CHAPTER III

THE DOMESTIC SCENE - ECONOMIC IMPLICATIONS
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In the Western world Great Britain was the first country to experience the Industrial Revolution which brought about a wholesale transformation in political, economic, and social life in Europe and North America. Much of the pre-eminence that Britain enjoyed during the Nineteenth and part of the Twentieth centuries was dependent on its position as a great economic and trading power. During the heyday of the British Empire at the turn of the century Britain was the hub of all commercial and industrial activities in the world.

The two World Wars in the present century, however, dealt severe blows to Britain's economic standing greatly reducing its power and prosperity. The process of decolonisation that got underway soon after the end of the Second World War brought into sharp focus the economic vulnerability of Great Britain. Though Britain did get substantial assistance from the United States under the 'European Recovery Programme' (ERP), it was unable, in the years to come, to regain its former economic status, seriously debilitated, as it already was, due to the War and the subsequent loss of its Indian Empire.

Despite the devastations caused by the War Britain, however, could recover and establish a considerable degree of economic stability, and even some measure of prosperity, during the first decade after the war. As has already been noted in a previous chapter, the economic performance was good enough to generate a degree of confidence among the nation's leaders which emboldened
them to turn down offers of participation in the European economic integration movements pioneered by France and the Federal Republic of Germany in the early 1950s. Britain was still considerably better off economically than other West European countries; besides other political compulsions, hitching Britain's economy to a European customs union, like the EEC, with all its concomitant economic claustrophobia and uncertainties was considered extremely unwise by the country's policy makers.

However, for a country that was crucially dependent on its manufacturing industry and on its ability to export manufactured goods to enable it to buy most of its food and raw materials from overseas, it did not take too long to realise the true significance of a mass common market of 180 million people created by the EEC. The failure of the European Free Trade Area negotiations with the EEC left Britain, as seen by its leaders, with no choice but to move an application for membership of the Community in 1961. The economic performance of the countries comprising the EEC within a very short period of its creation had greatly impressed the British leaders who were faced with a chronic problem of low industrial productivity, and thus, low economic growth and a recurring balance of payments crisis.

During the course of the next twelve years the debate, made more prolonged than it need have been by two French vetoes, focussed primarily on the economic benefits expected to accrue as a result of the Community membership. In the very first debate at the House of Commons in August 1961 the Prime Minister Harold Macmillan dwelt at length on what he considered to be a good opportunity to revive the British economy through membership of the EEC.
He referred to the mass market created by the EEC and the spur this had given the European industrialists to competitiveness and efficiency. For a country such as Britain which had been sheltered from competition because of protective tariff set up during the war and which in the long run needed to export to other people to be able to meet its own basic economic requirements, the Common Market, Macmillan felt, was a great challenge. Besides providing the much needed competitive thrust to British industry, the Common Market membership would also naturally prove beneficial from the point of view of overall national industrial production. It was argued that modern industries such as Petro-chemical and Plastic industries which required heavy capital investment could achieve maximum economic efficiency when their equipment could be used continuously at maximum capacity. So these industries could only be established and developed economically when their products could be absorbed by a mass market, a requirement fulfilled ideally by the EEC.

The Labour Party, and especially its economic spokesman Harold Wilson, who later became the Party Leader and a year later Prime Minister, was initially sceptical about any economic benefit from the EEC. However, within a fairly short period of assuming office Wilson's opinion about the Community and the way its institutions worked began to change; prior to the second British application Wilson made a frank admission in the Parliament that his earlier opposition to the EEC was "based on a literal reading of the Treaty of Rome and regulations made under it" and his experience of

2 Ibid.
the Community's actual working rendered his earlier fears and anxieties unfounded.\textsuperscript{3}

Thus, leaders of both the major Parties had now come round to the view that joining the EEC could provide the much needed spurs for a major British economic revival. Participating in the EEC Membership debate on 8 May 1967 Harold Wilson submitted that while he did not think that entry into the EEC would lead to an automatic solution to all of Britain's economic problems, the overall impact would be beneficial for the British industry and economy. The sudden exposure to what he called a cold blast of competition might make the weak and inefficient firm to go under but it would re-invigorate the efficient and, thus, facilitate the process of improved performance of the British economy as a whole.\textsuperscript{4}

The Conservative Government of Edward Heath, which finally took Britain into the EEC, argued the economic case for Britain joining the EEC in considerable details in their White Paper published at the time. It re-iterated the advantages of joining a larger market and the opportunity to play a full part in the development of industries based on advanced technology which was being continuously promoted through research and development in Western Europe.\textsuperscript{5}

The experience of the original six Members of the Community came in for very special mention in the White Paper. The creation


\textsuperscript{4} Ibid., Col. 1062-64.

\textsuperscript{5} UK, HMSO, \textit{The United Kingdom and the European Communities} (London, 1971), Cmnd. 4715, Paras 46-8.
of the Community, it was argued and the abolition of tariffs over the years 1959-68 provided a strong and growing stimulus to the mutual trade of Community countries. This resulted in greater competition and a significant increase in more efficient performance of manufacturing industries in the six countries. There was a growth in investment and "a significant improvement in the rate of growth of manufacturing productivity, and, therefore, higher national incomes in the Community ...."\(^6\)

This rapid growth in manufacturing productivity in the six countries was a key factor in bringing about economic prosperity and a standard of living higher than that of Britain. This economic progress had been primarily due to the changes brought about by the creation of the Community, as was widely believed by the Governments, the industries and the trade unions in the six countries. As the economic structure of Britain was in many respects similar to that of the member countries of the Community, who had clearly benefitted from their experience, the Conservative Government argued that Britain too would benefit from expected improved efficiency and productivity in British industry, with a higher rate of investment and a faster growth of real wages. This belief was also shared by a substantial majority of British industry who had displayed a keen interest in the matter from the very beginning.\(^7\)

\(^6\) Ibid., para 50.

\(^7\) Ibid., paras 52-6. In 1967 Harold Wilson had also referred to a Confederation of British Industries (CBI) report based on a sample survey of British industry in which about 70 per cent of those who responded said that they expected to benefit from a British entry. UK, Commons, Parliamentary Debates, Session 1966-67, vol. 746, col. 1063.
This, however, was one side of the argument. There also existed an opposite view held by the anti-Marketeers who felt that membership of the European Communities would be economically very damaging indeed for Britain. The most immediate impact of Britain joining the Community, the anti-Marketeers argued, would be an all round escalation in the cost of living, especially in the price of food. As a member Britain would be obliged to adopt the EEC's Common Agricultural Policy which would mean imposition of the high food prices, prevailing in the EEC, on Britain as well. According to the rules of the EEC cheap food from the Commonwealth, Britain's traditional source, would be excluded and what was still allowed to come in from outside the EEC would be subjected to high import levies.\(^8\)

The rise however would not remain confined to food prices alone. Imposition of the EEC's Common External Tariff (CET) in line with the requirements of EEC Membership would also push up the prices of industrial raw-materials many of which entered Britain tariff-free. This would add to industry's cost of production which would in turn be reflected in higher prices of consumer products.\(^9\)

