidious Albion taking decisions of great diplomatic and commercial importance on the basis of faith?! The admission is remarkable not only because it is out of character but because all the evidence suggests that it is right. It is also significant, because the British public, with a perverse irony, has become somewhat disenchanted with the Common Market just as the prospects for joining have improved; the persuasiveness or otherwise of the arguments for going in thus becomes crucial.

Part of the act of faith is the belief that British industry will respond with increased efficiency to the competitive stimulus of EEC membership. A larger part is the assumption or hope that the enlarged Communities will develop in certain ways considered favorable to British interests. These desirable developments include the adoption of effective technological, industrial, and monetary policies; institutional improvements; so that the Community bodies, which function badly with the present six members, will not be completely immobilized in a Community of ten or so members; more emphasis on industry and less on agriculture; and further steps, based on the EEC, towards foreign policy coordination and other aspects of "political union." That all these features would involve ceding important influence to central, Community institutions and procedures is a measure of how far British views on European organization have evolved. It is a further irony that the British seem rather less reluctant to cede those powers than the Six at present are, yet are widely suspected of being more so.

Why the case for going in depends on certain assumptions that are not verifiable and can scarcely be a subject for the entry negotiations will emerge as we look at the arguments advanced by some of the British government's more articulate critics. The arguments will also tell us something about the present state of the Communities. But first, what has the shift in opinion been?

It has occurred both at the level of the man in the street and at the level of the opinion leaders. The views of the former are reflected clearly, and presumably faithfully, in the opinion polls. These have shown considerable volatility over the period since the first British application was made in July 1961, and in general the proportion favorable to entry has varied directly with the unlikelihood that it would happen and with the seriousness of the country's economic-financial condition. Positive responses to the question "Do you think Britain should now try to enter the Common Market or not?" reached a level of 62 per cent (to 18 per cent opposed) in mid-1966. In May 1969, just after de Gaulle's resignation, the figures were 41 per cent in favor, 44 per cent opposed. And in September, according to a poll made for the *Daily Telegraph*.[1] only 26 per cent were in favor and 57 per cent were opposed. Other polls confirmed these figures approximately.

The explanation for this recent change of mind was not far to seek. The British press in 1969 was

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filled with reports on the effect that adoption of the Six's Common Agricultural Policy would have on the cost of living and balance of payments; and these stories more or less coincided with the news that after so much "hard slog," the balance of payments seemed at last to be on the mend. The Pisani Report, one of the studies on British entry commissioned by the Monnet committee, estimated that the cost of living would rise by 3.5-4.0 per cent in Britain following adoption of the CAP. The *Guardian* published an estimate, allegedly made by the British Ministry of Agriculture and Central Statistical Office, which put the additional balance of payments burden at L400-500 million per year, mainly attributable to the levies on food imports that would have to be paid to the agricultural fund (FEOGA). As if this were not horrifying enough, the *Financial Times*[2] estimated that the cost would be closer to a billion pounds. The *Daily Express* published a poll which made clear that the reason that, by a ten-to-one ratio, was more important than any other in explaining the layman's opposition to joining the EEC was the expected rise in the cost of living. More "sophisticated" commentators pointed out in vain that this would be phased over a number of years and that the cost of living was already, as a result of other factors, increasing at a considerable rate. Little wonder that the government found it advisable to publish its own best estimates in a White Paper and then agonized over the way to present it, so as neither to scare off domestic opinion nor weaken its negotiating hand.

Politically attuned ears were quick to hear the rumble. In July, forty-five M.P.'s of all parties introduced a motion asking the government to suspend its application for the time being. Numerous statements in the summer and autumn by trade union organizations and their spokesmen called into question, at the least, the desirability of entering unless more favorable terms could be obtained than those on which the above estimates were made. A movement was launched, complete with advertisements in *The Times*, to put the issue to the British people in a referendum. And at the annual Labour Party conference in October, anti-Market sentiment appeared to be coming to a head in a widely-supported resolution, until the issue was skillfully defused by the party leadership.

More serious than this minor flak, and perhaps even more revealing than the polls, was the fact that the anti-Market position was embraced by Mr. Enoch Powell, the brilliant and maverick Tory with a demagogue's unerring instinct for a ripe issue, an impeccable sense of timing, and an oratorical prowess that has evoked comparisons with Churchill. In a carefully-worded and -constructed, well-publicized speech on September 5, Mr. Powell, who had been a pro-EEC minister in the Macmillan government that first applied to join, claimed now to detect a new mood in the country. "It is to demand that a clear, definite and cast-iron case be made out before Britain is again committed to accede to the Treaty of Rome." All the reasoning of the speech combined to oppose entry but, carefully probing, he refrained from stating that conclusion explicitly. Although there was apprehension that he would repeat his arguments at the Conservative party conference in October, he refrained from the showdown with the party leadership that that would have entailed. But he has subsequently returned to the subject, which now takes up part of the performing time he formerly reserved exclusively for his inflammatory theatrics on the racial question.

The skillfully presented arguments of Powell form a kind of bridge between the negative "gut" reaction of the man who foresees his food bills rising and the more reasoned (but not necessarily better-founded or more important) doubts of a second category of critics: the economists, publicists, and intellectuals, many of whom are former believers in the Community idea and were supporters of the British application to join in 1961-63. Their open-minded re-examination of the arguments for entry in the conditions of 1969 led to considerably more doubtful, qualified conclusions than many of them had reached on earlier occasions. This can be said of the editorials of the *Guardian*, the opinion columns of the *Financial Times*, numerous letters in *The Times* and the *Economist*, and the thorough, detailed, revised statement of the employers' group, the Confederation of British Industry (CBI).[3] A composite argument, drawn from their many points of view, would run something like the following:

> The costs of entering the EEC are evident and would begin to take effect immediately upon entry. Although estimates depend strongly on the assumptions made, it is not impossible to arrive at

reasonably convincing conclusions about the order of magnitude of the costs. The benefits, on the other hand, are inherently unquantifiable and in any case would take longer to appear. Some of them depend on the EEC's evolving in a certain way and, if it does not do so, will not materialize. Some of them, moreover, could perhaps be achieved without joining the EEC and paying the costs that entails.

