ANOTHER MEMORANDUM FROM SNS

STUDIEFÖRBUNDET NÄRINGSLIV OCH SAMHÄLLE, STOCKHOLM

THE INDUSTRIAL COUNCIL FOR SOCIAL AND ECONOMIC STUDIES

The European Common Market and Business

by Wilhelm Paues

SNS

STUDIEFÖRBUNDET NÄRINGSLIV OCH SAMHÄLLE

SNS is a nonpolitical organization, aiming at widening the knowledge of economic life and the functions of society by means of research into fundamental social and economic problems and subsequently spreading information based on the findings of the research work and organizing educational conferenses. The activities of SNS are financed by Swedish industry.

Research

in economic and social questions is carried out by experts both inside and outside SNS. Their conclusions are published as monographs in SNS series of publications.

Studies

based to some extent on the result of research and combined with lectures are made by *local groups* all over the country, where business leaders and their assistants meet to discuss topical economic, social and managerial problems. The local groups are supported in their work by the central office of SNS.

The European Common Market and Business

by Wilhelm Paues

Summary for
Foreign Contacts

Translated by E. M. Nielsen

1958

Studieförbundet Näringsliv och Samhälle, Stockholm
The Industrial Council for Social and Economic Studies

Gernandts Boktryckeri, Stockholm, 1958

Preface

The creation of a West European Free Trade area is now so probable that it is time for all parties to pass on from discussion to the making of actual plans.

Both Business and Government organisations alike, in every country which joins the common market, will be faced by a large number of changes: and this will apply too in countries which maybe prefer to remain outside. Changes may be of a type which cannot be included in routine planning, but which call for a comprehensive examination of the whole production and trade policy of the country in question. In the circumstances it is essential to specify the problems with which Business will be faced.

In accord with the efforts of S.N.S. to urge business undertakings to take a long-term view, both in thought and action, we have sought to contribute to this specification by publication of the book "Europamarknaden och företaget" ("The European Common Market and Business"), which is intended to give Business a starting point for their planning to meet the manifold increase in size of the home market. The manuscript was finished in November 1957 and the book published in January 1958 in Sweden. The work has been written by Director Wilhelm Paues at the Industrial Institute for Economic and Social Research (formerly of The Textile Council) who is one of the leading authorities on the subject. He is Vice Chairman of the O.E.E.C. Textiles Committee and has carried out research work on international industrial problems.

The book is thus a specification of the problems which may face Swedish business undertakings: on the other hand no attempt is made to present the Swedish attitude towards the matter: this has been published by the Industrial Associations of the Nordic countries. As problems similar in all essential features will probably face business in other countries, and as the book contains a wealth of well-documented new statistical material, S.N.S. considered a Summary of this book called for, with a view to an international circle of readers.

The Author has endeavoured to supply objective information, but naturally in such matters it is difficult to avoid making certain evaluations. Insofar as such occur, they are to be ascribed to the Author, and do not represent the views of S.N.S.

Stockholm. March 1958.

Torsten Carlsson

Contents

Contents of the Swedish Original

Introduction

The transition to new forms of economic co-operation means that, in anticipating events, Businesses cannot confine themselves merely to following prevailing trends as a straight line right into the 1970s.

There would be a grave risk were a Business to analyse its foreign trade position only bilaterally, Sweden as compared with Germany, or Sweden as compared with the U.K. etc, but entirely ignore relations between e.g. Germany and the U.K. It is dangerous to confine studies to bilateral statistics. Businesses should, instead, construct a Trade Matrix on European trade in their own particular products.[1] In the Free Trade area, the seventeen countries will each be competing with one another, and freedom will apply to all products.

There is a danger of faulty analysis, because while international statistics exist for wages etc, *there are practically no details regarding productivity per man-hour* in various countries. The business man in a high wage country is thereby tempted to a perhaps unjustified pessimism if he merely compares wage costs per man-hour at home with that in a low wage countries, and forgets that in certain cases there are considerable differences in productivity.

It must further be observed that productivity only to a minor degree depends on the "natural talents" of Labour. *It is mainly dependent on the mechanisation etc. which has been introduced into the plants.* The low production per worker in many countries and their consequential lower wage rate is largely dependent on the fact that they are working with fewer or less good machines, a less good business organisation, and possibly worse distributive system. The gross investment figures per individual in the various European countries show that the low-wage countries are low-investment countries, and frequently low-productivity countries.

Fifteen years — the period of transition — is a long period and a not inconsiderable proportion of goods produced today had hardly been

[1] In the Annexe will be found a specimen of Trade Matrix.

invented fifteen years ago. Who knows what the selection of goods will be fifteen years hence?

Perhaps it may dampen the search for perfect accuracy in calculation if it is stated that economists have not been able to analyse the consequences of a Customs Union between three countries and applicable to three kinds of goods without making unrealistic simplifications. The matter now at issue is seventeen countries, hundreds of thousands of businesses, and at least some million products. It is, therefore, impossible to calculate relations and consequenses for certain products or businesses. One can reach approximate details regarding production, labour-force, wages, etc, but no data exist which would assist a judgement of the consequences to terms of trade, no details as regards elasticity of supply and demand, the effect on incomes as a result of price changes, the reactions of business men, the behaviour of the consumer, etc. A rough analysis of the position may take several months, while *an attempt to make a calculation would take longer than is required to set up a European Common Market.*

The wisest course for a business firm may therefore be, after a rough analysis, to fix a programme for its policy in the European Market. This is naturally very difficult. The length of the period of transition means that it will be difficult to set up a Timetable for the various steps to be taken by the business. One can possibly judge the consequences for one's own product of an increase in the national income of Europe by a few percent more than previously, but it is extremely difficult even to hazard a guess what will be the consequences for, e.g. a Swedish business man if his home market grows from 7 to maybe 280—300 million inhabitants in 15 years. If the pace of European advance would become 4 % per annum for 15 years, the average standard as regards consumption in 1972 will be the same as that in the U.S.A. in 1938. In certain cases this may assist in estimating the consumer demand for goods which will be approximately the same in 15 years as they were in 1938 in the U.S.A: but for all goods which have come on the market since then, it is of no assistance.

How can a business man cope with this situation? He can be certain that none of his competitors, either, know very much. The next step is to ask himself whether his competitors are of such a nature that in spite of their ignorance they will decide on a certain policy and begin to carry it out.

It is considered that the European Market will result in a quicker increase in income. Each business man should be able to count on a better basis generally speaking for economic activity. He can possibly also count on a period of general uncertainty in which there will be certain advantages in making decisions if thereby one can be to the fore both in committing acts of folly and learning from them earlier than one's competitors.

The business man, naturally, can decide also merely to survive. For this a minimum of planning is necessary. One adjusts oneself to risks little by little, but does nothing extra to profit by such chances as may come one's way.

Finally, of course, there will be those business men who consider the risk so great that they review the position and prefer to wind up in good time rather than lose everything eventually. The social and economic problems which arise thereby call for the greatest interest both from Society and from trade associations.

It is probable that each method of behaviour will be found, irrespective of trade, size of business, or geographical position.

Inequalities in Europe

The wealthiest average consumer in Europe spends 743 dollars a year on private consumption and the least wealthy 155 dollars (see Table 1). The highest paid worker in Europe has three times as high an hourly wage as the lowest paid. An amalgamation of these highly different economic units will evoke considerable problems.

Everybody knows that large income differences in a country cause political tension, and it may be feared that the internal tension within a united Europe might become all too great. The inequalities in price between different producing countries have up to now been partly eased by customs tariffs: what will be the position when those disappear?

The Size of Markets

The easiest yardstick for a comparison between the sizes of the various markets is the population. However, one obtains a much better idea of

Table 1. Population, gross national product and certain national income items in OEEC countries, Canada and the U.S. in 1955.

A. Totals in billions (1,000 million) of dollars (1954 dollar rates and prices).
B. Per inhabitant in dollars (1954 dollar rates and prices).
C. In percentages of gross national products at market price.