There was also fear about the prospects of the balance of payments suffering as a result of British entry. Throughout the 1950s Britain had enjoyed very large export surplus in foreign trade ranging from £350 million to £180 million. From 1959 onwards the situation took a turn for the worse resulting in a huge deficit in 1960 of £300 million of which the deficit with the EEC

\(^9\) Ibid., p. 45.
was to the tune of £150 million. This was without any tariff reduction. It was feared by the anti-Marketeers that this figure would rise further when the tariffs were reduced following the British entry into the EEC.¹⁰

The anti-Marketeers also disagreed with what they considered to be rather optimistic views about the impact of competition on British industry. Labour anti-Marketeers feared that uninhibited competition with European industry may not necessarily prove to be the shot in the arm that the advocates of a regeneration of British industry were looking for. As one Labour MP put it during the course of a debate in the House of Commons: "One man's expansion is another man's redundancy .... If there is extra competition in Europe there will be less opportunity for someone somewhere else".¹¹

Thus, it is clear that there existed sharply divergent opinions on what Britain could expect economically from the membership of the European communities. This difference of opinion has also persisted during the course of the Community-membership and both sides have sought to explain hard facts through their own rationale. For instance, on the issue of trade the pro-Marketeers emphasised the crucial importance of the vast home market of nearly 250 million people provided by the EEC which took, in 1973-74, 32 per cent of total British exports and which was its fastest growing


¹¹ UK, Commons, Parliamentary Debates, Session 1970-71, vol. 823, cols. 1274-75. During the same debate Denis Healey, a leading Labour politician, pro-Market in principle, but opposed to the terms negotiated by the Conservative Government, expressed himself thus on competition, "An icecold shower of competition may be a bracing tonic for a healthy man, but it can give a sick man a heart attack". Ibid., col. 928.
export market. On the other hand anti-Marketeers dwelt on the theme of the seriousness of British trade deficit with the EEC. It was argued that, excluding oil products, the British 'crude' trade deficit with the original six EEC countries grew from £359 million in 1972 to £1,733 million in 1974, a figure which was much higher in comparison with those relating to British trade deficits with the rest of the world.

Not withstanding the fierce rhetorical exchanges between the pro and anti-Marketeers it is, however, certain that membership of the European Communities have had pronounced, if not an all pervasive, economic impact on Britain. While it is not within the scope of this study to deal with every aspect of the economic scene, the following areas can be studied in some detail for a clear picture to emerge. These are: Food Prices, Manufacturing Industry, Trade Pattern, the Budget Contributions, the EEC Regional Policy, and other miscellaneous areas.

A. Food Prices

As has already been noted, one of the issues that greatly agitated British minds when the question of prospective Community membership was being debated was related to food prices. For many years Britain has been a great importer of food and related agricultural products because as the harbinger of the industrial


13 UK, Labour Party, Research Department, The Common Market: In or out? : 1975 Referendum (London, 1975), p. 13. A crude trade deficit is the difference between exports and imports uncorrected to take into account the fact that the value of the imports included insurance and freight whereas the value of exports did not. Thus the crude deficit is higher than the real deficit. Ibid.
revolution agriculture did not figure very high in British economic management. The British Empire and subsequently the British Commonwealth met most of Britain's requirements for food and raw materials.

The degree of farming activity did increase in Britain during the post-War period but the country still greatly remained dependent on import of essential food items, particularly from the Commonwealth countries like Canada, Australia and New Zealand. In the early 1970s, Britain provided just over half the food it needed from its own soil. The remaining agricultural products such as wheat, meat, butter, fodder, grains, fruits, tea, tobbacco and wool were imported making Britain among the World's largest importers of such items. These imports were paid for by British exports of manufactured goods and by invisible earnings from foreign investments, shipping, insurance and banking.

Thus, as a result of its stable and secure sources of supply, prices of food in Britain were relatively cheaper than those prevailing in Europe and other parts of the world. For instance while 1 kilogram of best steak cost £ 1.98 in Britain in 1972, i.e. before it joined the EEC, the cost of the same item was £ 4.44 in Denmark, £ 2.63 in France, £ 2.35 in Germany, £ 2.89 in Holland and £ 2.13 in Italy. For 10 fresh eggs the corresponding figures were 24 P, 34 P, 30 P, 30 P, 29 P. and 33 P. Similar differences in the


16 Ibid.
prices of other items of food also applied with some minor variations. So it was no wonder that prospects of higher food prices to be brought about by membership of the European Communities was to create a serious controversy in Britain.

As part of the overall arrangements for entry into the Communities, Britain had to accept the Common Agricultural Policy (CAP) of the EEC. The Treaty of Rome which created the EEC laid down basic guidelines for common policies for the operation of the customs union of the six original Member countries. Likewise the basic principles of a common farm policy were set out in the Treaty of Rome although detailed arrangements for its implementation took many years of negotiations. The principal objectives as laid down in the Treaty are "to increase agricultural productivity, to ensure a fair standard of living for the agricultural community, to stabilise markets, to assure the availability of supplies, and to ensure that these reach consumers at reasonable prices".\textsuperscript{17}

Although the objectives were clearly earmarked at the time of the establishment of the EEC, it was not until the late 1960s that the main elements of the system were agreed upon by the six. The Common Agricultural Policy as it took shape during this period was essentially an elaborate and complicated mechanism of price support. The basic principle of the CAP is that there should be free trade in agricultural produce between member states and that common prices would prevail all over the Community. There is to be identical rules on competition and a single system of protection around the external frontiers of the Community. Target prices for

\textsuperscript{17} Commission of the European Communities, European File \textsuperscript{36}, \textit{Europe's Common Agricultural Policy} (Brussels, 1986), p. 6.
a variety of products such as cereals, milk products like butter and cheese, beef and veal, pigmeat and sugar are fixed annually by the Council of Ministers, the principal decision-making body in the EEC. Should the market price fall below the fixed prices to what is called an intervention price, the EEC intervenes and buys up the unwanted quantity to ensure that the farmer gets a minimum price. The surplus produce is then disposed off either by releasing it back on to the market when the prices rise or sold off to buyers outside the EEC; if there are no buyers it is destroyed.\(^\text{18}\)

When Britain joined the EEC in 1973 the CAP had already come into operation and according to the terms of entry Britain had to agree to its acceptance with some transitional arrangements which would permit an orderly adjustment by British producers to the Community's system of support and marketing; avoid sharp increases in food prices; and prevent abrupt dislocation of the exports of food, raw materials and other agricultural items of Britain's Commonwealth and other third country suppliers.\(^\text{19}\)

According to the arrangements worked out food prices in Britain, which were well below the Community levels, were to be brought into line over the five years of the transitional period. It was estimated by the Conservative Government at the time of the

\(^{18}\) Ibid., pp. 8-9. This policy encouraged such excess production of some commodities that occasionally they had to be sold off to outside buyers almost at throw away prices. For instance in February, 1977, 38,000 tonnes of surplus butter was sold to the Soviet Union at a price much below what the Community had paid to buy it.