Costs

Entry would involve a variety of costs: to the national income, to the balance of payments, to the Exchequer, and to the cost of living. We have already noted that the last of these would likely be an increase of 3.5-4.0 per cent (the range in the CBI estimate is 3.5-6.0 per cent). Its political importance is obvious. Of unquestionably greater economic importance, however, is the effect membership would have on the balance of payments. Omitting for the moment the possible beneficial effects, it is clear that several factors would tend to worsen the balance of payments. The most important of these, of course, is the payment of levies on food imports as the UK adopted the Community's agricultural policy. Several estimates conclude that if the financial system in effect in 1969 were applied to the United Kingdom without change, the cost would be in the neighborhood of one billion dollars per year; the Pisani Report pointed out, however, that as this would mean paying over 50 per cent of the Seven's total agricultural outlay, it was manifestly unfair and a reduction should be negotiable. Most estimates therefore conclude that the net result would be more like \$400-500 million per year.[4] To this would have to be added the likely negative effect on capital movements of the adoption of those regulations in force in the EEC which partially free such movements; the loss of exports resulting from the elimination of Commonwealth preference; and the loss of exports through higher export prices caused by the higher cost of living. The resultant *gross* negative effect on the balance of payments is thus likely to be of the order of several hundred million pounds per year, to be reached gradually over the transition period of several years, and perhaps diminishing in the 1980's depending on the future of the CAP. The *Economist's* guesstimate is £500m; opponents have put the figure higher, closer to £1,000m.[5]

It is true that there has been a remarkable improvement in the United Kingdom's balance of payments during 1969, and that at the moment it looks like continuing to run a surplus, at the rate of a few hundred million pounds per year, into the immediate future. Let us assume away, for the sake of argument, the precariousness of this state of affairs—even though the present, apparently rampant wage inflation in the United Kingdom, as well as the prospect of a slowdown in the rate of growth of world trade, make this a big assumption indeed. Even if the surplus continues at the present level, it is in large measure pre-empted by obligations to repay the sizable debts incurred by the country before and after the devaluation of the pound in 1967. The total medium- and long-term indebtedness of the United Kingdom was officially reckoned in November to be £3,426 million, of which £1,436 million had been incurred since October 15, 1964. Obligations to repay principal and interest on these debts—and leaving aside the question of short-term indebtedness, on which the figures are not available—during the next five years are estimated to average £300-400 million per year.[6] If entry is to be achieved before that date, there is little if any margin to pay additional costs imposed by the adoption of the CAP. Moreover, to the extent to which additional doses of deflation will have to be imposed to maintain existing or to run larger surpluses, the most important real benefit of EEC membership, a higher economic growth rate, will be foreclosed. This is the nub of the reservation of the CBI's report, which unlike its 1966 predecessor, expresses serious reservations about entry. Sir Arthur Norman, the CBI's president, summarized them this way: "The will is there in as great a measure as it was in 1966-67, but the will to sign the cheque is not as strong, because of fears that it may be too big."[7] The report's expression of this point is crucial enough to deserve quotation:

> It is not possible to establish at this point in time what cost to the balance of payments would be unacceptable. If at the end of any transitional period the UK is running a substantial and continuing balance of payments surplus, co-existing with an adequate degree of domestic economic growth, a substantial CAP balance of payments burden could be carried, at the cost only of a lower level of accumulation of reserves, and possibly some rescheduling of debt payments. Such a cost would be real, but in no sense intolerable. If, on the other hand, such circumstances did not obtain or the cost of the CAP was beyond the ability of the balance of payments to bear, taking the UK's debt obligations into account, it could only be met by a degree of domestic deflation which would endanger the achievement of the faster rate of growth—to which we look to meet the national income cost of the CAP and to provide the main economic advantage of entry into the EEC.[8]

This analysis presupposes that the main instrument available to stimulate balance of payments surpluses after entry will be deflation, as the other possible means—restrictions on imports and on capital movements, devaluation—are ruled out by Community rules. This seems a realistic assumption. If, however, the government retained the right (and the willingness to use it) to vary the exchange rate for sterling, then the major part of the cost of entry would not be the national income loss produced by deflation, which would then be less necessary; it would rather be the real transfer of resources represented by the contribution to FEOGA, coupled with the opportunity cost of keeping too many farmers as a result of high agricultural prices. These costs are not unbearably high. In Samuel Brittan's view the point emerges clearly: entry is worthwhile if exchange rate freedom can be maintained (and a few other conditions are met), and if it cannot be, then the benefits of a floating pound would be greater than those of EEC membership.[9]

Benefits

In spite of the doubts cited above, the CBI, for one, *is* in favor of entry, on balance, because it foresees positive effects capable of more than offsetting–given satisfactory terms as a result of the negotiations the above-mentioned costs. What would these positive effects be?

Scarcely anyone puts much store today by the purely tariff effects of entry. Given the application of the tariff reductions agreed in the Kennedy Round, the average tariff rate by 1972 will be only 11.3 per cent for the United States, 10.2 per cent for the United Kingdom, and 7.6 per cent for the Community's Common External Tariff. At this low level, tariffs become clearly of secondary importance to the host of nontariff obstacles that still exist between Britain and the Six, and, to a considerable extent, among the Six themselves. Moreover, many British enterprises have already invested in plant within the EEC in order to get inside the tariff wall and get nearer their market.

The main advantages, the so-called "dynamic" effects, are of another order, and pertain to the consequences over time for productivity and national income in Britain. These, it is held, would be stimulated in several ways. The increased competition from the Six would promote greater efficiency among British producers. Britain's exports would be redirected towards an area of large GNP, a fast rate of growth and a high marginal propensity to import. Access to a larger "home" market would permit benefits from greater specialization and from economies, of scale, especially in those industries where research and development costs are high and where it is therefore difficult to compete with the giants (mostly American) unless one has a large domestic market as a base from which to expand. Adoption of the EEC's Value Added Tax would stimulate a higher rate of investment in Britain. Investment would, moreover, be more intelligently made if it were freed as only a decision to enter could free it—from the uncertainty of the past several years about future relations between the British and continental markets.

Cumulatively, these effects could result in a quickening of the rate of growth of more than the one per cent per year that the CBI estimates would be required to offset the real loss represented by the contribution to the CAP. They could also offset the £500 million adverse effects on the balance of payments, thus making irrelevant the concern about debt repayment and deflation. These gains, of course, would not be once-for-all but continuing. In addition, there is the negative advantage of avoiding the (equally unquantifiable) costs that continued exclusion from the EEC would involve. Finally we come to the junction of the economic arguments with the political ones—which are so often, usually without being specified, claimed to be the decisive ones. Participation in an industrial area of the Seven (or the Ten), with a common legal, fiscal, and regulatory environment, would permit the cross-frontier collaboration that would make it possible for British industry to achieve the restructuring needed for greater productivity without creating national monopolies or other market-dominating, competition-restricting situations. And it is the achievement of these economies that would permit the Europeans, their crippling fragmentation ended, again "to play a greater role in the world."