Source: OEEC, Statistics of National Product and Expenditure No 2, Paris 1957 (Working Tables).
a. Belgium and Luxembourg are added together. Saar is not included among countries but is included in totals.

	Population in thousands	Gross national product at market price		Private consumption			Public consumption			Gross investments			Export of goods and services			Indirect taxes			Increase of gross national product 1950—55	
		A	B	A	B	C	A	B	C	A	B	C	A	B	C	A	B	C	A	B
1 Denmark	4,439	3.99	900	2.71	610	68	0.52	117	13	0.70	158	17	1.35	304	34	0.47	106	12	0.29	65
2 Norway	3,425	3.27	955	2.05	590	63	0.40	117	12	0.98	286	30	1.30	380	39	0.43	126	13	0.52	152
3 Sweden	7,262	8.30	1,143	5.28	728	63	1.39	191	17	1.69	233	20	1.83	252	22	0.81	112	10	1.09	150
1—3 Da-No-Sve	15,126	15.56	1,029	10.04	664	64	2.31	153	15	3.37	223	22	4.48	296	29	1.71	113	11	1.90	126
4 United Kingdom	51,221	52.25	1,020	34.59	675	67	8.84	173	17	7.61	149	15	12.25	239	24	7.36	144	14	6.94	135
5 Switzerland	4,978	6.09	1,223	*3.71	743	61	*0.63	127	10	*1.26	253	21	1.70	342	28	0.38	76	6	0.95	191
6 Austria	6,974	3.71	532	2.50	359	67	0.42	60	11	0.91	130	25	0.85	122	23	0.53	76	14	1.03	148
1—6 Real free trade area countries	78,299	77.61	991	50.84	649	66	12.20	156	16	13.15	168	17	19.28	246	25	9.98	127	13	10.82	138
7 Ireland	2,909	1.47	505	1.15	395	78	0.21	72	14	0.20	69	14	0.48	165	33	0.23	79	16	0.12	41
8 Iceland	158	0.19	1,203	*0.10	635	51	?		?	*0.05	316	25	0.08	506	42	*0.03	190	16	0.05	316
9 Greece	8,366	1.99	238	1.52	182	76	0.28	33	14	0.29	35	15	0.27	32	14	0.25	30	13	0.55	66
10 Portugal	8,765	1.74	199	1.36	155	78	0.22	25	13	0.24	27	14	0.33	38	19	0.14	16	8	0.22	25
11 Turkey	24,110	6.56	272	*4.69	195	72	*0.71	29	11	0.87	36	13	0.34	14	5	0.70	29	11	1.74	72
7—11 Countries under economic development..	44,308	11.95	270	8.82	199	74	1.42	32	12	1.65	37	14	1.50	34	13	1.35	30	11	2.68	60
1—11 **The Eleven**	**122,607**	**89.56**	**730**	**59.66**	**487**	**66**	**13.62**	**111**	**12**	**14.80**	**121**	**17**	**20.78**	**169**	**23**	**11.33**	**92**	**13**	**13.50**	**110**
12 Belgium + Luxembourg	8,997	9.53	1,059	6.51	724	68	1.10	122	15	1.59	177	17	3.53	392	37	0.87	97	9	1.47	163
13 Holland	10,747	7.53	701	4.37	407	58	1.12	104	15	1.72	160	23	3.94	367	52	0.90	84	12	1.61	150
14 France**	43 213	46.93 (39)	1,086 (905)	31.81 (26.5)	722 (600)	68	6.08 (5.07)	141 (117)	13	7.96 (6.63)	184 (153)	17	7.49 (6.24)	173 (144)	16	7.96 (6.63)	184 (153)	17	8.72 (7.26)	202 (168)
15 Italy	48,016	21.21	442	14.46	301	68	2.27	47	11	4.31	90	21	2.79	58	13	2.91	61	14	5.25	109
16 Germany	49,995	38.30	766	21.67	433	55	5.84	117	15	8.69	174	22	8.87	177	23	5.93	119	16	15.23	305
12—16 **The Six**	**160,968**	**124.42**	**773**	**78.82**	**490**	**63**	**16.41**	**102**	**13**	**24.27**	**151**	**19**	**28.66**	**178**	**23**	**18.73**	**116**	**15**	**32.28**	**201**
1—16 **The Seventeen**	**284,074**	**213.9**	**753**	**139.6**	**492**	**65**	**30.20**	**106**	**14**	**39.5**	**139**	**18**	**48.5**	**171**	**23**	**30.0**	**106**	**14**	**44.9**	**158**
17 Canada	15,601	26.22	1,681	16.89	1,080	64	3.74			5.94	381	23	5.5	353	21	3.33	213	13	5 24	336
18 **U.S.A.**	165,271	394.00	2,384	254.10	1,540	65	66.5	402	17	66.90	405	17	19.7	119	5	33.34	202	8	72.00	436

* Figures are for 1954 or nearest previous year for which data exist.
** Figures in brackets quote French statistics after the devaluation of the francs in the summer of 1957.

the economic size of the various markets by a comparison of their national products and the size of these products in comparative national accounting (see Table 1). It will be found, for example, by comparison of gross national products, that Sweden, with about 7 million inhabitants, has nearly as large a gross national product as Portugal and Turkey together, with a joint population of 33 million.

The combined national product of Denmark, Norway, and Sweden is about three-quarters that of Italy (15 million inhabitants against 49), their private consumption about two-thirds that of Italy, and the public consumption even larger than that of Italy. DaNoSve's investments are three times those of Italy, and their foreign trade about 60 % larger than that of Italy.

This means that the business set-up of the Scandinavian countries is better adapted for larger markets, regarded from the production and consumption point of view, than the business set-up of several of the more populous countries.

One may say that the European market, from the population point of view, is forty times as large as the Swedish. From the total consumption point of view, it is only twenty-five times as large, and from the investment point of view, twenty-three times as large.

Will Inequalities be Levelled Out?

A question which is frequently asked is whether the rich countries will not become still richer, and that much more speedily than the poorer ones. The final column of the Table aims at a reply in respect of O.E.E.C., Canada, and U.S.A. It should first be observed that Germany answers for one-third of the increase in the gross national product of Western Europe between 1950 and 1955. It will also be observed that the U.S.A. increase was 72 billion (1 billion = 1,000 millions) dollars (437 dollars per inhabitant) while that of O.E.E.C. was only 44.9 billion dollars (159 dollars per inhabitant). The country which undoubtedly had the greatest increase in Europe, namely Germany, did not, however, increase its gross national product by more than 300 dollars per inhabitant, and this was due to very special circumstances which will hardly repeat themselves. Switzerland, which in 1955 had the highest national product per inhabitant, 1,220 dollars, increased it by only 190 dollars per inhabitant, and Sweden, with a national product of 1,140 dollars, increased it by 150 dollars. The five countries under economic development did not increase by more than 60 dollars per inhabitant. There is thus a certain risk that the gap between rich and poor countries will be widened still further, instead of narrowed, if the development which has held good hitherto is allowed to continue, even if everyone will be better off.

Presumably there is no possibility within the next 15 years of a really noticeable levelling up of wages as between the rich and poor countries of Western Europe, The development of national income per inhabitant implies rather that the base for wages will increase more speedily in countries which already have high wages, than in those which have lower wages.

Wages and Productivity

The total cost to an employer to give employment to a worker for an hour consists of the cash wage, obligatory social contributions, and payment for days off. The sum of the two last items varies between 8.4 % in the United Kingdom and 63.5 % in Italy, all in percentages of cash wages. In Sweden it is presumably 15 to 17 % (see Table 2).

The ease of calculating the total costs of a man-hour has led to this cost factor dominating discussion on the matter. At the same time, it is realised that the amount of work done by a worker during an hour varies from country to country and from trade to trade. Productivity thus varies considerably.

The more an employer seeks to balance a higher wage scale by the installation of more machinery etc, the more his costs per unit of production are affected by the intensity with which he uses his fixed plant. In certain countries work continues throughout the 24 hours, in others only in a single shift, and with seasonal laying-off. The cost per product-unit produced have, therefore, in certain cases, only a slender connection with the cost per man-hour. In other cases, where businesses in the various countries have the use of the same technical equipment etc, the difference in cost per man-hour may be the determining factor. What the actual position is within the various trades is difficult to determine from statistics hitherto published.