\(^{19}\) UK, HMSO, n. 5, para 77. Under the CAP imports of agricultural items from outside the EEC were subject to levies which pushed up their prices to levels above those prevailing within the Community.
British entry "that membership will affect food prices gradually over a period of about six years with an increase of about 2½ per cent each year in retail prices. As food accounts for about a quarter of total consumer expenditure the effect on the cost of living would be about ½ per cent each year". According to Government calculation, however, the extent of the increase in food prices would depend on the difference between the Community and world food prices.

The debate on the question of rise in food prices and the extent of it caused by Britain's EEC membership has been mixed up with the pro and anti-EEC arguments in the country. The issue was also linked with the comparative prices prevailing at the Community and the world at large. In the early 70s the world prices of certain commodities, especially of grain, had moved up to Community levels and even above as a result of drought and bad harvest. This had made the Community prices look more attractive and provided the protagonists of the EEC with the ammunition to argue that the era of cheap food was over and in an era of food shortages and uncertain supplies the Community offered the best guarantee for secure and regular supplies albeit at a price higher than what Britons used to pay for many years. Even Labour Government spokesmen were arguing at the end of 1974 that as opposed to the expectation at the time of entry that there would be increases in the

20 Ibid., para 88. According to the White Paper published by the Labour Government in February 1970, food prices were estimated to increase by 18-26 per cent over the transitional period set out in that White Paper. But, since then, the Conservative White Paper argued, the gap between the UK and EEC food prices had considerably narrowed partly because world prices (and thus UK prices) had been rising faster than the Community prices. Ibid., para 89.


22 Ibid., col. 1457.
retail price index of between 1 and 1.5 per cent, statisticians were holding out the hope that access to the EEC would marginally keep down the food prices in Britain.\textsuperscript{23}

It certainly was the case that as things stood in 1974-75 Community prices of cereals and sugar were substantially lower than world prices and Britain was paying lower prices for these imports from the Community than world prices. On the other hand prices for certain other commodities such as beef were much cheaper on the world markets. This was also true of butter, mutton and lamb all of which could be bought more cheaply on world markets.\textsuperscript{24}

In subsequent years, due to better world harvest as well as the high cost of food production within the Community, world prices for most of the food items under review were more favourable. By the beginning of 1977 the world market prices for all the major cereals were less than half the EEC threshold prices. According to the report of the EEC Commission itself, the average price of wheat in the Community was 116 per cent above the world price, barley 106 per cent above, maize 103 per cent above, beef and veal 96 per cent above and butter 288 per cent above.\textsuperscript{25}

For Britain joining the Community meant far-reaching changes in its system of agricultural support. Prior to 1973 Britain operated its own system of agricultural support which was known as 'deficiency payments'. The principal characteristic of this method

\begin{itemize}
\item 24 Ibid., cols. 1942-3. All these items had either been banned from the Community markets or were subjected to the imposition of heavy levies and duties.
\end{itemize}
was that the Government gave guaranteed prices for the main products and the farmers received subsidies equal to the difference between these guaranteed prices and the lower market prices. Food that was not grown within Britain was imported duty-free. As a result consumers benefitted from prices that were substantially lower than those prevailing within the Community. As the Community system of price support was designed to make the consumer pay the cost of supporting the farmer, entry into the Community was bound to lead to higher food prices in Britain.

Since Britain joined the EEC in 1973 food prices rapidly increased. As noted earlier, some rise had been forecast in the Conservative Government's White Paper of 1971; however, the degree of escalation that actually took place in the mid-1970s had not been anticipated. According to the annual Economic Surveys conducted by the Organisation for Economic Cooperation and Development (OECD), the annual percentage increases in food prices in Britain for much of the 1970s were as follows: 1973 - 15 per cent, 1974 - 18 per cent, 1975 - 25.5 per cent, 1976 - 20 per cent, 1977 - 19 per cent, 1978 - 7.1 per cent, in all a cumulative price increase of 104.6% in six years. For the rest of the period under review the increases were as follows: 1979 - 12 per cent, 1980 - 12 per cent, 1981 - 8 per cent and 1982 - 7 per cent. Taking 1973 as 100 the food index stood in September 1980 at 330.27 This was much

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higher than the 1 to 1.5 per cent annual price rise anticipated at the time of Britain's entry into the Community.

More detailed figures given by the Labour Government in Parliament also corroborated this trend. For instance the percentage increases in the prices of butter, bacon, cheese, lard, beef and bread between 16 January 1973 and 16 November 1976 were as follows: Butter - 121 per cent, Bacon - 113 per cent, Cheese - 71 per cent, Lard - 171 per cent, Beef - 76 per cent, Bread - 96 per cent. During this period the rise in food prices in Britain was also the highest within the EEC. Increases in food price indices in EEC member countries between January 1973 and October 1976 were as follows: Belgium - 42.3 per cent, Irish Republic - 68.7 per cent, Italy - 98.8 per cent, Luxembourg - 42 per cent, Netherlands - 36.2 per cent and United Kingdom - 103.4 per cent.

The actual extent of the rise in British food prices due to EEC membership has been a matter of considerable controversy. According to one source although food prices increased by 293 per cent between 1971 and 1981 only 8-10 per cent of this can be attributed to the CAP. It was argued that other non-Community factors, such as rising world prices, a falling pound and a general rise in processing and marketing costs, were primarily responsible for the steep rise in food prices during this period.

World agricultural prices began to rise in the very year Britain joined the Community, taking British prices with them. As

29 Ibid.
30 Commission of the European Communities, n. 27, p. 5.
ill luck would have it even as these prices were coming down Britain experienced a bad drought followed by a drastic fall in the value of Pound Sterling against other leading, including European, currencies in the autumn of 1976. Both these developments were important contributory factors in the sharp rise in food prices during this period as manifested in the figures for 1975, 1976 and 1977.\(^{32}\)

The anti-Marketeers have, however, refused to accept this argument and held the CAP as primarily responsible for the rise in food prices in Britain. They argued that barring a short period world food prices had always been below those prevailing in the EEC; and that had Britain been outside the Community it would have been able to avoid part of this price rise.\(^{33}\) In fact, as Anthony Wedgewood Benn argues, if it is looked from the point of view of taxation of the cheaper world food that comes in under rules of the CAP or the British budget contributions the EEC could be said to have caused a lot of the rise in British food prices during the period under review.\(^{34}\)

Whatever the actual extent of the rise it does seem logical, however, that as a result of Britain's entry into the EEC the British food prices definitely took an upward turn. Acceptance of a Common Agricultural Policy forced Britain to impose levies on Commonwealth food imports, except for temporary arrangements for New Zealand meat and dairy products. Thus, as Commonwealth food became more expensive Britain was forced to buy more food

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34 See the author's interview with Anthony Wedgewood Benn, former Energy Secretary in the Labour Government and leading Labour Party Politician, on 10 December 1986 in London.
from Europe in pursuance of its commitment to bring its prices into line with the rest of the Community.

Apart from the rise in food prices membership of the Community has had notable impact on the level of British agricultural production and trade. There has been a considerable increase in the production of most agricultural commodities and especially cereals (51 per cent rise since 1970-72) and milk (24 per cent rise). There has also been a significant improvement in Britain's level of self-sufficiency. If all food items are included this self-sufficiency has risen from 49 per cent in 1970/72 to 60.5 per cent in 1981. For certain products the growth of self-sufficiency has been particularly noticeable. For instance Britain produced 57 per cent of the butter it required (as against only 17 per cent before entry) and almost all of its cereal requirements (as against 62 per cent in 1972) by the end of the period under review.