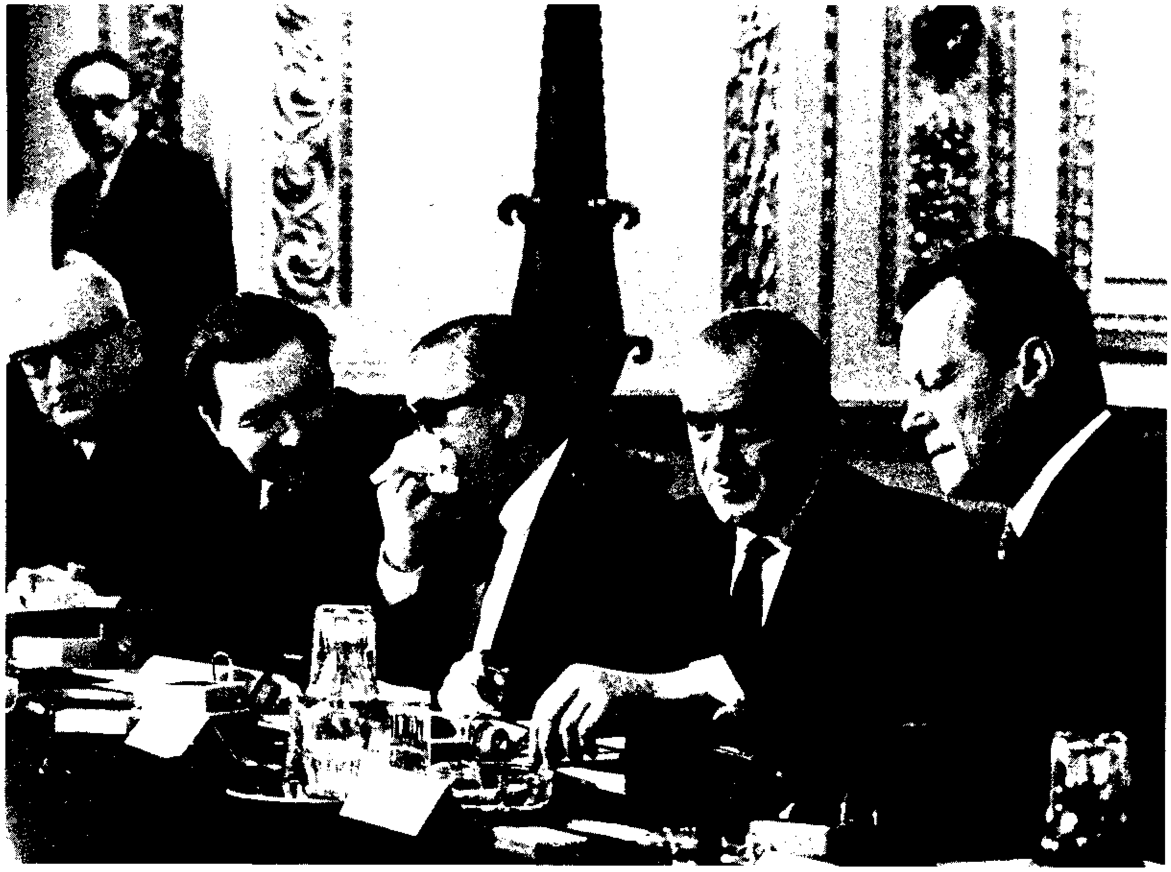
Benefits Questioned

All this would be well enough if several of the alleged benefits did not rest on dubious premises.

(1) While it is true that membership in the EEC would mean increased competition for British firms, it is not certain that they would respond adequately. Or, if they did, the resulting increase in productivity could equally well be achieved by a unilateral reduction of tariffs. True, this would result in less favorable terms of trade than would a mutual tariff reduction, but it wouldn't entail the other costs associated with joining the EEC.

(2) The "redirection" of British exports towards the EEC doesn't depend in any critical way on membership. It has in fact been strongly under way while Britain has been outside the EEC: from 1959 to 1966 Britain's trade with the EEC grew at more than twice the rate of its total trade (132 per cent against 65 per cent).[10] Insofar as there is a further shift, it would mainly be the result of psychological factors a vague feeling that Britain + EEC were now "one market"– rather than concrete new facts. That is not to deny that it could be very important, only to suggest that it is an uncertain element on which to base major decisions. And the progress towards economic union made by the Six so far is much too limited to claim that they constitute in an important sense "one domestic market."

(3) The economies of scale, more effective utilization of research and development funds, and common industrial policy may indeed be desirable, especially for a country with Britain's industrial structure, and particularly its overemployment in such industries as atomic energy and aircraft, which need extra outlets in order to ease the pressures for contraction. But it requires a great gulp of credulity to suppose that membership of the EEC will automatically result in the adoption of