Wages and the Standard of Living

From the employees' point of view that row in Table 2 is of interest which shows the wage paid to a worker in various countries, before tax.

Table 2. Various kinds of social contributions reckoned as percentages of wages for industrial workers and the wage in question in U.S. cents, together with employers' total costs for a man-hour in 1956.

Source: Etudes et Conjoncture August 1957, published by Institut national de la Statistique et des études économiques, Paris.

	Western Germany	Belgium + Luxembourg	France	Italiy	Netherlands	United Kingdom	Sweden	Switzerland	U.S.A. (1955)
Legal social insurance	9.2	8.3	9.2	19.7	6.2	2.2	1.1	2.6	2.9
Other insurance	6.5	—	—	—	3.0	*	0.6	2.7	5.0
Accidents	2.8	3.4	1.9	3.2	1.5	0.2	1.7	2.0	0.9
Family contributions	2.0	7.0	15.2	21.7	3.8	—	—	1.6	—
Holidays	12.0 (Holidays and Extra leave)	10.2	5.6	8.4	7.0	6.0	6.3	6.0	5.8
Extra leave		0.5	—	1.0	1.2	—	—	—	2.3
Gifts and special contributions	4.5	—	0.9	8.1	2.1	—	—	—	1.6
Miscellaneous social costs	4.0 (Miscellaneous social costs and Rent)	—	2.7	—	—	—	3.5	1.0	—
Rent		—	1.15	1.4	—	—	2.1	—	—
Taxes payable on payed out wages		—	5.2	—	3.8	—	—	—	—
Total of 1956 social contributions in % of wages	41.0	29.4	41.85	63.5	28.6	8.4	15.3	15.4	18.5 (20 1956)
Wages before social contributions in cents 1956	45.5	51.6	50.5* (42)	32.2	34.5	60.3	82.6	61.7	201
Employers' costs in cents per hour	64.2	66.7	71.7 (59.7)	52.7	44.3	65.5	95.3	71.3	241
Total index 1956. Sweden = 100	67	72	75 (62)	56	44	70	100	74	258

* The French devaluation in the summer of 1957 had the effect of reducing the dollar wage to 42 cents and the cost per hour for employers to 59.7 cents. The index for France thus becomes 62 instead of 72.

They may well wish to know what the amount of taxation is, as in many countries it may take a considerable bite out of the gross wage. It may also be asked what advantages a worker derives from the State through the direct taxes he pays, such as Children's Allowances in Sweden, or a cheap Health Service, and what advantages his opposite numbers in other countries obtain by reason of social contributions made by the employer.

Unfortunately it is impossible to form an opinion as to the effect of all these matters on the final standard of life of a worker. A study by E.C.E. shows, however, that the division of income after taxation did not show any considerable variation as between the U.K., Holland, Denmark, and Sweden. It may, therefore, be assumed that at least in respect of these countries, the private consumption outlay per inhabitant constitutes a reasonably good yardstick for a single factor, namely the possibility for the worker in question to incur expenses. The second factor, the cost of living in different countries, is, however, much more difficult to measure.

Within the Six Power Group there seem to be certain inducements especially for working families with many children, to move to those countries which enjoy a highly developed Children's Allowance system, as, for instance, France. Migration between these countries has, however, not been overwhelmingly large. It may also be established that it is the least qualified workers who move (or are driven to do so by poverty), and, during their period of acclimatisation in the new country, accept manual labour of which there is a shortage (Mining, Dishwashing, etc). The first generation of immigrants are therefore rarely competitors to skilled labour in the new country. Sweden, on the other hand, has principally aimed at getting highly skilled workers as immigrants.

A Common Economic and Trade Policy

The final aim of The Six is an economic community. They, however, consider, as far as the primary object — the freedom of trade — is concerned, that also their economic policy will have to be co-ordinated.

The Six aim, therefore, at obtaining a certain degree of agreement in their monetary and financial policy. It is also considered that Bank Rate and Rate of Exchange policy must, to a certain extent, be co-ordinated.

It is anticipated within the Six Power Group that such matters will come up for discussion in the various joint organs. The more the mobility of capital and labour, as well as of goods, is extended within the Six Power Group, the more the various measures envisaged will be emphasised by hard facts, such as the flight of capital from a country which mismanages its financial policy.

The Eleven seem at present most inclined to refrain from joint formation of policy to the same extent as The Six. It is quite clear that each of The Eleven (if these confine themselves to the freeing of trade) have the possibility of enjoying greater freedom in their internal policies. As regards the exchange of goods and services, consequences will, of course, be the same for The Six and The Eleven, and one may perhaps even fear that rash national policy by one of The Eleven would produce a greater effect on foreign commercial policy, as that will become the only safety valve.

In other words, one can count on the results of the European market, as far as The Seventeen are concerned, inducing a more identical economic policy, whether this is the objective of a formal agreement or not.

It is laid down in the Rome Agreement that in the course of time The Six shall adopt a joint trade policy towards outside countries. Let us try to examine this question. The Six will become one of the world's largest political trading blocks. Their import from the outer world amounted in 1956 to 16 billion dollars, as compared with 12.5 for the U.S.A. Not even the whole of the British Commonwealth imports from the outside world amount to more than 15 billion dollars, and the trade policy of the Commonwealth is by no means uniform or even co-ordinated. Certainly The Eleven form a larger importing area than do The Six, but The Eleven seem as little likely as the British Commonwealth to adopt a common trade policy vis-à-vis outside trading partners.

The Six can thus, in the case of trade disputes, by reason of its centrally-directed capacity for importation, exercise an extraordinarily strong influence on the direction and size of the flow of trade. As compared with them, only the U.S.A. can be matched as an equal, and the British Commonwealth, if contrary to expectation it were to co-ordinate its trade policy. The minor members of The Eleven would, on the other hand, each stand alone against The Six. Already during the period of transition negotiations may take place between an individual member of The Eleven and the Six Power Group. For the minor States, this is a very serious development. Even if one should not a priori fear that the Six will abuse their powers, all will be uncomfortably aware of their existence.

From a Tariff negotiations point of view, the development of The Six towards a joint block presents a still more interesting aspect. As The Seventeen intend to do away with Customs Duties as between themselves, it may be assumed that The Eleven will have little interest in reducing the outer customs barrier of the Six Power Group against countries which are not members of The Seventeen. Such a step would only arise if the U.K. wished to help the import of certain Commonwealth goods, or if the joint customs tariff of The Six increased the importation costs of some non-European raw material which for technical reasons can only be subjected to improvement in a Six Power country for further sale as a semi-manufacture to The Eleven.

In the forthcoming Gatt negotiations regarding reduction of Customs Tariffs, the following position may therefore be anticipated. None of The Eleven will make any considerable demands for a reduction of the Customs Tariff of The Six. Demands against The Six will come from non-European countries, but it is probable that the protectionist members of The Six will oppose a reduction of the common outside Tariff. During the first two stages (up to 11 years of the 15 years of transition) a unanimous decision by The Six is necessary for the reduction of a tariff. Real customs negotiation in Gatt between The Six and non-European countries would not, therefore, be able to take place before about 1968. Until then the organ of The Six would have still less power than that of the President of the U.S.A. to reduce tariffs. Hereby Gatt will become paralysed in its primary object, the worldwide reduction of tariffs.

On the other hand, individual member states of The Eleven will in connection with Gatt negotiations be exposed to demands for the reduction of tariffs by non-European countries. Each single one of The Eleven can, without technical difficulty, reduce a tariff against a non-European country, but only if the new tariff is not lower than that which applies for the same article in the joint tariff of The Six. If the tariff were to be lower than that which The Six desire as a protectionist measure outwards, there would be a gap in the customs wall round the common market of the Seventeen. This can be met by The Six and other members of the free trade area by increased controls regarding the origin of goods. The paradoxical situation may thus arise that a national customs concession by one of the Eleven balanced by a concession by another country, which at an earlier age constituted a certain aid to the export business of one of the Eleven, may now instead become a liability, as the definition for the origin of goods might be tightened up in the Free Trade Area.