There have been profound changes in the pattern of British agricultural trade too. With rise in home production imports have fallen. Before 1973 food imports comprised 22 per cent of Britain's total import bill; by 1982 they came down to no more than 12 per cent. As expected there has been a change in sources of supply; the proportion of total food imports coming from other Community countries rose by 50 per cent in terms of volume since 1973. Consequently, supplies from the rest of the world fell by about a third. There was also a rise in British exports of agricultural products to other Community countries. Table 1 is quite revealing in this regard.

35 Commission of the European Communities, n. 27, p. 33.
36 Ibid.
37 Ibid., p. 35.
Table 1

<table>
<thead>
<tr>
<th>Year</th>
<th>Exports (£ million)</th>
<th>Imports (£ million)</th>
<th>Export:Imports %</th>
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<tbody>
<tr>
<td>1975</td>
<td>566</td>
<td>2101</td>
<td>27</td>
</tr>
<tr>
<td>1977</td>
<td>829</td>
<td>2318</td>
<td>36</td>
</tr>
<tr>
<td>1978</td>
<td>1132</td>
<td>2487</td>
<td>46</td>
</tr>
<tr>
<td>1979</td>
<td>1118</td>
<td>2688</td>
<td>42</td>
</tr>
<tr>
<td>1980</td>
<td>1283</td>
<td>2624</td>
<td>49</td>
</tr>
<tr>
<td>1982 (Jan-June)</td>
<td>685</td>
<td>1628</td>
<td>42</td>
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Thus, while membership of the Community was arguably a disaster for the British consumer, used to the benefit of years of high quality cheap food imported from efficient low-cost producers in the Commonwealth, it was undoubtedly beneficial for the country's small but efficient and energetic farming community who lost no time in reaping the maximum mileage out of the CAP.

B. Manufacturing Industry

As a nation which had traditionally been dependent on its manufacturing industry for its industrial and trading performance a lot of emphasis had been put during the twelve-year debate preceding the British entry on the prospect and the potential that a mass market of 180 million people offered. The importance of manufacturing in British industry can be appreciated from the fact that the share of semi-manufactures and finished manufactures in British exports of goods and services had been consistently around 60 percent between 1961 and 1973. However, as already noted, British

38 Ibid.
manufacturing performance was steadily declining during the post-War period in comparison with other industrialised countries. For instance in the period 1961-63 Britain occupied third position with a 15.6 per cent global share of exports of manufactured goods; the United States with 21.2 per cent and the Federal Republic of Germany with 19.7 per cent were in first and second positions respectively. By the time it joined the EEC in 1973 Britain had slumped to the fifth position behind France (9.7) and Japan (13.6) with only 8.9 per cent of the global share.

Membership of the EEC was considered by many of its advocates to be the only panacea which could halt this persistent decline, and provide the so-called "dynamic" effects by operating through increases in the scale of production, in competitive pressure and in profitability. A favourable environment, required by industry to grow and prosper, could be created where markets are large and are free from barriers to trade. The EEC, which is an industrial Customs Union surrounded by a common customs tariff and within which, theoretically, goods were traded free of all duties, quotas and other artificial barriers to trade, was expected to fulfil this condition.

However even a cursory assessment of the British manufacturing performance during the period under review reveals that these expectations have not been fulfilled. Far from being halted Britain's decline compared to other major developed economies as

40 Ibid., Table III, p. 7.
41 Ibid.
an exporter of manufactures not only continued but even accelerated after 1973. Table 2 highlights the situation.  

Table - 2

<table>
<thead>
<tr>
<th>Year</th>
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<th>Non-EC OECD</th>
<th>Rest of world</th>
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<td>1781 (221)</td>
<td>364 (171)</td>
<td>464 (172)</td>
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<td>1870 (219)</td>
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<td>462 (167)</td>
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<td>282 (130)</td>
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<tr>
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<td>1842 (182)</td>
<td>394 (152)</td>
<td>454 (156)</td>
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<td>1919 (178)</td>
<td>401 (148)</td>
<td>554 (152)</td>
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<td>1542 (154)</td>
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<td>362 (129)</td>
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<td>1981</td>
<td>2905 (109)</td>
<td>-3000 (82)</td>
<td>-2597 (78)</td>
<td>8502 (329)</td>
</tr>
<tr>
<td>1982</td>
<td>199 (101)</td>
<td>-5003 (75)</td>
<td>-3447 (74)</td>
<td>8649 (304)</td>
</tr>
</tbody>
</table>


44 EC 12 includes Greece which joined in 1980 and Spain and Portugal which joined in 1986. Figures in brackets denote Export/Import Ratios.
As is evident from the figures above British trade in Manufactures with the developed industrial countries of the European Community as well as the non-EC OECD countries took a serious turn for the worse since 1973 itself. While prior to 1973 British trade in Manufactures was in healthy balance with all parts of the world it has shown a persistent deficit with both non-EEC OECD countries and with EEC countries (including Spain and Portugal) since 1973. It is interesting to note in this context that while the imbalance with regard to the EEC and non-EEC OECD countries has steadily grown worse there has been a persistent and growing surplus with the rest of the world which more than offset the deficit with the first two areas.

The principal feature of the performance of the British Manufacturing industry since its accession to the Community has been a shift in the direction of both Manufacturing exports and imports towards the EEC. The magnitude of this shift which related to their overall performance varied from industry to industry. For instance it was above average for all manufactures in fibres, chemicals and steel both in exports and imports, in textile imports and in exports of clothing and knit wear, electrical equipment and motor products. It was below average in mechanical engineering in both directions and in imports of electrical equipment, motor products and clothing and knit wear.45

The chemical industry has been one of the more successful British manufacturing industries in its European trade. Chemical exports to the Community which were increasing even prior to 1972 rose more rapidly and considerably exceeded the average for all

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45 UK, Lords, n. 39, p. xli.
manufacturing. Imports also rose swiftly to a figure well above the average for manufacturing. The activities of the leading companies within the industry point to a shift towards the Community. Membership is considered by the industry, which is dependent on a large market, on the whole beneficial though not an unmixed blessing. It is however vigorously opposed to any question of a British withdrawal from the Community. 46

Peformance of the British Steel industry has been less satisfactory. At the time of entry the state owned industry was already in the grip of a world-wide crisis. There was a spurt in the volume of steel imports between 1970 and 1974 with most of the additional supplies coming from the rest of the Community. The EEC's share which was 29 per cent in 1970 and 42 per cent in 1972 rose to 72 per cent in 1974. While both the volume of imports and the Community's share had tended to stabilize since then the latter fluctuated between two-thirds and three-quarters of the total. There was a more gradual increase in the volume and proportion of British steel exports to the Community which rose from less than one-fifth to around one-third of the total exports during the 1970s. There was usually a deficit of one to one-and-a-half million tons annually in the British steel trade with the Community though exports to the rest of the world were normally sufficient to provide a small surplus on total trade. Inspite of its somewhat languid performance the spokesman for the industry, however, felt that Britain would have been worse off outside the Community trying to fend for itself in a world market plagued by recession and falling demand. 47