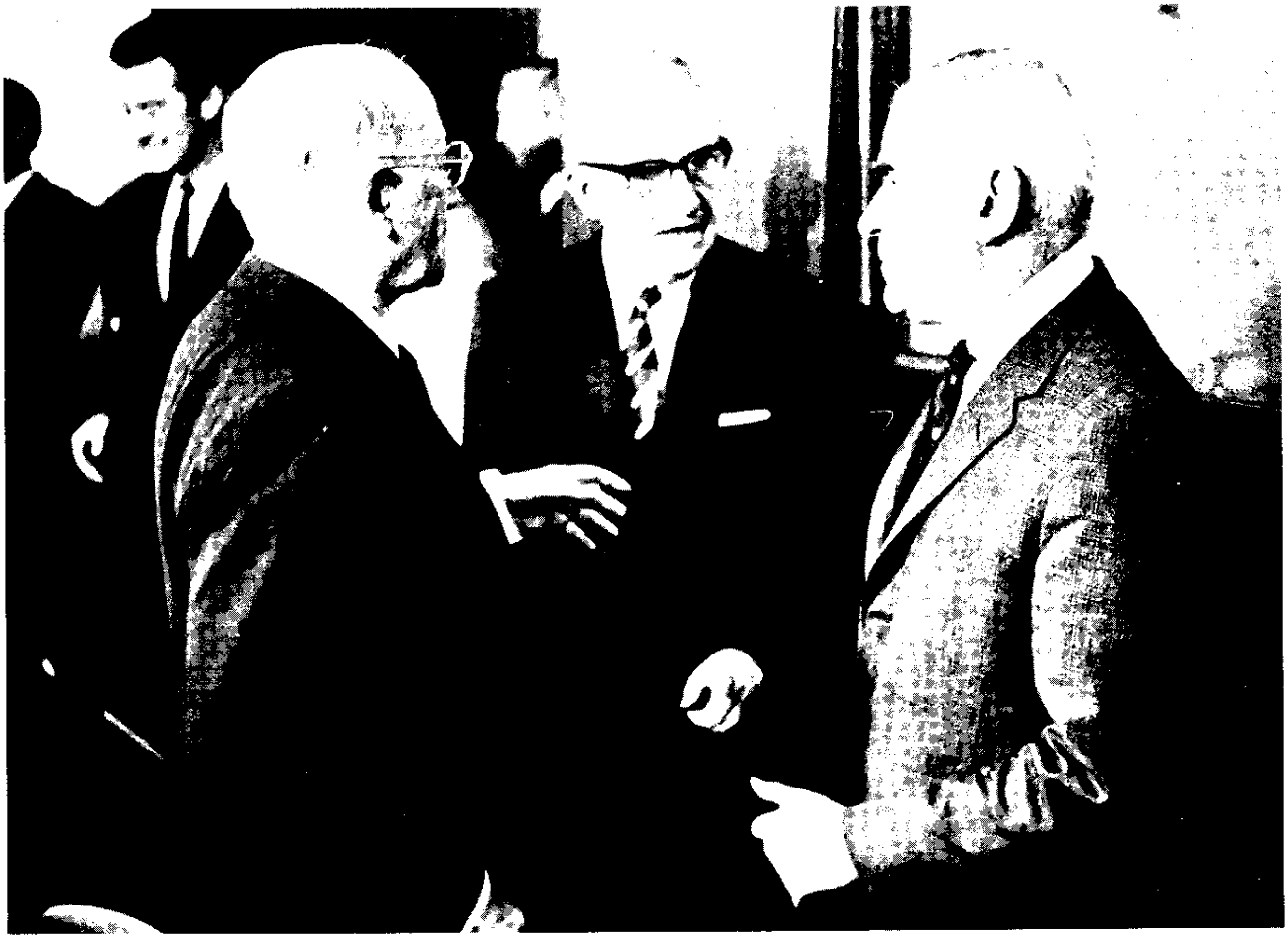


Jean Monnet's Action Committee for a United States of Europe meets for the first time with British participants participants–London, March 1969. From right to left: German Foreign Minister Willy Brandt; British Foreign Secretary Michael Stewart; George Brown.

such policies, and a fair amount of faith to believe that they will be forthcoming even with much effort. They have so far made little progress because the existing members are unwilling to surrender national prerogatives or because they hold conflicting views about what kind of common policy there should be.[11] Will this problem, and in particular the French fear that its smaller firms may be swallowed up before they have had time to achieve restructuring on a national level, be eased by British entry? It seems doubtful. And will the demanding requirements such policies would imply for effective institutions be fulfilled? The EEC's institutions work badly at present, and it is hard to imagine that–barring an explicit political commitment to improve them–they will work any less badly with seven or ten members.

To summarize the economic arguments, entry may or may not be beneficial in the end, but that outcome is not assured. Nor is Britain compelled to join by an unsatisfactory economic situation. As Sir Gordon Newton, the editor of the *Financial Times* concludes, Britain is "perfectly capable of standing outside–more so today than for years past."

Finally, as for the vague "political reasons" for going in, their force also diminishes as the premise that the EEC is the necessary foundation for any European political cooperation comes into question. The British, who were slow to accept this premise, later embraced it so completely that "going into Europe" came to be–and in the pro-Common Market press, still is–synonymous with "joining the EEC." But in the latter part of the



Jean Monnet (left) talks with Walter Hallstein and Michael Stewart at July 1969 meeting of Monnet committee in Brussels.

1960's, as the EEC bogged down in its morass of butter surpluses and overstaffed, immobilized institutions, the premise began to look doubtful. The political events of 1969, including the Hague summit, tended to reaffirm its validity; but it is difficult to accept any longer as an assumption not to be questioned.

Although his own paper was as guilty as anyone, Peter Jay, Economic Editor of *The Times*, raised the question whether the British press should not "cease using 'Europe' and 'EEC' as synonymous and stop using 'anti-European' as a label for those who, though they may love Europe and desire its unity, are 'opposed to Britain signing the Treaty of Rome now without more amendment than seems likely to be acceptable to the existing members of the Six?' If you need a headline phrase, I suggest 'anti-Brussels' or, 'anti-little-European,' or 'liberal European,' or 'anti-Reich' or, perhaps, just 'pro-European.' "[12] Similarly, Samuel Brittan points out the need for distinguishing between a "European approach" to foreign affairs and the "top-heavy institutions of Brussels. The Common Market Commission has had a remarkable success in promulgating the view that there is something idealistic in proposals that increase its own role."[13]

* * * * *

If the foregoing argument was winning over or at least making neutral increasing numbers of thoughtful Britons, it was not making much headway with the political Establishment. All three political parties remained committed to the objective of entry, and this commitment was endorsed anew at the three party conferences in the autumn of 1969, despite the "antis" in the ranks of all three groups: Labour still has its left-wing opponents to contend with, the Tories their right-wing. Douglas Jay, Immanuel Shinwell, and Derek Walker-Smith are all still there, in addition to Enoch Powell. The Liberals–and this is something new for the party which first advocated entry into the EEC, and has consistently been more "European" than the larger parties–at their 1969 meeting had to cope for the first time with critics of the idea, especially among the militant young Liberals.

George Thomson, Chancellor of the Duchy of Lancaster, in charge of British relations with Europe.

In March 1969, the three parties joined the Monnet committee (Action Committee for the United States of Europe), which held its first meeting in London. (In joining, they just preceded the Independent Republicans of Giscard d'Estaing.) High-level British delegations attended its meetings in March, July, and December. The government, although unwilling to appear more papist than Rome by proclaiming its commitment to a federal Europe, did publicly declare and repeat its support of the political objectives of the Treaty of Rome (or, as they were called in the Hague communiqué, the political "finalities." These are mainly implicit, not explicit, in the Treaty, the clearest affirmation of which is that contained in the preamble: "determined to establish the basis of an ever closer union among the European peoples"). In April, on the occasion of the state visit to London of Italian President Saragat, a joint declaration was issued that constituted a clear and eloquent commitment to the objectives of European unity. It affirmed, among other things, that "the economic and political integration of Europe are both essential"; that "Europe must increasingly develop a common foreign policy"; and that "the European Communities remain the basis for European unity."[14]

Sir Con O'Neill, Deputy Under Secretary of State for Foreign and Commonwealth Affairs, with special responsibility for Common Market negotiations.

