



PH: Nils Nilsson

Professor Erik Lundberg, seen here in his office at Skandinaviska Banken, is typical of a number of Swedish economists whose interest goes beyond scholarship to the practical application of social theory. He is equally well known as teacher, investigator and advisor.

## NATION FULL OF ECONOMISTS

Important politically, but not as politicians, Sweden's economists manage to be useful—and still scientific.

*In politics, there is no more reliable argument than being respected by prudent men.*

Axel Oxenstierna, Swedish Lord High Chancellor, 1583-1654.

Political economy is the dismal science, as someone once said—perhaps because he thought it was difficult, perhaps because he found it dull.

In Sweden at least it is also the distant one. Try to round up its best known present-day practitioners. You will find one in Greece as a

research consultant; a second heads a research project in India; a third has just left for Morocco to give the government financial advice; and a fourth, not quite so far away, is campaigning politically in the southern part of his own country. A fifth, when you finally do get hold of him, has just returned from Tunisia; a sixth is recently back from a mission in Australia. Indeed, one of the most common traits of economists in Sweden is that they are rarely found there.

It is an old tradition among Scandinavian scholars to go abroad to widen their horizons, meet colleagues and wade through ideas and impulses at their source. Most of Sweden's internationally known humanists and scientists, from Olof Rudbeck, the 17th-century naturalist, to The Sjöberg, the contemporary colloid chemist, have felt—and heeded—this urge. In economics, the country's most famous figure, Knut Wicksell,

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## WARNING:

There may be a price lag on free trade



History text books, always in need of images to clarify the chaos of day-to-day events, may some day speak of the Château de la Muette in Paris as the crucible in which a new Europe was formed in the mid-Twentieth Century after 1500 years of interminable warfare, both political and economic.

But it may also speak of it as the place where the 17 nations which met to form an ambitious Free Trade Area unwittingly prepared the ground for problems almost as serious as those which plagued them in the past.

There is still time left to study and, if necessary, reshape the plans to avoid unsought consequences. But there isn't much time.

At the present speed of negotiations, a draft treaty may be placed before the 17 ministers for final approval within the next six months. It will then be sent to the national parliaments for ratification. This draft treaty, when finally approved, will be sacrosanct: the slightest change would upset the delicate balance of advantages and disadvantages which each member has come to expect of it. Since parliamentary ratification will be almost simultaneous throughout Europe, changes, if they are to be made, must be made in the last stages of the Paris negotiations. The sole decision left to the parliaments will be either to join or stay out in the cold.

The subject of the Free Trade Area Treaty is to lay down the rules for a transition to economic freedom across national boundaries. In so doing, it will

inevitably revolutionize not only the economic, but the political, life of each member country. If they don't realize this now, the people, no less than the leaders, of each country owe it to themselves to learn about it. Decisions on many matters which hitherto were the exclusive preserve of parliaments will gradually shift to international councils of ministers, each responsible to his country's executive but not its legislature, each tied to treaty regulations affecting the conditions of industry and trade which he will be powerless to alter.

The elimination of national barriers to business cooperation has, of course, long been sought by progressive European industrialists. Interested in the free movement of labor, capital and goods, their initial pondering of the treaty has naturally been with an eye toward its consequences for their own firms. But what they must also think of—and soon—is the long range problem of the character of institutional devices which the Free Trade Area will require in its administration. The subject is so important to industry that it cannot safely be left to exclusive government handling.

If, for example, an industrialist is to make rational plans about his firm's future in an economically integrated Europe, he wants the union to have a high degree of certainty and stability. He particularly wants to know what countries will remain members of the future European Market. The Treaty of Rome binds for an unlimited time the six members of the existing Common Market—Germany, Holland, Belgium, Luxembourg, France and Italy. A manufacturer in any of those countries can risk going all out to expand his production for Common Market customers. But what of a manufacturer in the other eleven countries of the Free Trade Area? Will his government make a commitment of unlimited co-operation?