46 Ibid., paras 36-9.
47 Ibid., paras 40-3.
The mechanical engineering industry too had a frustrating experience with the European Community. As an industry, particularly hard hit by the recession and beset by competitive weakness, its trade with the Community has been little if at all affected by membership. It sent only 17 per cent of its exports to the original six members of the EEC in 1968 which rose to 20.5 per cent in 1972 and to 24.5 per cent in 1980. On the other hand the six, long major suppliers to the British market even before entry, provided 46.3 per cent of British imports in 1968 which rose to 48.8 per cent in 1972 and 55.5 per cent in 1980. According to the spokesmen of the industry the effects of membership ranged from nil to marginally adverse. The disappointment of their expectation of selling more to Europe was attributed to the higher rate of British inflation during the 1970s, under estimating the extent of competition from European suppliers and the industry's own inadequacies. British firms were simply unable or unwilling to match German standards in the European market which proved to be too tough a nut to crack. Consequently Britain and the old Commonwealth continued to be considered by the industry to be its home market. 48

The Electrical Engineering industry was relatively more successful in its trading experience in Europe though the performance within the industry varied widely. Those sectors of the industry, which included the electrical giant the General Electric Company (GEC) with most of their business in the domestic market, especially Government and nationalized industries, were largely unaffected. Sectors such as the domestic electrical appliances,

48 Ibid., paras 44-8.
which experienced an acceleration in imports since entry, were inclined to ascribe their lack of success in exporting to Europe, largely to the exchange rate. The greatest measure of success was however achieved by the manufacturers of equipment for the generation, transmission and distribution of electricity who sold an increasing proportion of British exports to the Community which rose from a mere 4 per cent of total exports in 1957 to 14 per cent in 1970 and to 29 per cent in 1980 though it fell back to 27 per cent in 1982. But this success was more than offset by a greater volume of imports from the Community which escalated from 32 per cent in 1966 to 46 per cent in 1976 and then falling to 41 per cent in 1982. The trade deficit in the abovementioned products with the rest of the Community, however, began to decline leading to a small surplus in 1980 though it vanished again in 1982. Thus, though modest in proportion, the spokesmen of the industry felt that membership had been beneficial on the whole. 49

The two major British manufacturing industries to record extremely dismal performances since the EEC entry have been the Motor and the Textile industries. Although the Motor industry which was already in a weak position did manage to increase its share of exports to the community from 28.1 per cent in 1973 to 35.4 per cent in 1981, this was a lower rate of increase than that was achieved between 1967, when 18.7 per cent of exports went to the Community, and 1973. However, the Community share of British imports of Motor products, which was already 67.2 per cent in 1973, rose to 70.7 per cent in 1981 thus having a substantial gap in the motor trade. This deficit in 1980 and 1981 was equivalent to more

49 Ibid., paras 49-56.
than half the UK's total trade deficit on manufactures with the Community in those years.\textsuperscript{50}

The Textile industry, which experienced a considerable shift towards trade with the Community for each of the industry's three major sectors, too suffered major imbalances in its Community trade. In fibres the Community share of imports rose from 52 to 68 per cent between 1973 and 1982 and exports from 26 per cent to 43 per cent. In textile fabrics there was a rise from 37 to 56 per cent and from 34 to 42 per cent respectively. The trade in knitwear registered a better performance with exports showing a bigger increase from 37 to 52 per cent than imports from 19 to 25 per cent. Inspite of this dismal performance, membership of the Community, however, was held to be a minor contributory factor by the spokesmen for both industries.\textsuperscript{51}

The foregoing survey clearly indicates that barring a few sectors the expectations of the protagonists of the Community membership of a better performance by the British Manufacturing industry have not been fulfilled. While there is general agreement that the performance of the manufacturing industry during the period under review was extremely disappointing, opinion was divided on whether membership of the Community was a contributory factor in this regard. People connected with trade and industry have generally held, as reflected in two recent investigations by Parliamentary Select Committees, that other more fundamental causes were responsible for the imbalance concerned. These causes included lack of

\textsuperscript{50} Ibid., paras 58-9. See also UK, Commons, n. 43, para 29.
\textsuperscript{51} UK, Lords, n. 39, paras 62-4.
competitiveness, levels of exchange rates and investment as well as some structural problems within the EEC. 52

The most important factor responsible for the failure of British industry to take advantage of the large EEC market has been held to be the industry's lack of competitiveness compared to its rivals within the Community. Among a number of factors responsible for this lack of competitiveness, the most important was that of costs borne by industry. Using the common measure of unit labour costs in a common currency it has been shown that costs in Britain rose between 1970 and 1980 at a faster rate than productivity, compared to other countries, as Table 3 below shows. 53

Table - 3

<table>
<thead>
<tr>
<th>Annual Average Percentage Increase</th>
<th>Manufacturing Productivity</th>
<th>Wages and Salaries Per Unit of Output in Manufacturing54</th>
</tr>
</thead>
<tbody>
<tr>
<td>United Kingdom</td>
<td>+ 2.4    + 1.1</td>
<td>United Kingdom</td>
</tr>
<tr>
<td>United States of America</td>
<td>+ 2.9    + 2.6</td>
<td>United States of America</td>
</tr>
<tr>
<td>West Germany</td>
<td>+ 2.6    + 3.9</td>
<td>West Germany</td>
</tr>
<tr>
<td>France</td>
<td>+ 2.2    + 5.0</td>
<td>France</td>
</tr>
<tr>
<td>Japan</td>
<td>+ 3.0    + 7.7</td>
<td>Japan</td>
</tr>
</tbody>
</table>

52 UK, Commons, n. 43, paras 8, 11, 13 & 33.
53 Ibid., paras 8 & 9, Tables 1 and 2.
54 Expressed in National currency.
U.K. Unit Labour Costs in a common currency
(International Monetary Fund Index 1978 = 100)

<table>
<thead>
<tr>
<th>Year</th>
<th>Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>1968</td>
<td>100.0</td>
</tr>
<tr>
<td>1969</td>
<td>101.6</td>
</tr>
<tr>
<td>1970</td>
<td>103.9</td>
</tr>
<tr>
<td>1971</td>
<td>108.3</td>
</tr>
<tr>
<td>1972</td>
<td>107.0</td>
</tr>
<tr>
<td>1973</td>
<td>94.9</td>
</tr>
<tr>
<td>1974</td>
<td>100.9</td>
</tr>
<tr>
<td>1975</td>
<td>106.0</td>
</tr>
<tr>
<td>1976</td>
<td>98.1</td>
</tr>
<tr>
<td>1977</td>
<td>94.1</td>
</tr>
<tr>
<td>1978</td>
<td>100.0</td>
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<tr>
<td>1979</td>
<td>115.6</td>
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<tr>
<td>1980</td>
<td>142.9</td>
</tr>
<tr>
<td>1981</td>
<td>154.0</td>
</tr>
<tr>
<td>1982</td>
<td>149.4</td>
</tr>
</tbody>
</table>

The figures above indicate that the unit labour costs in Britain were significantly higher than its competitors, especially between 1975 and 1980. It was not that British wage rates were higher than those of its European competitors but that levels of productivity were lower. An instance of how lower productivity affected the manufacturing industry was that the Ford Motor Company preferred to manufacture cars in Europe than in the plants in Britain as the output it got from identical production lines in Germany was higher than what it got from a production line in Britain.56

Another factor which considerably blunted British competitiveness in the late 1970s was the value of Sterling. The discovery and exploitation of North Sea oil have had the effect of strengthening the Pound against European currencies, making British exports to the EEC more expensive and EEC imports into the UK cheaper. Trade and industry circles in Britain had persistently argued

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55 Index numbers around 100 or below indicate better competitiveness while those above indicate less competitiveness.