There followed a series of pro-European speeches which, coming as they did immediately after de Gaulle's withdrawal, took on collectively the air of a diplomatic offensive, although it is doubtful that this effect was intended. Mr. Wilson, in a message of congratulations to Pompidou and in a speech to the Socialist International in Eastbourne; Lord Chalfont, in an address to the Western European Union assembly; the Foreign Office, in an official commentary on the election of Pompidou; and George Brown, no longer a minister but still a quasi-official spokesman, in speeches at Eastbourne and elsewhere—all spoke of the new possibilities, and new decisions, that were imminent with a new French government. As that government was still in the process of formation, such statements appeared to many, both in Britain and among her well-wishers in the Six, to be premature and possibly counterproductive. This mildly aggressive posture, whether deliberately intended or merely the result of an irrepressible need to express one's hopes now that the main obstacle to their realization was at last gone, soon gave way to greater discretion. Ministerial responsibilities for dealing with "Europe" were passed from Lord Chalfont, whose aggressive "Europeanism" had led him to commit more than one diplomatic gaff in the past, to George Thomson, with Sir Con O'Neill, former Permanent Undersecretary at the Foreign Office, as backup.

Since domestic opinion was changing perceptibly during the summer and autumn, and good news about the British economy was at last coming in, the government's tone became somewhat more coy. There were statements such as "Europe needs us just as much as, and many would say more than, we need Europe" (Wilson to the Labour Party Conference), and there was more emphasis put on the importance of the terms that could be obtained, and on the need for adaptations in the CAP. Michael Stewart, the Foreign Secretary, gratuitously cast doubts on his government's willingness to see the European Parliament directly elected. But by and large the political commitment has remained clear, and the forceful diplomacy occasionally reappears, as at the WEU council meetings in January, when the British delegates pressed the five for assurances -which, in view of the Hague communiqué, seemed superfluous to some—that decisions on political union would not be taken before Britain could be a party to them.

Outside the government, too, the "Establishment" remained on the whole in favor of joining. Lord Gladwyn continued his tireless babbling and pamphleteering in favor of supranational solutions. Lord Harlech (who as David Ormsby-Gore had been ambassador in Washington during the Kennedy period) now chairman of the British Council of the European Movement, advocated reform and expansion of the EEC and the creation of a political community. Press coverage has been extensive. Most newspapers are favorable to entry and optimistic (sometimes to excess) about the prospects for clearing up the problems involved. (Perhaps they have been infected with the tactical, self-fulfilling optimism that has long characterized many of the convinced "Europeans", including Monnet and the men around him.) Although Beaverbrook's *Daily Express* remains violently opposed and the *Financial Times* and the *Guardian* have doubts, the *Economist*, the *Daily Telegraph*, and *The Times* remain firmly in favor. *The Times*, moreover, has displayed under its new management a quite remarkable commitment to Europe in the broader sense. Its coverage of both the French and German elections reflected a keen awareness of the British stake in the outcomes. In the latter case, the newspaper commissioned a poll shortly before the election and the results were immediately published in disregard to the German government's policy of trying to prevent the publication of polls before election day (a policy which failed in any case); editorially, *The Times* wrote: "We are all, or almost all, Social Democrats or Christian Democrats now."[15] On New Year's Day, 1970, it announced itself to be "A European newspaper."

* * * * *

So much for the state of mind of one of the principals on the eve of the negotiations, which are expected to begin next summer. Taking into account also the views of the Six, what are the issues in the talks likely to be, and how might they be handled? What can be said about the schedule according to which they will be held and concluded?

Any reduction of the long list of interconnected issues to a few principal categories is somewhat arbitrary. With that qualification, the following four rubrics more or less delimit the "strategic" issues to which both the British government and the EEC Commission have said they wish to see the negotiations limited: limiting the balance-of-payments cost to Britain; Commonwealth problems; monetary problems; and institutional questions.

Capping the Cost of the CAP

The first will probably be the key issue. One instrument for dealing with it is the length of the transition period the British will have to apply fully the CAP, which is the main source of the problem, and the regulations liberalizing movements of capital, which is the secondary source. A second instrument could be the imposition of some kind of ceiling—which could be variously defined and calculated—on British contributions to the agricultural fund. This is in effect what the Six have done for themselves for the period to 1978, in the agreements reached last December. In the absence of such a ceiling, and assuming current agricultural trade and expenditure patterns, the annual cost to Britain from 1978—under the new financial arrangement—would not be far from the Pisani estimate, which was based on the 1969 system: \$1.1 billion, an amount which that report found to be unfair, as it constituted over 50 per cent of the total for Britain plus the Six.

The British are heartened on this score by two recent developments within the Six: (1) the December agreements provide the Six themselves a generously long period (to 1978) to abolish the ceilings, negotiated as political agreements, on national contributions to the common fund. The British feel this arms them with good precedent for making their own case. (2) The surplus problem in the Six, coupled with the shock of recent changes in monetary parity and the prospect of repeated changes in the future has made the CAP look somewhat precarious. The British reaction to these developments, apart from a natural feeling of *Schadenfreude*, has been to take heart at the signs that after joining they may have some allies within the Six who favor major adaptations of the CAP, in directions favorable to them. Recent German pressure to get costs and surpluses under control is one such indication. Increased support in both France and Germany for the idea of making subsidies less directly related to production an idea which is characteristic of the deficiency payments system in effect in Britain—is another. This does not mean there is any question of a 180 degree change in the principle of the CAP, but it does mean that its future modifications need not be consistently disadvantageous to Britain.

On the other hand, the surplus problem will be far from solved by the admission of the new candidates, food importers though they are on the whole. Even though a Community of the Ten would be somewhat less self-sufficient in food than the present Six (85 per cent instead of 90 per cent), over-all production would be likely to increase as a result of the stimulus to British production provided by the raising of prices. (For the United Kingdom, the present self-sufficiency rate of 50 per cent could increase to something like 65 per cent.) The same would occur in Denmark. And world markets would then become even more glutted as the displaced suppliers of the United Kingdom market sought alternative outlets, in competition with exports from the Community. The Commission, aware of these problems, stressed in its Opinion the need to proceed vigorously with the Mansholt Plan for structural reform of agriculture in the Six as well as for the conclusion of effective commodity agreements on a world scale, in the event of the Community's enlargement.

As for the adaptation of the financial regulation in accordance with British needs, it should be pointed out that under the terms of the December agreement, any modification must be unanimously agreed by the present Six; thus France has a veto. Ultimately a political agreement will have to be reached, if it can, between the maximum the British are willing to pay and the minimum the French are willing to accept. The latter have already indicated a willingness to agree to a longer transition period in proportion as the British contribution to the CAP is larger.