The sudden withdrawal of any large member country—or, worse, the Six as a group—from the Free Trade Area would be calamitous for a manufacturer who had geared his production schedules to the inter-



### THE AUTHOR



Wilhelm Paasik, 46, is a prolific writer on economic and political subjects. After passing his law examinations, he became an expert in textile trade negotiations, eventually was appointed a Swedish delegate to both GATT and OEEC in 1949. He is now vice-president of OEEC's textile committee. In this article, Paasik analyzes European Free Trade Area plans from the point of view of a man for whom international economic cooperation has long been a major preoccupation.



grated market, since a major part of his duty-free foreign outlet would be closed, almost without notice. The withdrawal could also stun his homeland, particularly if it were one of the smaller countries among the Eleven. Foreign capital would be wary of investing in nations that run the risk of losing their duty-free foreign markets overnight, but foreign capital is exactly what they need if they are to change their industries over to modern mass production techniques.

Since the Eleven nations involved have not planned to sacrifice their sovereignty, most Free Trade Area decisions will have to be unanimous. Any one member would be able to veto joint action by the collective group. No matter how politically perspicacious the negotiators of the treaty may be, they cannot possibly deal with all contingencies in the text of the treaty. The rule of unanimity will have to settle all unforeseen disputes which arise in future. It is not hard to see how this procedure can cripple the Free Trade Area as it loses the name of action in the name of sovereignty. Meanwhile, the six Common Market members, arriving at decisions by majority vote, can steal a march on their brothers and even, if they are malicious, obstruct the work of the Free Trade Area through their voting tactics.

Put bluntly, what the situation may come to is this: in many matters of highest economic importance, the Six will function as a unit and the Eleven as separate particles. The lack of any exclusive organ of cooperation for the Eleven will automatically give even more decisive power to the Six than their actual share of Europe's economy justifies. This conspicuous absence of a countervailing influence among the Eleven will in the long run reduce their freedom of independent action and directional ability to such an extent that for them national autonomy in economic matters will become wholly illusory.

For the industrialist in any one of the Eleven countries this may eventually mean that the overall economic policy for Europe will be settled in Brussels, where the Six meet, and that any influence he could have on the opinions of his own government would be of no avail, as the Free Trade Area Council at

Paris would be reduced to rubber-stamping the Brussels decisions. A failure to take action by the Free Trade Area, because of the unanimity rule, would hold up progress only among the Eleven. The Six, alone, could continue to make policy.

It is generally foreseen that a Free

Trade Area Treaty will contain many clauses identical in wording with those of the Treaty of Rome. Some of these articles will be of direct importance to industry as they touch on the mobility of capital, rules of competition, etc. For the Common Market Six, questions of interpretation of the Rome agreement are put to their special Court of Justice. But what kind of body will interpret the same articles in the Free Trade Area? And what guarantee is there that the decisions handed down by the two bodies will be reconcilable?

If an international court of justice were allowed to interpret the Free Trade Area Treaty, the supranational aspects of the process would certainly on occasion run counter to the intention of some of the 17 member governments. If so, this would constitute a violation of the philosophy of the loosely constructed Free Trade Area envisaged by the Eleven. On the other hand, how long could 17 cabinet ministers afford to haggle among themselves over matters of interpretation when the identical point was being swiftly resolved for the Six by judicial process before the Court of Justice of the Common Market?

Unless such conflicts of competence are resolved, industrialists in the Eleven countries will find that international confusion can be even worse than national muddling. The existence within the boundaries of the Free Trade Area, which accommodates the principle of national sovereignty, of the Common Market with partly supranational powers will create difficulties of a kind unknown even in Federal States. In these, at least, efforts have been made to divide the power between the Federal and the State governments.

The troubling thoughts expressed here should not be taken as an advocacy of a Federal Europe. Not even the Common Market of the Six is a federal organization, but it is already in some respects supranational and the Treaty of Rome provides for gradual fusion through common institutions.

The Eleven nations which advocated the Free Trade Area, Sweden among them, took their stand against supra-nationality before the Treaty of Rome was a fact.

They continue to adhere to this basic philosophy.

But they have not realized that the creation of the Common Market has radically changed the conditions for European cooperation.

Worse, they may not ever realize it—in time, that is.