56 UK, Commons, n. 43, para 10.
that Sterling was overvalued as a result of its being a petro-currency which in effect, greatly inhibited the ability of British manufacturing industry to compete in Europe.  

Some sources, mainly the trade unions, argued that the principal factor responsible for the British manufacturing industry's lack of competitiveness was the low level of investment. The situation, it was held, was further aggravated by the abolition of exchange controls resulting in an outflow of capital which would otherwise have been available for investment in Britain. While there was disagreement about its real cause it was generally agreed that the level of investment in Britain was lower than in most Community countries.

So far as the impact of the Community on the performance of British manufacturing industry is concerned any definitive conclusion is hard to reach. Some members of the Cambridge Economic Policy Group expressed the opinion in 1980, that the dynamic gains to British Manufacturing industry following the British entry into the EEC had not yet materialized. On the contrary, evidence suggested "that the net dynamic effects so far are adverse and that the overall costs to the United Kingdom of EEC entry may be upto three times as large as the £1500 million associated with the budget and higher food prices ...." Even the House of Commons Select Committee on Trade and Industry which had adopted a more cautious attitude in its Report on the manufacturing trade between Britain

57 Ibid., para 11.
58 Ibid., para 13.
59 Martin Featherstone, Barry Moore and John Rhodes, "The Economic cost to Britain since entry into the EEC", The Times (London), 28 January 1980. The authors are members of the Cambridge Economic Policy Group.
and the EEC conceded that the export/import ratio was indicative of "the extent to which our EEC competitors have penetrated our domestic market more successfully than we have theirs". Indeed imports of manufactures from the EEC to Britain rose in volume by 300 per cent since 1973 while British exports to the EEC had increased in volume by only 66 per cent. The committee also noted that the British share of the market for manufactures of the original six members of the EEC actually declined from 6.3 per cent in 1972 to 6.1 per cent in 1983.

Two other causes, responsible for the manufacturing trade imbalance, were also identified as being direct consequences of Britain's EEC membership. Firstly, there are the internal barriers to trade, known as non-tariff barriers, such as standards, administrative procedures and state aids. In fact trade, during the period under review, had not yet been totally free. For instance industry within the EEC on the whole had to spend £7 billion annually on border and customs' formalities which raised its costs and resulted in increased prices for consumers within the Community. Secondly, the relatively high level of British contributions to the EEC budget was another way in which membership adversely affected British industrial competitiveness and its trade balance in manufactures with the Community. While it has been a drain on Britain's internal resources the European competitors have been directly benefitted.

60 UK, Commons, n. 43, para 20.
61 Ibid.
62 See the author's interview with Amanda Burn, Head, European Community Section, Confederation of British Industry, on 13 January 1987 in London.
63 UK, Commons, n. 43, para 23.
In spite of these inadequacies authoritative sources in Britain have generally been reluctant to hold the EEC 'primarily' responsible for the dramatic change in British balance of trade in manufactured goods. The actual cause of decline seems to be the lack of competitiveness of many British companies compounded by the inability or unwillingness of the EEC Commission and individual member states to abide by the terms of the Treaty of Rome which provided for a genuine common market of the member states.\(^64\) Even the principal contention of many left wing anti-Marketeers was not that the EEC was responsible for the mess in the manufacturing industry but that the strict Community rules on competition which do not permit any large scale state assistance for industry make the prospects of climbing out of the chaos much more difficult.\(^65\) Industry was already in a weak state at the time of entry and exposure to ruthless continental competition had further aggravated its problems.

Despite its problems, however, manufacturing industry in Britain underwent a significant shift in its orientation towards the Community during the period under review. For instance the British trade in manufactured goods with the original six member countries of the EEC rose from 21.2 per cent in 1970-72 to nearly 31 per cent in 1979-81.\(^66\) There has also been a considerable rise in European "sourcing" by industry as supplies from the rest of the Community were more easily available and relatively cheap.

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\(^64\) Ibid., para 25.

\(^65\) See the author's interview with Anthony Wedgewood Benn on 10 December 1986 in London.

\(^66\) UK, Lords, n. 39, Table 7, p. 10.
select committee of the House of Lords on European Community estimated that this factor "may well have contributed significantly to lower costs in industry, either directly or indirectly by the pressure exerted on domestic prices. Even more important is the similar benefit to consumers from lower prices and greater choice from finished consumer goods ...."\(^{67}\) In other words the picture on the manufacturing front as a consequence of EEC membership was not altogether negative.

c. **Trade Patterns**

As has already been noted one of the major factors that influenced the British decision to join the European Community was the changing pattern of its trade in the post-War period. The pre-War emphasis on trade with the Commonwealth and the United States had undergone rapid transformation and an ever larger volume of British trade was going to the large and growing markets of Western Europe including the countries of the European Community. By 1964 the EEC was taking in 27.6 per cent of British exports and sending to it 23 per cent of its imports. The comparative figures for the Commonwealth and the Sterling Area were 33.5 per cent and 36.5 per cent respectively.\(^{68}\) By 1974 the EEC as a trading partner of Britain had overtaken the Commonwealth and the Sterling Area as it now took in 34.2 per cent of British exports and sent to Britain 32.3 per cent of its imports. The corresponding figures for the Commonwealth and the Sterling Area were 23 per cent and 20.5 per cent respectively.\(^{69}\)

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\(^{67}\) Ibid., para 99.

\(^{68}\) *Sunday Times* (London) 24 November 1974.

\(^{69}\) Ibid. By 1976 the figures for the EEC and the Commonwealth were: EEC-Exports - 35.5 per cent. Imports - 36.5 per cent; Commonwealth - Exports - 15 per cent, Imports - 13.5 per cent. UK, Commons, *Parliamentary Debates*, Session 1976-77, vol.934, col. 1.
Much was also made during the twelve-year debate preceding the British entry of the prospect and the potential that a mass market of 180 million people offered to British industry and what a great challenge and opportunity it was to face competition from very efficient industries throughout Western Europe; unhindered movement of goods and services between Britain and the rest of the Community was thought to be the panacea the British economy badly required to boost trade, attain greater industrial efficiency and production and higher employment opportunities.