With regard to the fact that The Seventeen will have free movement of goods among themselves, the possibility must not be ignored that some form of joint consultation before Gatt tariff negotiations may be called for.

A country amongst The Eleven which desired to introduce a specially low tariff against the outer world would presumably need to ascertain what reactions this would cause, e.g. with regard to the joint definition of The Seventeen regarding the origin of goods.

The Proposed Definitions Regarding Origin will lead to Cutting Off from Outside Markets

The Free Trade Area now contemplated will shut this off more effectively from the outer world than the joint tariff of the Six. This is caused by the new institutional decisions regarding the nationalisation of goods (definition of origin) which form the subject of discussion on the Free Trade Area.

Let us assume that O.E.E.C. adopts the 50 % rule for the nationalisation of goods, and let us further assume that we have a "free trade country" which is a low tariff country, and The Six, which constitute a high tariff area. The free trade country has a 5 % import duty on a semi-manufacture and a 15 % duty on finished goods made therefrom. The Six have a 15 % duty on semi-manufactures and 20 % on the finished article. Improvers in either country import Non-European semi-manufactures to the value of 10 crowns, and manufacture an export article intended for sale in Europe. In order for this to become a free trade article and therefore duty-free, its export price must amount to 20 crowns. Improvers in the free trade country thus pay a total of 0.50 crowns in duty, and improvers in The Six countries a total of 1.50 crowns in duty. The difference in duty is thus 1 crown to the disadvantage of the improver in The Six. In the Free Trade Area this difference in duty is maintained but it only amounts to 5 % of the finished article's price as compared with 10 % of that of the semi-manufacture. By this arrangement the difference in duty is prevented from affecting more than half the price of the finished product. But the absolute difference remains, in spite of being watered down, in the same way that 5 centilitres of whiskey always remains 5 centilitres even if diluted with 5 centilitres of water.

But let us assume that both improvers work out what would happen if they increased the non-European semi-manufacture's share to 60 % of the price of the completed article, i.e. from 10 crowns to 12 crowns, while keeping the price of the finished article at 20 crowns. The finished product would then *not* be a free trade article. In this case, the improver in the free trade country, on export of the finished article to The Six, would receive a refund (drawback) of the duty he had paid on the non-European semi-manufacture (5 % of 12 crowns = 0.60). But as the finished article is no longer a free trade article, it is subject to 20 % duty on import to The Six (20 % of 20 crowns = 4 crowns). The total customs payments have therefore risen from 0.60 crowns to 4 crowns, and this amounts to 33.3 % of the value of the semimanufacture (4 crowns on 12 crowns). It can also be said that the marginal duty on the last addition of 2 crowns of non-European semi-manufacture is 3.40 crowns, or a marginal tariff figure of 170 %.

Improvers in a Six country obtain, on export of their finished article to a free trade country, a refund of the semimanufacture duty paid of 1.80 crowns (15 % of 12 crowns = 1.80). Their goods are subject to 15 % duty on import into a free trade country. The total duty paid on the goods thus amount to 3 crowns (15 % on 20 crowns). This amounts to a tariff of 25 % (3 crowns on 12 crowns) on the incoming non-European semi-manufacture. Their marginal duty on the last addition of non-European semi-manufacture becomes 1.20 on 2 crowns, or 60 %.

The situation is thus as follows: As soon as one comes outside the limit for nationalisation according to the proposed rules of the Free Trade Area, one sets up an additional tariff which becomes a protectionist iron curtain, on account of the fact that one compensates for far more than the difference in tariffs.

Improvers in a free trade country have in the last-mentioned example a tariff *advantage* over improvers in one of the Six countries of 10 % on 12 crowns, which amounts to 1.20 crowns. This is levelled out by the imposition of an *additional tariff* on the finished article of the free trade country of 3.40 crowns. But it is still more unreasonable that, in order to compensate for the disadvantage which the improver in one of the Six countries has in respect of tariff, one imposes a *supplementary* duty of 1.20 crowns on his goods. The result of both improvers' worries of calculation should be that neither of them considers he can use more than 50 % of non-European semi-manufacture in a finished article intended for sale in Europe.

The result is, therefore, that each country's improver, if he manufactures goods which do not become nationalised, suffers his non-European semi-manufacture to be burdened with a rate of tariff *which never becomes lower than the finished article tariff in the country of destination, but which may be considerably higher.*

With the present structure of tariffs in Europe this may produce a shutting out of the outer world, more severe for all members of the Free Trade Area than would be the case in a Customs Union with outside tariffs which approximately corresponded to those of the Six Power Group. It may further result in the low tariff countries' shutting out from the outer world being relatively more rigorous than that of the high tariff countries, when applied to the export of non-nationalised finished goods from the low tariff countries to high tariff countries.

Agriculture and the European Market

Agricultural Policy

Agricultural Policy constitutes perhaps the hardest negotiating nut to crack in the European market.

The high proportion of the consumer's budget represented by foodstuffs makes it desirable for prices of agricultural products in the various member countries to be brought more into line with one another in the long run. This is important to all businesses in its effect on the competitive power of the various countries. The agriculture of high wage countries must be just as much more fully rationalised than that of low wage countries as their industry. To judge by statistics regarding the acreage production of various alimentary products in O.E.E.C. countries, it appears that far greater differences today exist in agricultural productivity than in industrial productivity. As the necessity for investment per man engaged in rationalised agriculture today hardly differs to any extent from that of industry, it would seem that this difference in productivity between the various European countries will last far longer in the case of agriculture than in that of industry.

The other argument for including foodstuffs in the European market is that the export of alimentary agricultural products plays a very great part in the export of certain countries.

The United Kingdom's Problem

When the U.K. developed its proposal in the middle of 1956 for a Free Trade Area, this was done with the express reservation that foodstuffs for man and beast should not be included. This is partly due to the fact that the United Kingdom does not wish to jeopardise the advantages afforded by imperial preference. It can hardly be doubted that, in addition to consideration for members of the Commonwealth and the opportunities for her own industrial exports to the rest of the Commonwealth, it was consideration for her own agriculture which prompted this attitude.

It was, therefore, a severe blow to the British Government and also the cause of a certain anxiety in the Labour Party that practically all other members of O.E.E.C. wished to include agriculture in the Free Trade Area.

A further British study of detail, however, seems to show that a compromise would be possible and that it might be necessary for the British Government to agree to such a compromise in order to secure an agreement with the Six Power Group.

Discussions at the Commonwealth Conference of 1957 and the repercussions thereof also seem to have aroused and awakened interest among the other members of the Commonwealth in the future agricultural policy of the large European market. They apparently realise more and more that they have an independent interest in continental Europe, which is a very large consumer, reckoned in absolute figures, of their food products (594 million dollars) and still more of their raw materials (2,459 million dollars which latter figure is more than the import by the U.K.).

Common or Varying Customs Dues throughout Europe

As long as the various member countries of the proposed Free Trade Area have different tariffs and tariff structures, it will be extremely complicated to be both exporter and importer.

The Dilemma of the Low Tariff Countries

Improvers in Low Tariff countries may have one advantage in the home market by reason of the fact that they can import non-European basic products more cheaply than those of the high-tariff countries. Insofar as imports at a low tariff from non-European suppliers further contribute to keep down the general cost of living in the country, this, too, constitutes an advantage. As opposed to these and other more or less calculable advantages, there are incalculable risks. If the exporter in a low-tariff country is to profit by his tariff advantage in his sales, he must presumably fix his price lower than that of competitors in other member countries who have had to pay a higher rate of duty. It may be anticipated that price competition on the part of the low-tariff countries' manufactures will cause competitors in high-tariff countries to make accusations of profiteering: it is likewise not impossible that instructions will be given to the customs authorities in the high-tariff countries in question to make a strict verification of the origin of goods imported from the low-tariff countries. This takes time and considerably alarms buyers. If the control of origin does not give the desired result, the next step might be that high-tariff countries which feel threatened by competition from low-tariff countries might instead demand a revision of the regulations for the definition of origin, just for this group of goods.