Commonwealth

Many of the Commonwealth problems that so delayed the last negotiations in 1961-63 will no longer be relevant this time, as a result partly of the reorientation of Commonwealth trade that has taken place in the meantime, partly of the Community's willingness to conclude an association agreement with African and, in principle, Caribbean Commonwealth countries, and partly because some issues are subsumed under the larger topical question of generalized preferences by industrialized countries in favor of developing countries. The two major problems which remain are those caused by New Zealand's acute dependency on United Kingdom markets, a dependency especially concentrated on one commodity (butter), and those arising out of the United Kingdom's commitments under the Commonwealth Sugar Agreement, due to expire at the end of 1974, which affects a number of Commonwealth suppliers such as Mauritius, Fiji, and the Caribbean members. As both these commodities are in surplus in the Community, a solution is not laughably easy. On the other hand, as is clear from the Pisani Report, assuming responsible modifications of Community policies in these areas—modifications which are mandatory whether or not Britain comes in—plus a reasonable transition period, these problems are not insurmountable. The New Zealand representative who made the rounds of the Six last autumn found they still accepted, as in 1961-63, the need for a "special arrangement" for his country in the case of British adhesion. And the sugar problem is made somewhat more approachable by the fact that the existing commitments of the Six expire more or less at the same time as the Commonwealth Agreement.

Monetary Issues

The monetary issues related to Britain's entry are so broad, numerous, and complicated that to settle them exhaustively would require practically separate full-scale talks. It is more likely that, in the event of successful negotiations, many will be left to be handled after entry. There are nonetheless a number of questions on which the two sides need at least to form tentative conclusions.

The Six would like to be assured against being affected by measures (such as devaluation, deflation, trade, and exchange restrictions) introduced by Britain in order to meet its external financial obligations, whether stemming from CAP contributions, sterling balances, or indebtedness to central banks and international financial institutions. This concern was particularly marked in the Commission's 1967 Opinion. It is less pronounced in the 1969 version because of the improvements that have taken place in the meantime in the British balance of payments, and because the Basle agreements tend to diminish the destabilizing possibilities of sterling's reserve role. But the increased indebtedness, plus the question of what happens when the present Basle arrangements expire in 1971, still occasion some doubts which the British negotiators will no doubt be invited to allay. Already in 1967 the British sought to ease this concern, not entirely successfully, by undertaking not to invoke Article 108 of the Rome Treaty (authorizing exceptional measures in case of balance of payments difficulties) "to deal with problems arising from outside factors" (the Sterling Area).

The Six will also want to know how British membership will affect their efforts to manage their existing monetary dilemma: how to run the Common Market without permanently fixed exchange rates; or, if that is not possible, how to galvanize the will necessary to achieve the far-reaching economic policy coordination that is necessary if rates are to be kept fixed. This question is now one of the greatest preoccupations of the Six, and the so-called Barre Plan, now in process of implementation, represents a first step towards coming to grips with it.

The paper written for the Monnet committee by Signor Guido Carli, Governor of the Bank of Italy, took the position that even without Britain the Six would be unable to fix their currencies with respect to each other in the immediate future, although he thought in the longer terms it would be achieved. In order to avoid the kind of dramatic and destabilizing effects of adjustments that are postponed too long, he proposed arrangements for limited (maximum 2 per cent per year) exchange rate variations within the Six at monthly or quarterly intervals. This, he argued, would facilitate British entry, and would provide time for the achievement of the effective economic coordination which would eventually allow the enlarged EEC to form a monetary union, whose currency would then float in relation to the dollar.

The Six, and especially the Commission, are not yet prepared to admit that their efforts to achieve effective economic coordination will move so slowly. So they reject the Carli conclusion, which is regarded as incompatible with the CAP as presently practiced and hence is considered something of a *pis aller*. On the other hand, it seems quite improbable that they will have attained monetary union by the time negotiations with the applicants conclude. It therefore is likely that the British may have to be accepted as a monetary pig-in-a-poke, whose effect on this still unsettled question will look far from certain at the time of entry.

On the other side, the British will be wondering whether the monetary aspect of membership will be such as to worsen or alleviate their already considerable financial problems. On the one hand, entry will impose new balance of payments burdens while at the same time it will entail surrendering most of the instruments useful for managing that burden: exchange and trade restrictions, presumably devaluation, and perhaps deflation induced for external reasons will all be if not disallowed at least subject to some Community scrutiny. On the other, if the EEC is successful in making arrangements for medium-term economic assistance, this could be very valuable insurance for the British and could perhaps also offer a means of replacing the Basle arrangements, which are due to expire in 1971. Professor Robert Triffin has pointed out that most of the money lent to the British in 1965-68 by foreign central banks plus the International Monetary Fund came, directly or indirectly, from the Six. If an enlarged EEC were to make an institutionalized undertaking to support sterling, it would thus not be an entirely new burden; and it might have the advantage of carrying a more effective influence on British domestic economic policy. Proposals for the transfer of Britain's debts to the Bank for International Settlements, and the transformation of the latter into a kind of forerunner of a European central bank, have been made by Mr. Charles Villiers, the Managing Director of Britain's Industrial Reorganisation Corporation.[16]

To summarize, the capital importance of this subject will make it unavoidably a part of the negotiations; but the difficulty of the Six in defining a common position, for reasons not directly related to British entry, makes it probable that monetary issues will be largely left in abeyance, to be dealt with (if the talks are successful) according to the normal institutional processes of an enlarged Community.

Institutions

The dominant theme of the Commission's 1969 Opinion on enlargement is the urgent need to insure that the admission of new members does not result in reduced effectiveness of the Community's institutions and procedures. Apart from listing the Commission proposals on which Council decisions are outstanding, and calling for a general commitment by the applicant countries to the principle of reinforcement, it proposes two concrete steps in this direction. The first is a reaffirmation by both member and applicant countries of their willingness to practice the treaty provisions on majority voting in the Council of Ministers in those cases where it is called for, or where other techniques are not prescribed. M. Rey was even more emphatic on this point when he spoke to the press in October: "We have said and we will say to our governments and to the Council that we cannot run the risk of enlarging the Community unless we restore in proper fashion the institutional mechanisms which are foreseen in the Treaty and which do not function well at present." Second, in order that the functioning of the Community should not be hampered by disagreement on those questions where unanimous voting is called for, the Commission suggests that the applicant and member countries seek to reach agreements in principle on such questions during the negotiations themselves. The Opinion also reaffirms the need to reinforce the budgetary powers of the European Parliament and to provide for its direct election.