But there were also other voices which felt that joining the EEC was going to bring disaster to Britain's balance of payments position. As already noted the country ran a chronic balance of payments deficit on a visible balance basis (Exports minus imports) throughout the 1950s and much of the 1960s. 70 If the position was so delicate when Britain still enjoyed the relative security of tariffs against EEC imports what would happen, it was asked, when they were withdrawn as a condition of membership of the EEC customs union? Besides, it was pointed out, when Britain would switch its purchases of food from cheaper Commonwealth to dearer EEC sources it would have to measure the rise in food import prices. Yet another burden to the balance of payments, it was argued, would be the payment back by Britain to the EEC Agricultural Guidance and Guarantee Fund (from which the guarantee price is paid to the farmers under the CAP) of 90 per cent of the levies on food imports it was still allowed to buy from outside the EEC. The expenditure from this Fund would be of very little use for Britain itself as it would be used for "support buying" throughout the Community and only countries

70 See footnote 38, Chapter I. However if one took invisible balance into account as well the position was somewhat better.
with large farming sectors in their economies would benefit. For Britain, however, this repayment across the exchanges would be a direct burden on its balance of payments.71

Like other areas of the EEC membership debate the issue of balance of payments has also been subject to manipulations by the pro and anti-Marketeers in buttressing their respective positions. What, however, was not in dispute was that within a short period of Britain moving into the Community its balance of payments with the EEC began to deteriorate. For instance the British visible trade deficit with the EEC on a balance of payments basis of £13 million in 1971 increased to £138 million by 1973. "On a crude trade basis the deficit figures read £256 million in 1971, £1,167 million in 1973 and £1,951 million at an annual rate in the first half of 1974".72 The situation was in direct contrast to the forecast made by a Conservative Minister in June 1972 that Britain's joining the Community would be a positive and substantial contribution to British balance of payments "and will not result in any deficit at all".73

As the trade position grew worse the debate within the country became more and more intense about the factors responsible for such a situation. The opponents of Britain's Community membership sought to blame the EEC for the down turn in British trade position while the protagonists of the Community argued that Britain's generally poor economic performance as well as other international developments, such as the quadrupling of oil prices, were

71 Douglas Jay, n. 8, p. 51.
responsible. The difference of opinion was reflected in the state-
ments of even Ministers in Wilson's Labour cabinet. For instance
on 1 May 1975 the Chancellor of the Exchequer, Denis Healey, who
was pro-EEC, stated in Parliament that though trade with the EEC
had deteriorated substantially between 1972 and 1975 there were
"great differences of judgment on the question whether the causes
of that deterioration were the effects of entry into the Common
Market". 74 Within a few days the Secretary of State for Trade
Peter Shore, who was an anti-Marketeer, declared that apart from
the oil trade which was the major source of the huge British trade
deficit Britain was virtually in balance with the rest of the world
on a balance of payments basis. "On the best available figures 99
per cent of its non-oil deficit was attributable to trade with the
EEC". 75

Setting polemics aside a detailed analysis of British trade
performance during the period under review, however, focusses att-
ention to a sharply deteriorating picture. Except for 1971 British
balance of payments throughout the 1970s were in the red so far as
visible balance was concerned. This is evident from Table 4
below:

74 UK, Commons, Parliamentary Debates, Session 1974-75, vol. 891,
col. 710.

75 Ibid., col. 998. The Foreign Secretary James Callaghan too
had taken an equivocal position on this issue earlier by saying
that there was a general deterioration in Britain's non-oil
trade gap with a number of important partners - it increased
twofold between 1971 and 1973 with the EEC, threefold with
EFTA, thirteen fold with the Commonwealth and 17 times with
the United States. See UK, Commons, Parliamentary Debates,
### Table - 4

<table>
<thead>
<tr>
<th>£ m</th>
<th>Current Balance</th>
<th>Visible Balance</th>
<th>Invisible Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>1973</td>
<td>-875</td>
<td>-2383</td>
<td>1508</td>
</tr>
<tr>
<td>1974</td>
<td>-3307</td>
<td>-5235</td>
<td>1928</td>
</tr>
<tr>
<td>1975</td>
<td>-1621</td>
<td>-3236</td>
<td>1615</td>
</tr>
<tr>
<td>1976</td>
<td>-842</td>
<td>-3601</td>
<td>2659</td>
</tr>
<tr>
<td>1977</td>
<td>293</td>
<td>-1744</td>
<td>2037</td>
</tr>
<tr>
<td>1978</td>
<td>714</td>
<td>-1493</td>
<td>2207</td>
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<td>1979</td>
<td>-2418</td>
<td>-3233</td>
<td>815</td>
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<td>1980</td>
<td>2429</td>
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<td>1696</td>
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<td>3091</td>
</tr>
<tr>
<td>1982</td>
<td>3948</td>
<td>2228</td>
<td>1720</td>
</tr>
</tbody>
</table>

Source: Trade and Industry, 5 October, 1979, 18 January (Seasonally adjusted) and 8 April, 1983. 1981 and 1982 figures from UK, Lords, n. 39, Table 4, p. xviii.

The sharp rise in the balance of payments deficit since 1973 was ascribed by Government sources primarily to very large increases in world commodity prices, depreciation in the value of Sterling as well as increase in the price of crude oil since the Arab-Israeli war of October, 1973. However the escalation in the trade deficit with the EEC during this period was particularly noteworthy. While the UK crude trade balance (the difference between exports Free on Board (FOB) and imports inclusive of insurance and freight costs (CIF) with the EEC was £ 81 million in 1970 it had climbed up to £ 2,386 by 1975. This trend continued throughout the decade as the deficit with the EEC grew worse with each passing year as is evident from Table 5.


<table>
<thead>
<tr>
<th>Year</th>
<th>Exports</th>
<th>Imports</th>
<th>Visible Balance</th>
<th>Export/Import Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>1970</td>
<td>2.4</td>
<td>2.3</td>
<td>+ 0.1</td>
<td>104</td>
</tr>
<tr>
<td>1971</td>
<td>2.5</td>
<td>2.7</td>
<td>- 0.2</td>
<td>93</td>
</tr>
<tr>
<td>1972</td>
<td>2.8</td>
<td>3.4</td>
<td>- 0.6</td>
<td>83</td>
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<td>1973</td>
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<td>5.1</td>
<td>- 1.4</td>
<td>74</td>
</tr>
<tr>
<td>1974</td>
<td>5.4</td>
<td>7.6</td>
<td>- 2.2</td>
<td>72</td>
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<td>8.7</td>
<td>- 2.6</td>
<td>71</td>
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<tr>
<td>1978</td>
<td>13.1</td>
<td>15.8</td>
<td>- 2.7</td>
<td>84</td>
</tr>
<tr>
<td>1979</td>
<td>17.0</td>
<td>19.8</td>
<td>- 2.7</td>
<td>87</td>
</tr>
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</tr>
<tr>
<td>1981</td>
<td>20.9</td>
<td>20.9</td>
<td>- 0.0</td>
<td>100</td>
</tr>
<tr>
<td>1982</td>
<td>23.0</td>
<td>24.2</td>
<td>- 1.3</td>
<td>95</td>
</tr>
</tbody>
</table>

It is clear from the figures above that both British exports to and imports from the EEC rose very fast since Britain joined the European Community in 1973 (exports rose from £2.4 billion in 1970 to £23 billion in 1982 and imports from £2.3 billion to £24.2 billion) but except for 1980 and 1981 rise in imports each year outstripped the rise in exports by a significant margin. What was particularly noteworthy was that while the trade with the EEC represented only 38 per cent of British world trade it consisted of 57 per cent of its total trade deficit. 79


As already seen the downturn in British trade performance with the EEC was particularly bad in manufactured goods, an area where high hopes had been pinned prior to British entry. In 1970 British trade with the six original members of the EEC showed a small surplus of £160 million; in 1978 it had turned into a deficit of £2,550 million, a whopping increase by any reckoning. The full picture can be gauged from Table 6.