For these reasons it is not only my personal opinion but that of many other people, that the industry of low-tariff countries will not be able to derive any particular advantages from its lower outer customs level when exporting free trade goods to other member countries. It would be a serious matter if a low tariff country built up a production capacity based on its advantageous position in the outer tariff level and advantageous regulations for nationalisation. For an alteration of the regulation or a tightening of control in other countries would be able speedily to render superfluous this increased capacity, based merely on customs advantages.

Making use of variations in customs levels might also cause the development of certain types of business which do not correspond to natural pre-requisites and "natural" comparative costs, whether between different countries or different industries. It might be risky for a business to settle its localisation or base its productional capacity on customs advantages which could disappear through simple administrative decisions.

What would it cost to have a Common Tariff?

Differences in Tariffs and Tariff structure throughout the Free Trade Area will be a costly item for all countries. Every despatch of goods must be accompanied by a Certificate of Origin. In Sweden alone about 4,000 Certificates of Origin may be required per day. It is, however, unfortunately impossible to reckon out the cost of the private and public sectors of the whole machinery of Certificates of Origin and their control.

Meanwhile, if variations in tariffs cause expense, it may be asked what would it cost Sweden, if that country were to introduce the same tariff towards the outer world as, e.g. The Six will have in their common tariff.

Were Sweden to adjust her tariff towards non-European countries to that of The Six, the increase in costs would probably be relatively negligible compared with the present total of duties levied on goods from non-European countries. Let us assume that total customs receipts, *if tariff levels and sources of supply were unaltered,* would decrease by 600 million to 80 million crowns. *Were the tariff level for non-*

European goods increased up to that of The Six, the total duties derived from them would increase from 80 to perhaps 150—175 million crowns, the distribution of sources of supply remaining unaltered. With the probable transfer of imports to European supplying countries, duties would presumably drop from 150/175 million crowns to, perhaps, 75/90 million crowns, if the Six Power Groups' tariffs be applied, and to perhaps 50 million crowns if the proposed Swedish tariffs be applied.

When The Six have their common tariff ready and accepted, it will be most important to study the consequences of an adjustment of the Swedish outer customs level to a height which does not differ appreciably from the general European one.

The first adjustment by members of The Six of their national tariffs to their common outer tariff is to take place at the earliest 4 years after it has come into force. Until then, distortions due to varying tariffs ought not to have such drastic effects that any major inconveniences would be felt in European trade. It would appear extremely desirable, however, when this occurs, for the customs policy of the Free Trade Area to be reviewed by all countries which are free to adjust their tariffs.

As this problem is an especially difficult one for the U.K., which has the Commonwealth to think of and wishes to retain Imperial Preference, the following theoretical solution may possibly be considered. The continental O.E.E.C. Countries only would unite their outer tariffs in something like a "technical" customs union, and the United Kingdom alone remain a "technical" customs free-trade area. In this case the U.K. could even think of levying compensatory export charges for adjustment purposes on basic products from the Commonwealth which were included in the U.K's export of free trade goods, so that the distortion due to varying tariffs would be eliminated in this respect. A solution of this nature would be a purely technical one and not have any political consequences in Europe. For the non-European Commonwealth countries, this might even perhaps be much better than to fix excessively far-going nationalising regulations for the whole Free Trade Area of the Seventeen because the U.K. grants freedom from duties on a large number of Commonwealth goods. Similar action with compensatory charges on the export of free-trade goods containing preferentially treated basic products might be made use of by Germany for East German basic products, and by France for basic products from non-European territories.

The Institutions

In the Rome Agreement The Six have already decided on the creation of a Parliamentary Assembly, a Council, a Commission, and a Court. The Seventeen cannot yet decide what organs they will require.

It should be noted that there has been only limited discussion regarding the setting up of Institutions for The Eleven. This may result in the whole-time specialists of The Six obtaining a technical and training superiority as compared with the presumably more haphazardly appointed representatives of The Eleven, who have no other joint forum or secretariat than the collective institutions of The Seventeen. In the Rome Agreement it has been anticipated that divergencies of interest might occur between members and that these divergencies possibly could not be overcome by unanimous decision. Should such an event threaten the Community of The Six, a method has been evolved for an alternative way of arriving at a decision.

Probably similar cases may arise in the case of The Seventeen. It would be dangerous to ignore the risks of economic strain between members being greater among The Eleven, which include both the wealthiest and poorest States in Europe, than in The Six. The Eleven would be an atomic conjunction in comparison with the more tightly knit Community of The Six, and it must therefore be more difficult to arrive at decisions among The Seventeen. It can hardly be doubted that The Six, in accordance with their Agreement, would, before joining a meeting of the larger Seventeen-nation group, hold private meetings regarding their policy in O.E.E.C. and in such organs as The Seventeen may be obliged to constitute. Such discussions on the official plane would be copied on the private plane, e.g. in international trade association conferences, where The Six meet internally before meeting their colleagues from other countries. It would be unnatural were The Six to refrain from an attempt to follow up this institutional advantage. Difficult communication and co-ordination problems therefore await The Eleven.

The Effects of European Co-operation on Outsiders

The decision to create the Economic Community of The Six has caused misgivings in non-European countries. The creation of the Free Trade Area of The Seventeen would be a still larger factor in world trade. The import of non-European finished goods to a value of about 3.1 billion dollars would perhaps be more difficult to place in Europe if The Seventeen facilitated the exchange of finished goods between themselves from a customs point of view.

The necessity for Western Europe to import from outside Europe appears, however, to increase together with economic activity. If the creation of the Free Trade Area brings with it a marked increase in national income, it may happen that a certain surplus will spill over to non-European suppliers. Under the most favourable conditions this might even produce an absolute increase in the Free Trade Area's imports from outside. There are considerable risks, however, that the non-European countries would either have to sell less or get lower prices than formerly on the European market. As the majority of poor non-European countries send a considerable part of their exports to O.E.E.C., it is not difficult to understand their uneasiness. For many of them even a slight deterioration of their terms of trade with Europe would mean the difference between economic progress and stagnation.

If the purely non-European countries (not Colonies, etc.) making deliveries to Europe find it more difficult than at present to make sales, their possibility of making purchases in Europe will also be reduced, and thereby the possibilities for Europe to export to them will likewise go down. European exporters to non-European countries should, therefore, try to estimate how their possibilities of making sales may be altered. It is to be hoped that, at its further meetings, O.E.E.C. will not exclusively devote itself to the juridical regulations of the West European Free Trade Area but also realise its great importance in world trade.

If non-European countries should consider that the creation of a Free Trade Area would create serious risks for them, they can hardly sit with folded hands. Were the Free Trade Area to cause increased difficulties for American export to Europe and perhaps at the same time increase European capacity for competition on the American market, it will be difficult to restrain American protectionism.

As Europe will hardly be in a position to formulate any tariff policy towards non-European countries before some 11/15 years, there are obvious risks of a grave deterioration of relations between Europe and the U.S.A. in the commercial field, if great conciliatory efforts are not made on either side.

At the same time as the creation of European Free Trade Area would make the direct export of goods to it more difficult, it would open fresh inducements for non-European business men to instal themselves within the duty free district of Europe. By the creation of a Free Trade Area, possibilities will open for American concerns to establish European subsidiaries with a fully independent production capacity. Wheresoever such subsidiaries may be established in the Free Trade Area, their products would enjoy European freedom from customs, and thereby enjoy a market with about 280 million inhabitants and a national income (200 billion dollars) half as large as that of the United States. Were factories to be placed in the U.K. or Ireland they would, through the Commonwealth, also obtain a joint market nearly as large as the American one in purchasing power. European industrialists should have every reason to ask themselves how competitive European business management and production technique is in comparison with the American opposite number which may be established in Europe.

DaNoSve, the Nordic Countries and the Free Trade Area

It has been decided not to arrive at a final decision as to the Nordic market before some time in the autumn of 1958.