What is the British position on these vital questions? Government statements have been less than crystal clear, in order to avoid riling those sectors of domestic opinion ardently opposed to any "sacrifice of sovereignty." The British have been aided in this posture by the deliberately noncommittal stance of the Six on some of the questions; this allows them to say, without fear of embarrassment: "We'll accept whatever the Six will accept, no more, no less." But despite this deliberate ambiguity, public statements have implied, and private affirmations confirmed, a British commitment to abide by the letter and spirit of the Treaty of Rome, including the provisions on majority voting. This is, in fact, the British rejoinder to the objection that in an enlarged Community the machinery would be unwieldy. On the question of whether the European Parliament should be directly elected, the attitude is more genuinely ambiguous. On the one hand, the government in the joint declaration with President Saragat affirmed their support of the idea; and a democratic character is one of the characteristics of an enlarged Community to which government spokesmen usually attach great importance. On the other, Mr. Stewart's remarks at the Monnet committee meeting in July were as lukewarm as those of the Six (who, at the Hague, only agreed to study the idea further). He approved in principle, but thought the time not ripe.

Apart from the commitment to reinforcement, various institutional questions will be raised by the mere arithmetic of entry. It will be necessary to decide how many members each country should have in the Commission, the Parliament, and the Court, what weighting of votes in the Council would be appropriate, how to manage the problem of three more official languages, etc. These decisions are unlikely to prove controversial. It is not difficult to extend the principles of the present system through appropriate mathematical modifications.[17] One significant implication is that the requirement that each state shall have at least one representative on the Commission would produce a fourteen-man body (the present number), rather than the nine-man group that is foreseen in the fusion treaty and that is presently scheduled to be installed at the middle of this year. The limiting factor is Luxembourg. The resulting apportionment would be one member each for Luxembourg, Belgium, the Netherlands, Norway, Denmark, and Ireland; and two members from the United Kingdom, France, Germany, and Italy.

The Timetable

The Commission in its Opinion, as well as the British government, has taken the view that negotiations should be limited to the minimum number of important political issues, leaving minor matters to be dealt with after enlargement by the regular institutions. The present view is that negotiations can with luck be concluded in about a year and that they will have failed if they go on longer than eighteen months. If this schedule is held, it means that the talks should be finished before the end of 1971. Allowing a year for ratification, the applicants could enter by the beginning of 1973, after which there would be a transition period of several years. Procedurally, the negotiations seem likely to be conducted for the Community in part by the Commission–on matters within its competence, like the Common External Tariff, and on technical matters of no great political importance–and in part by the member states. The idea was suggested by the Commission as a natural step in view of the problems of the 1961-63 negotiations, and of the success of the method used in the Kennedy Round, when the Council defined the mandates, and the Commission negotiated. The French readily accepted the idea.

The Commission also foresees that negotiations with the various applicant countries will not be conducted exactly in parallel, the important thing being to proceed with the British far enough to see some light before beginning talks with the others, whose candidacies necessarily depend on that of the British. The actual entry of the various countries and the length of the transition periods should be the same for all, however, in the Commission view. Finally, "discussions" (as opposed to negotiations) are, according to the Hague communiqué, to be opened with the non-applicant EFTA countries having expressed a desire for them, once the negotiations with Britain are under way. The broader question of what kind of arrangements can be found for the neutrals remains complicated, uncertain, and bound up closely with the Danish and Norwegian applications. The Nordek (Nordic Economic Union) proposal is now competitive with the EEC in the domestic politics of those two countries. No solution is yet apparent for Finland if that project dissolves and the other Scandinavian countries join or associate with the EEC. Neither is there yet a clear way out of the dilemma of which one horn is the unwillingness or inability of the neutrals to become full members, and the coolness of the Commission–and, anachronistically, of the United States to their acquiring associate status.

The negotiations are also certain to influence and be influenced by the timing and content of the election campaign that must take place in Britain between now and the spring of 1971. From the standpoint of the negotiations, the ideal time would be next autumn–after the negotiations have started, but before one can know and debate their outcome. It is not improbable that Wilson will for his own reasons choose that timing, although if the polls are still unfavorable to Labour he may well stick it out to the constitutional limit.

Whether this pace of events will in fact ensue depends largely on the French. It seems likely that the present team has a basically different appreciation of the pros and cons of the question from de Gaulle's regime. Its economic constituency, whether it be the agricultural interest groups or the industrialists in the *Patronat*, is still basically unfavorable to British entry.[18] Moreover, the renewed emphasis put on industrial modernization and structural readaptation by the Chaban-Delmas government an emphasis symbolized by the creation of a new public body, the Institut de developpement industriel (modelled in part after the British Industrial Reorganisation Corporation) and designed to encourage industrial mergers within France suggested that time will be sought to put French industry on a more competitive, larger scale before pitting it fully against British competition.

But the political makeup of this government is different. It includes Centrists and Giscardists, both of which groups are sympathetic to British entry. It is more sensitive than ever to the growing economic and political power of Germany, and has therefore more reason than before to welcome the British as a counterweight to German influence. This argument, in fact, is said to have made even the arch-Gaullist cabinet member, M. Debré, sympathetic to the British application.[19] And, perhaps most important of all, there is reason to suppose that a third French veto, in existing political circumstances, would strain severely and perhaps irreparably the viability of the Community as it now exists; the Five would draw their own conclusions.

It is a safe bet that the French negotiating stance will not be demonstratively pro-British. A tough bargaining posture is indicated equally by the need to avoid antagonizing the Gaullist faithful and by the tactics of protecting French material interests. This tough position will certainly, moreover, be skillfully cloaked in Community principle. Will the price that can be justified by such arguments be one that the British, in view of their economic situation and domestic opinion, will find too high? Maybe. Perhaps the French calculate that this will happen, thus allowing them to escape the blame for the result.

But if it does not happen and the degree of political commitment to "going into Europe" by all British parties makes such a result a risky bet–then the question is whether the French will hold out for more than can be sold to the Five as a reasonable communitarian price. If it comes to this, the Five look like being resolute in resisting. If so, the British strategy of the last few years, to approach the EEC by cultivating good relations in Bonn, the Hague, and Rome, rather than primarily in Paris, will have been vindicated.