The Nordic countries are a by no means despicable negotiating team from a trade point of view. From Table 3 it will be seen that in 1955 DaNoSve was the U.K's best customer in the world and the next best customer of Germany and Benelux.

If The Six regarded the world around them from a trade-political

Table 3. Da-No-Sve as the Customer of Various European Countries 1955.

The customer countries arranged in size according to the F.O.B. value of exports of the country of origin. Values in million $.

Source: UN-Direction of Trade 1955.

		Export-value
United Kingdom		
To the world		8,467.0
To		
1	Da-No-Sve	813.6
2	Australia	801.9
3	U.S.A.	658.9
4	Belgium Lux	507.4
5	S. Africa	473.5
6	Canada	405.2
7	N. Zealand	392.4
8	India	366.8
Western Germany		
To the world		6,138.0
To		
1	Belgium Lux	991.5
2	Da-No-Sve	789.6
3	France	434.5
4	U.S.A.	387.4
5	Switzerland	364.0
6	Italy	342.4
7	Austria	324.5
Belgium Lux (excluding Belgium Lux internal trade)		
To the world		4,559.0
To		
1	W. Germany	785.2
2	Da-No-Sve	438.5
3	France	410.7
4	U.S.A.	404.7
5	Belgian Congo	143.6
6	Indonesia	87.4
Switzerland		
To the world		1,308.0
To		
1	W. Germany	175.7
2	U.S.A.	151.2
3	Italy	107.7
4	Belgium Lux	102.6
5	Da-No-Sve	73.3

		Export-value
Italy		
To the world		1,857.0
To		
1	W. Germany	233.1
2	U.S.A.	159.9
3	Switzerland	134.9
4	United Kingdom	134.5
5	France	108.2
6	Belgium Lux	94.6
7	Da-No-Sve	83.8
France		
To the world		*4,800.0
To		
1	Algeria	570.7
2	W. Germany	503.6
3	Belgium Lux	480.6
4	United Kingdom	353.3
5	French West Africa	226.8
6	French Morocco	213.1
7	Switzerland	211.7
8	U.S.A.	205.6
9	Italy	185.4
10	Da-No-Sve	185.0
11	Tunisia	131.6
12	Indochina	120.5
Austria		
To the world		699.0
To		
1	W. Germany	175.3
2	Italy	117.7
3	Belgium Lux	40.7
4	U.S.A.	34.5
5	Switzerland	32.2
6	United Kingdom	25.6
7	France	23.7
8	Yugoslavia	21.5
9	Da-No-Sve	20.6

* France exports a total of $ 1,524 million to her own non-European districts = 31.8 % of her total exports.

point of view against the background of trade in 1955, they would find that the Nordic market would be their biggest customer in the world, and especially valuable on account of its purchases of what are here described as dutiable goods (SITC 5—9). The four Nordic countries purchased from The Six in 1955 to the f.o.b. value of 1,561 million dollars, of which not less than 1,132 million dollars were dutiable goods. The little group of Nordic countries was thus a bigger customer of theirs than, e.g. the United Kingdom whose purchases only amounted to 1,242 million dollars, of which only 648 million were dutiable goods.

The export of The Six to U.S.A. and Canada together amounted only to 1,294 million dollars, of which 1,028 million were dutiable goods. The Nordic market would further be a larger one for The Six than the whole Latin-American market, whose purchases amounted to 1,217 million dollars, of which 1,134 million were dutiable goods. That is to say, practically the same as the Nordic market.

Perhaps one may venture to draw the conclusion that Nordic co-operation in Paris in the course of negotiations regarding the Free Trade Area, in order that it may be drawn up in such a manner that all Nordic countries can be satisfied with becoming members of The Eleven, would be the strongest factor in holding the Nordic countries together in the future, both from an economic and political point of view.

How far it will be possible for the Nordic countries to agree on the creation of a Nordic Market is another matter. The primary one is that possibilities should be created in Paris now for its feasibility should it be desired at a later date.

Conundrums for Commerce

During Negotiations regarding the Free Trade Area

Swedish business men (and in many respects other European business men are faced with the same problems) must define their attitude towards the following points:

Definition of the Origin of Goods

If it is desired to adopt a liberal policy and, e.g. make it possible for a business to enjoy a lower tariff for increased improvement work on the basis of non-European basic products, it will also be necessary to have liberal rules for nationalisation. If it is desired to regard Europe as one's own domestic market which should be protected, one would favour a strict definition of the Origin of Goods.

Control of the Origin of Goods

How is your export carried out to different countries: through your own business, or through export firms which possibly wish to keep their supplier's name unknown? In the former case, it does not matter that you are obliged to fill out the Certificate of Origin: in the latter case the export firm will not be so pleased if it is obliged to reveal its supplier. Do you wish to have severe penalties for fraud, or perhaps the possibility of "being bound over"?

Freedom for Capital, Labour and Business

Do you need a high measure of freedom in order to deal with the changes which the creation of a European market will cause? If you wish greater freedom than you have at present in other countries, you must count on other countries' business undertakings wishing to have the same extended freedom in your country. Will you be handicapped if businesses of The Six have such flexibility while you have not?

Regulations for Competition

Do you wish to see rules restricting competition of the type which may be found in the Rome Agreement or some other type? Which regulation suits you best regarding resale price maintenance, co-operation between businesses with a view to rationalisation, licensing agreements, trade marks, protection of design, delivery obligations, or the possibility of collective sales organisations? Do you wish to be able to have the permissibility of your actions tried by, e.g., some international organ?

International Funds

Do you think that such serious difficulties will arise that they will necessitate co-operation and international financing, in order to ease adjustment to the Free Trade Area in the sphere of labour and business policy? Do you think that the creation of international funds will mainly be a financial burden on your country, or that it will profit thereby? Has your country any interest in buying itself into the non-European territories of The Six by subscription?

The Institutions

Do you feel that such conflicts will arise within your sphere between yourself and other European concerns, that you would wish to have them summarily settled by organs set up by the Free Trade Area and in accordance with regulations which are, for the most part, laid down beforehand? Would you prefer decisions made more on political lines or of a principally legal nature?

Dumping and Double Pricing

Are conditions within your area such that you may be exposed to competition through dumping, even if you have a legal opportunity to return dumped goods to the country of origin without payment of duties? The question is thus whether it is practically possible for you to collect or, through a representative, buy up dumped goods in order to return them to the country of origin. If you are afraid that other member countries would conduct a slacker anti-dumping policy than your own country, so that the dumping indirectly damages your sales prospects in a third country, do you then wish to be able to demand that the slack country should tighten up its dumping policy? and likewise vice versa? Which forms of doublepricing occur in your sphere and how do you propose to try to meet them?

Other Discriminatory Measures

Are there today other hindrances to your exports than customs duties and import regulations, such as standardisation of a special nature for protectionist purposes, exceptional testing regulations, cumbrous regulations for deliveries to public enterprises, veterinary regulations, taxation regulations etc? Do you wish to try to have such regulations prohibited by agreement in the Convention for the Free Trade Area?

When the Free Trade Area has been Created

Development of the Market

Your own customs protection decreases, but so does that of other people. Would outside competition increase for this reason, or would it possibly decrease, if your most serious competitor found it still easier to operate on other European markets than on your own? Do you think that it will be possible for your European competitors to obtain a breathing space by reason of the flexibility of customs reduction, and for some years only be subject to a very small reduction (5 % per annum) of their duties on finished goods, possibly rounded off by specially swift reductions of their duties on European basic goods, in order to give increased nett customs protections to these finished goods?

Have your European competitors lower duties on certain non-European basic products than you? Can they make profit by this at your expense and what difference does this make to the price of the finished article? Are your non-European suppliers so keen to sell, that they would possibly forego part of their price by themselves paying the import duty in your own country or in other European countries? Would it be possible that the remaining customs protection against non-European goods would drive out certain non-European competitors? or would the position be that non-European lack of currency would reduce Europe's sales in non-European markets, so that competition in Europe would become keener and over-production would result?

How large is your possible European market? Will the consumption of your goods increase or decrease as a result of an improved standard of living? Is there a kink in the demand curve for your products, so that sales perceptibly either rise or fall when the average income of a country reaches a certain point? In what countries is such an average income being approached? What is the nature of your other European competitors, their production capacity, and their ability to supply themselves? What are their prospects of exporting to various markets, the size of their business undertakings, to what extent do they specialise in production, what is their wage level, and their productivity? What does a European Trade Matrix look like for your products, with quantities and average prices per unit of weight.

Production

Do you expect to lose part of your internal market, and how does this affect your production programme? Or do you consider you are about to obtain a nett increase? Will the competitive position show identical changes in respect of all your products? Can you continue to have a wide range of products, or must you possibly give up certain lines? Can you produce runs which are sufficiently long on a falling internal market and with an unchanged range of articles produced, or must you specialise with a view to the internal market exclusively, or will you be compelled to export in order to keep up a profitable length of runs?

Your Plant

You have an Investment Board Meeting tomorrow and decide on a machine which it takes 2 years to deliver and which has a life of 10 years. During the later part of its life European customs dues are reduced by at least 60 %. What sort of machine will you require for that market? Is your present equipment usable, even if you have to concentrate on certain specific products in your present manufacturing programme? Will you continue to manufacture everything yourself, or would it be better to make use of such sub-contractors as may possibly come into being with the creation of a larger market, when even items of detail can be manufactured in specialised concerns? If you make an article which proves a success in the European market, will you maintain a reserve capacity so as to be able to profit by such a chance, or have you sufficient trust in your colleagues at home (in their skill, capacity and loyalty) that you would venture to pass part of the order on to them? Would it be advantageous to begin co-operation with your trade colleagues so as to have such "shadow" capacity at gour disposal?

Business Administration

Which member of your concern will you appoint to keep an eye on these methods? Could you hire export managers ready for appointment or must they be trained inside your own business?

Sales and Distribution

How will you sell to different countries? Are you going to start to build up a sales organisation now and stand the losses during a period of transition? Are you going to work on your own or in conjunction with your trade colleagues? Have you a knowledge of methods of purchase, seasons, etc. in other markets?

Purchasing

When import duties disappear on European articles, the question will arise, whether you will pass over the purchase of your basic products now obtained at home to suppliers in other European countries. When duties remain for non-European products but disappear for European ones, will you be forced thereby to obtain supplies from European suppliers instead of non-European ones? How will your sources for purchase be affected by regulations as to the origin of goods, by which it may become impossible to use certain non-European basic products if the finished article is to become a free trade article?

Localisation

Are you going to remain in your present locality, or will it be preferable to move? Would it be more advantageous to place some machinery abroad, where wages or conditions of work are more favourable? In respect of which finished goods will production be stimulated in your country, because raw materials exist there, which hitherto have only been worth while improving internally to a limited extent on account of high customs duties or quantative regulations in other European countries? How will the transport regulations in the free trade area affect the localisation of your concern? Is it possible that opportunities will arise for a European c.o.d. (mail order) business when trade barriers disappear, or for retail chains on a European basis? Will there be greater mobility for production machinery than for distribution machinery with regard to localisation, and to what extent will the one compensate for the other?

The Size of Businesses

Will giant businesses be necessary in your industry in order to make full use of technique in its present state of advancement, or is it possible to run highly specialised small concerns? What are U.S.A. experiences in your sphere of goods?

Co-operation and Finance

Do consultants exist who can assist you with production and distribution problems for a really large market, or would it be desirable to try to co-operate on the technical plane with, e.g. American concerns? Would it be possible for these also to be interested in financial co-operation, e.g. on a product of which sales prospects seem threatened by the existence of the European Free Trade Area? In which countries or districts is government assistance or taxation rules particularly suitable for commencing new undertakings (as in Southern Italy and Ireland)?

Conclusion

The Rome Agreement came into force on the 1st January 1958. This brought with it drastic alterations in the position of the Seventeen O.E.E.C. States in negotiations regarding the Free Trade Area. Up to 1st January 1958, each O.E.E.C. State was sovereign as regards the conditions on which it would join the Free Trade Area or remain outside. Now, however, The Six can only join the Free Trade Area as a collective body. A single member state of The Six can prevent its five fellow-countries from joining the Free Trade Area. This *might* mean that the Free Trade Charter has to contain everything that one single member of The Six wants to see included, and on the other side must not include such items as any one member of The Six views with disfavour.

It may therefore be anticipated that the contents of the Free Trade Charter will be dictated by the most protectionist member of The Six to a far greater extent than has hitherto been considered desirable by the Eleven. Thus, formally speaking, the French Government has the possibility by itself of deciding on the form for extended economic co-operation in Europe.

A special arrangement in order to meet the French demands on the Free Trade Charter might be capable of technical arrangement. If it is not desired to construct a Free Trade Charter for all countries in line with French wishes, it might be possible instead to insert certain exceptions in respect of France in the Charter. Such a step would appear to be facilitated by the fact that France's membership of the Free Trade area is obviously decided by the Council of The Six, and need not formally be treated by the French National Assembly unless it became necessary to make alterations in the text of the Rome Agreement.

One consequence of this position is that The Eleven can no longer regard demands advanced by France in O.E.E.C. for specific regulations in the Free Trade Charter as a matter which can be ignored. Further, it must be assumed that the Free Trade Charter will hardly include such regulations as would necessitate an alteration of the text of the Rome Agreement, if such alterations might be anticipated to meet with opposition in the French National Assembly.

As a group, The Eleven are economically weaker than the Six and further are without the internal cohesion that a joint organisation gives. Of The Eleven, the business life and foreign trade of Switzerland and Austria is so intimately linked with that of the Six State Group, that they absolutely could not contemplate remaining outside The Six if the Free Trade Area did not come into being. In such an event, both these countries would presumably be forced to conclude separate agreements with The Six as a collective body, and in the course of negotiation on this subject, The Six are beyond question the stronger party. For the Nordic States and the United Kingdom it would be highly regrettable, both from a trade and currency point of view, if the Free Trade Area did not come into being. The Six have, however, such an export surplus against the Nordic countries that severe perturbations in Europe's trade patterns might be expected.

The gravest threat is, however, that a failure in O.E.E.C. to settle on a Free Trade Area would divide Western Europe into at least two blocks. The result of the Rome Agreement coming into force and the consequence of its juridical regulations are, therefore, that each member of The Eleven has been forced, singly, into a dilemma, and that the more liberal members of The Six have lost their freedom to realise this liberal point of view.

This position is a serious one for Europe, and the necessity to make an effort to reach an agreement becomes more important than ever.

Table 4. Total exports of OEEC countries in 1956; broken down into **Raw Materials** (SITC 2—3), **Foodstuffs** (SITC 0, 1, 4) and **Dutiable Goods** (SITC 5—9). In absolute values (millions of U.S. dollars) and in percentages. Values fob.