Nature of The Enlarged Community

If the British and other candidates do get in, what kind of club will they belong to? If the above account is correct, then the negotiations are not likely to be about the fundamental objectives or characteristics of an enlarged Community. It seems improbable that anything below the level of general principle will be decided during their course; for example, about industrial policy, or scientific research policy. It is quite unlikely that the majority voting issue will be squarely faced and almost as unlikely that it will be tacitly resolved by the more face-saving expedient of simply putting those procedures into practice. Present uncertainties about monetary cooperation seem more likely to change form than to disappear as a result of the negotiations. And if these areas, which are more or less covered by the Treaty of Rome, are left aside, how much more unlikely it is that the negotiations will come to grips with the "big questions" of defense and foreign policy, which lie outside the Treaty's scope, as Mr. Edward Heath and others have proposed.[20] It seems probable, therefore, that a British decision to pay the certain short-term costs involved will have to be justified by that many-sided act of faith: that the institutions will subsequently function; that the minimum of monetary cooperation needed to make the customs union operable will be obtainable: that the kind of industrial policy favorable to the large British companies will be developed; that the "dynamic" economic effects will produce their beneficial result for the British economy; and that, as a result of all these positive developments, the EEC will continue to be the main foundation for "European" construction. Furthermore, it is rather clear that in many of these areas a comparable act of faith will be required on the Community's side of the table.

Men of little faith may find this an unpersuasive case for—in the continentals' view—endangering the progress already made in European integration or—in the British view—for paying an economic penalty in the short-term in return for problematic long-term benefits. If the political will to achieve effective economic union, Rome Treaty style, does not really exist, it might be more sensible-and to many important interests in Britain, the Six, and EFTA it would be preferable—to dispense with some of the pretensions and machinery of the Communities and establish in their place looser, more flexible arrangements. These might consist, for instance, of an industrial free trade area or customs union coupled with ad hoc arrangements for agriculture and improved but modest cooperation in defense, foreign policy, and finance. Such a notion was vaguely suggested by Chancellor Kiesinger about a year ago, and a similar idea was broached by General de Gaulle during the so-called "Soames affair." It would have the advantages of freeing questions of European organization to some extent from their presently excessive concern with agriculture; of making the monetary problem somewhat more manageable; of easing the costs to Britain; and of facilitating arrangements with EFTA countries.

Should governments not assure themselves that the will to take the steps toward unity implied by the EEC approach really exists before rejecting this more modest, (for the British) less costly, and reasonably attractive alternative? Should the negotiations not deal with this question rather than being restricted to the technical questions of fitting the candidates into the Communities in their present form? The EEC governments have, in effect, answered "no." So, very clearly, has the Wilson government, although many continentals suspect the British really prefer such a looser solution—and unquestionably many Britons would.

The prevalent view among European governments today is that enlargement of the EEC provides the only possible basis for what might be called an EEC-EFTA settlement. Something approaching a consensus exists on that, whereas alternative approaches would run a greater risk of exposing still-unresolved national differences concerning the purpose of the enterprise. The choice is not, therefore, between negotiating some optimum arrangement (the illusion that this option was real was a flaw in the British position in both previous negotiations with the Six: the Free Trade Area talks in 1957-58 and the 1961-63 negotiations) and the kind of negotiations described above as likely; it is between the latter and continued British exclusion from the main continental unit. Since separation is not likely to lead to a future political conjuncture more favorable than the present one for sorting out British-continental relations, there is a strong case for proceeding in the EEC framework, eyes wide open to the risks and disadvantages, as the best way available of "throwing one's lot in with Europe (with Britain)."

If Britain gets in, there are some pressures that will tend to produce the "right" solutions. Pressure from industrial quarters to put less emphasis on agriculture can be expected to grow. The enlarged Community will be of sufficient size that having an industrial policy will make sense. This does not guarantee that one will be produced, but it provides a positive impetus missing in the Community of the Six. The pressure to make the institutions work- and hence to adopt majority voting as the norm in the Council—will become greater as the unworkability of reaching unanimity among ten members, even on minor issues, becomes clearer. And if that step is taken, it will become easier for governments to take politically unpalatable decisions, which can then be justified to the electorates so: "We don't like it, we tried to avoid it, but we were outvoted." Perhaps the British government is basing its case less on such reasoning than upon the sheer inertia of past policy lines, imprisoned by its own past rhetoric. In either case, the potential is large.

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[Photographs courtesy of the Commission of the European Communities and British Information Services.]

NOTES

1. September 22, 1969.

2. August 4, 1969.

3. The most complete, fresh look at the pros and cons is the CBI document, *Britain in Europe* (London, 1970). For more concise and forceful, but quite well argued, examples, see the articles in the *Financial Times* of its Economics Editor, Samuel Brittan, May 29 and October 9, 1969, and of its Political Editor, David Watt, on July 11, 1969. Also noteworthy is the diatribe of Edwin Dale, the Washington correspondent of the *New York Times* printed in *The Times* of London on September 24, in which he advises the British that the EEC is not the virtuous lady he used to love and that the marriage with her should not be considered. Other basic texts include the various British statements setting forth the terms of their application in 1967: the White Paper, the Prime Minister's statement to the House of Commons of May 8, 1967, and the Foreign Secretary's address to the WEU Council in July 1967. The Monnet committee reports have been published as *Problems of British Entry into the EEC* (London: PEP and Chatham House, September 1969). Other relevant papers are contained in M.A.G. van Meerhaeghe, ed., *Economics: Britain and the EEC*, (London: Longmans, 1969).

4. E.g., *The Economist*, July 12, 1969.

5. *Ibid*. For justification of the higher figure, see the letter of Douglas Jay, *The Economist*, July 19, 1969, and the *Financial Times*, August 4, 1969.

6. See the Commission of the European Communities, *Opinion concerning the Applications for Membership from the United Kingdom, Ireland, Denmark and Norway*, October 3, 1969; *Le Monde*, December 17, 1969: *The Economist*, January 3, 1970.

7. *The Times*, December 18, 1969.

8. *Britain in Europe*, p. 30

9. *Financial Times*, October 9, 1969. See the section below on monetary aspects of entry.

10. *Britain in Europe*, p. 3.

11. A future Fieldstaff Report will discuss this more fully.

12. *The Economist*, September 27, 1969.

13. *Financial Times*, May 29, 1969.

14. *Agence Europe*, April 28, 1969.

15. September 19, 1969.

16. Federal Trust for Education and Research, *European Monetary Cooperation*, (London, 1969).

17. See Walter Hallstein's study for the Monnet committee.

18. For the positions of governments, political parties and interest groups in each of the Six, see the special section "La candidature de la Grande-Bretagne aux communautés européennes," in the October 1968 issue of the *Revue française de Science Politique*.

19. *Ibid*., p. 921.

20. See Edward Heath, "Realism in British Foreign Policy," *Foreign Affairs* XLVIII, 1 (October 1969); and David Watt, *Financial Times*, July 11, 1969. Watt is more candid than Heath in recognizing the dangers of re-opening the fundamental questions. But he concludes, rather cogently, that "the real argument for allowing all these topics to be debated is . . . the need to convince the British public that the economic price of entry into Europe is worth paying."