	To World				To the Eleven				To the Six				To World outside OEEC				Percentage break-down of exports of Dutiable Goods on areas			
	Total exports		Raw Materials		Foodstuffs		Dutiable Goods		Foodstuffs		Dutiable Goods		Foodstuffs		Dutiable Goods		Total	To the Eleven	To the Six	To World outside OEEC
	mill. $	%	mill. $	%	mill. $	%	mill. $	%	mill. $	%	mill. $	%	mill. $	%	mill. $	%				
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
1 Denmark	1,092	100	61	5.7	354	32.4	120	10.9	228	20.8	75	6.9	120	11.0	134	12.3	100	36.2	22.8	41.0
2 Norway	770	100	152	19.6	55	7.2	165	21.4	45	5.8	100	13.0	94	12.2	160	20.8	100	38.8	23.6	37.6
3 Sweden	1,940	100	806	41.6	16	0.8	371	19.2	41	2.1	248	12.5	16	0.8	442	22.8	100	35.1	23.0	41.9
1—3 Da-No-Sve	3,802	100	1,019	26.6	425	11.2	656	17.2	314	8.2	423	11.0	230	6.2	736	19.4	100	36.2	23.1	40.7
4 United Kingdom	8,882	100	751	8.6	49	0.6	974	10.9	84	1.0	928	10.7	405	4.6	5,691	63.6	100	13.1	12.5	74.4
5 Switzerland	1,448	100	32	2.2	9	0.7	208	14.4	60	4.1	491	33.9	20	2.1	629	43.4	100	15.6	37.0	47.4
6 Austria	849	100	235	27.7	2	0.2	106	12.5	21	2.5	214	25.2	2	0.2	269	31.7	100	18.0	36.3	45.7
1—6 Real free trade area countries	14,981	100	2,037	13.6	485	3.2	1,944	12.9	479	3.2	2,056	13.9	657	4.4	7,325	48.9	100	17.2	18.3	64.5
7 Ireland	290	100	25	8.6	170	58.6	55	19.0	18	6.2	5	1.7	9	3.1	9	3.1	100	79.6	7.4	13.0
8 Iceland	63	100	4	6.3	14	22.2	—	—	10	15.9	—	—	35	55.5	—	—	100	—	—	—
9 Greece	190	100	55	29.0	26	13.7	1	0.5	50	26.4	4	2.1	42	22.1	11	5.8	100	6.3	25.0	68.7
10 Portugal	300	100	72	24.0	24	8.0	22	7.3	36	12.0	16	5.4	34	11.3	96	32.0	100	16.4	11.9	71.7
11 Turkey	305	100	81	26.5	28	9.2	6	2.0	61	20.0	7	2.3	114	27.4	8	2.6	100	28.6	33.4	38.0
7—11 Countries under economic development ..	1,146	100	237	20.6	262	22.8	84	7.3	175	15.3	32	2.8	234	20.4	124	10.8	100	35.0	13.3	51.7
1—11 **The Eleven**	**16,127**	**100**	**2,274**	**14.1**	**747**	**4.6**	**2,031**	**12.5**	**654**	**4.1**	**2,088**	**12.9**	**891**	**5.5**	**7,448**	**46.2**	**100**	**17.5**	**18.1**	**64.4**
12 Belgium+Luxembourg	3,168	100	412	13.0	25	0.8	436	13.7	86	2.7	1,076	34.0	41	1.3	1,091	34.5	100	16.7	41.3	42.0
13 Holland	2,862	100	558	19.5	228	7.9	281	9.8	433	15.1	487	17.0	255	8.9	619	21.6	100	20.2	35.1	44.7
14 France+Saar	4,541	100	722	15.9	118	2.6	501	11.0	158	3.5	642	14.1	397	8.7	2,003	44.0	100	15.9	20.4	63.7
15 Italy	2,157	100	291	13.5	164	7.6	277	12.8	196	9.1	293	13.6	135	6.3	801	37.2	100	20.2	21.3	58.5
16 Germany	7.358	100	802	10.9	69	0.9	1,962	26.8	57	0.8	1,655	22.4	84	1.1	2,728	37.1	100	31.0	26.0	43.0
12—16 **The Six**	**20,086**	**100**	**2,785**	**13.9**	**604**	**3.0**	**3,457**	**17.2**	**930**	**4.6**	**4,153**	**20.7**	**912**	**4.5**	**7,244**	**36.0**	**100**	**23.2**	**28.0**	**48.8**

Comment to table 4

This table constitutes a summary from the commercial policy angle, of the trade tables to be found in the Swedish original. In it, the total exports of the different OEEC member countries been broken down into three different main categories: Raw materials, Foodstuffs and Dutiable goods. Exports of Foodstuffs and Dutiable goods have been further broken down according to areas of destination: the Eleven, the Six and the World outside OEEC, expressed in absolute values and as percentages of total exports of each country. Finally, exports of dutiable goods have been broken down between the three areas of destination.

Column 1 of the table shows that in 1956 the United Kingdom was the largest European exporter with W. Germany next.

Column 3 shows that Sweden is the largest European exporter of Raw Materials, and that her export of raw materials represents a high proportion of total exports being not less than 41.6 % in the case of Germany, which in absolute value is the second biggest exporter of raw materials, their percentage of total exports is only 10.9 % as compared with 41.6 % for Sweden. It can be assumed that Raw materials will be very little affected by the European market, as most of them already are dutyfree in all countries.

An examination of the exports of each country *to the Eleven* (see columns 5—8) shows that Denmark is the largest exporter of Foodstuffs, the Netherlands coming second. For the majority of member countries, Foodstuffs are a fairly small item in their exports statistics, but for Denmark and some of the underdeveloped Free Trade countries represent an important source of income.

Exports of Dutiable goods to the Eleven are interesting. W. Germany alone exports almost as much in Dutiable goods to the Eleven as those eleven countries deliver to one another. Globally the Six, as suppliers of Dutiable goods to the Eleven, are 75 % more important than are the Eleven as suppliers to one another. The Six would therefore appear to have a considerable interest in the creation of a Free Trade Area to round off their own market. This applies particularly to W. Germany, which has larger customers among the Eleven than it has among the other members of the Six. (Cf columns 7 and 11.)

Exports to the Six (columns 9—12) show i.a. that the Six sell twice as much Dutiable Goods to one another than they do to the Eleven. Of all OEEC countries, Belgium, Switzerland and Austria, in that order, are most dependent on their exports to the Six. As Switzerland and Austria belong to the real Free Trade Area countries, their position will be extremely difficult if there is no Free Trade Area and may be doubted whether, in such an event, they will be economically capable of remaining outside the Community of the Six.

Exports to the World outside OEEC is, as regards Dutiable Goods, dominated by the United Kingdom and the Six. If we deduct from the total exports of the Eleven to the Outer World the exports of United Kingdom, we find that the remainder only amounts to (7,448—5,691) = 1,757 million dollars. The exports of dutiable goods of the other member countries of the Eleven are for the most part to European destinations.

In the last four columns (17—20), the total exports of Dutiable Goods have been divided between the three areas of destination. The exports of the Eleven to the Six will be in danger, if the Free Trade Area is not realised. The exports of the Six to the Eleven might also be endangered if the Free Trade Area is not created. This danger to the Six and their exports to the Eleven arises from special causes. If the Eleven do not form their own customs area with particular preferences for one another, the Six will not face more customs barriers than they do to-day. But as the Eleven will find it increasingly difficult to export to the Six, their income in Six-community currencies may decrease so much that they will find it impossible to maintain their present level purchases from the Six. Among the countries belonging to the Community of the Six, W. Germany is particularly dependent on its exports to the Eleven, and France the least dependent—*but only to-day.* French independence of exports to the Eleven can change rapidly if further difficulties arise for French exports to her Overseas Territories, which are the main customers for French exports to the World outside OEEC.

English editions of SNS publications.

Industrial Relations in Sweden by Charles A. Myers, Professor at the Massachusetts Institute of Technology. 1951. Sw. Cr. 8: 75. (Also published by the Technology Press, Cambridge, Mass.)

Business Cycles and Economic Policy by Erik Lundberg, Professor of Economics, University of Stockholm. 1957. Published by Messrs. Allen & Unwin of London and the Harvard University Press, Cambridge, Mass.

Pamphlet and memoranda series:

SNS. Its Aims — Its Work. 1954

Business Cycles and Economic Policy by Erik Lundberg. 1953.

Management, Unions and Society by Edmund Dahlström. 1954.

The Federal Antitrust Policy by Hans B. Thorelli. 1954

Women Workers in Industry by Gudmund J. W. Smith and Andreas Lund. 1955.

Salaried Employees and the Industrial Transformation by Erik Höök. 1955

Swedish Public Administration at Work by Gunnar Heckscher. 1955

Man in Industrialized Society by Torgny T. Segerstedt and Agne Lundquist. 1956

Internal Communication by Edmund Dahlström. 1956

Overall Planning and Management in Sweden by Hans B. Thorelli. 1958

The European Common Market and Business by Wilhelm Paues. 1958

Studieförbundet Näringsliv och Samhälle
Sköldungagatan 2, Stockholm Ö. Sweden