### Table 6

**UK Trade deficit with the six since 1970**

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Trade</th>
<th>Food etc.</th>
<th>Basic Materials</th>
<th>Fuels</th>
<th>Manufactures</th>
</tr>
</thead>
<tbody>
<tr>
<td>1970</td>
<td>-0.0</td>
<td>-0.5</td>
<td>+0.0</td>
<td>-0.1</td>
<td>+0.5</td>
</tr>
<tr>
<td>1971</td>
<td>-0.2</td>
<td>-0.5</td>
<td>+0.0</td>
<td>-0.1</td>
<td>+0.3</td>
</tr>
<tr>
<td>1972</td>
<td>-0.6</td>
<td>-0.6</td>
<td>+0.0</td>
<td>-0.1</td>
<td>+0.0</td>
</tr>
<tr>
<td>1973</td>
<td>-1.3</td>
<td>-0.8</td>
<td>-0.0</td>
<td>-0.1</td>
<td>-0.4</td>
</tr>
<tr>
<td>1974</td>
<td>-2.3</td>
<td>-1.3</td>
<td>-0.0</td>
<td>-0.3</td>
<td>-0.7</td>
</tr>
<tr>
<td>1975</td>
<td>-2.5</td>
<td>-1.5</td>
<td>-0.0</td>
<td>-0.3</td>
<td>-0.6</td>
</tr>
<tr>
<td>1976</td>
<td>-2.4</td>
<td>-1.5</td>
<td>-0.0</td>
<td>-0.2</td>
<td>-0.7</td>
</tr>
<tr>
<td>1977</td>
<td>-2.3</td>
<td>-1.6</td>
<td>-0.0</td>
<td>+0.1</td>
<td>-0.9</td>
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<tr>
<td>1978</td>
<td>-2.9</td>
<td>-1.4</td>
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<td>+0.4</td>
<td>-2.0</td>
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<tr>
<td>1979</td>
<td>-3.4</td>
<td>-1.6</td>
<td>+0.1</td>
<td>+1.1</td>
<td>-3.1</td>
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<tr>
<td>1980</td>
<td>-0.0</td>
<td>-1.4</td>
<td>+0.2</td>
<td>+2.8</td>
<td>-1.7</td>
</tr>
<tr>
<td>1981</td>
<td>-0.6</td>
<td>-1.5</td>
<td>-0.1</td>
<td>+4.0</td>
<td>-3.0</td>
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<tr>
<td>1982</td>
<td>-2.1</td>
<td>-1.8</td>
<td>-0.2</td>
<td>+4.7</td>
<td>-5.0</td>
</tr>
</tbody>
</table>

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81 UK, HMSO, n. 79, Annexe E, Table 2. The figures in this table represent the crude balance in each case.

82 Differences between similar sets of data from different sources can be ascribed to the definitions used or because of revisions to recent data.
The figures above indicate that there has been a steady deterioration in the field of both food and the manufacturing trade throughout most of the 1970s. As already noted while the decline was not altogether unexpected in the case of food the setback to the manufactures trade was particularly galling. The picture, however, was much better in the fuels trade where, barring the negligible deficits of the first four years of the Community membership Britain enjoyed a burgeoning surplus from 1977 onwards which reached a whopping £ 4.7 billion in 1982 with an export/import ratio of 404 per cent. 83 This performance was made possible by the arrival of the North Sea oil which greatly cushioned the huge deficits in the manufacturing and the food trade with the EEC.

It would, however, be somewhat onesided to dwell exclusively on the theme of trade deficit with the EEC and not to take into account the major changes in the British trade pattern following accession into the EEC. Table 7 illustrates the big changes in the commodity composition of British trade between 1972 and 1981. 84

<table>
<thead>
<tr>
<th></th>
<th>Percentage of Total</th>
<th>Export Balance of payments basis</th>
<th>Imports</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food, Drink &amp; Tobacco</td>
<td>4.6</td>
<td>5.4</td>
<td>15.5</td>
</tr>
<tr>
<td>Basic materials</td>
<td>2.3</td>
<td>2.0</td>
<td>8.2</td>
</tr>
<tr>
<td>Fuels</td>
<td>1.8</td>
<td>14.2</td>
<td>6.9</td>
</tr>
<tr>
<td>Semi-manufactures</td>
<td>22.3</td>
<td>19.4</td>
<td>18.9</td>
</tr>
<tr>
<td>Finished manufactures</td>
<td>35.7</td>
<td>32.1</td>
<td>23.3</td>
</tr>
<tr>
<td>Other goods</td>
<td>2.1</td>
<td>2.2</td>
<td>1.2</td>
</tr>
<tr>
<td>Services</td>
<td>31.2</td>
<td>24.7</td>
<td>26.0</td>
</tr>
</tbody>
</table>

83 UK, HMSO, n. 79, Annexe E, Table 2.
84 UK, Lords, n. 39, Table 1. p. xiii.
A sharp rise in the export share of fuels over other goods and services except food, drink and tobacco reflected the rising importance of North Sea oil sales. In the area of imports the share of food, drink and tobacco fell and that of finished manufactures rose.

The change in the direction of trade, as shown in Table 8, is equally remarkable.85

<table>
<thead>
<tr>
<th></th>
<th>EC686</th>
<th>EFTA &amp; Irish Republic</th>
<th>Rest of Western Europe</th>
<th>US &amp; Japan</th>
<th>Rest of Developed Countries</th>
<th>Oil Exporting Countries</th>
<th>Rest of World</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exports</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1962</td>
<td>19.8</td>
<td>15.7</td>
<td>4.5</td>
<td>9.9</td>
<td>50.1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1970-72</td>
<td>21.8</td>
<td>18.6</td>
<td>5.6</td>
<td>13.9</td>
<td>13.3</td>
<td>6.4</td>
<td>20.4</td>
</tr>
<tr>
<td>1979-81</td>
<td>34.0</td>
<td>17.9</td>
<td>4.3</td>
<td>12.0</td>
<td>6.2</td>
<td>10.4</td>
<td>15.2</td>
</tr>
<tr>
<td>Imports</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1962</td>
<td>15.8</td>
<td>13.4</td>
<td>4.2</td>
<td>11.8</td>
<td>54.8</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1970-72</td>
<td>22.3</td>
<td>18.8</td>
<td>4.1</td>
<td>13.7</td>
<td>14.5</td>
<td>9.8</td>
<td>16.8</td>
</tr>
<tr>
<td>1979-81</td>
<td>36.6</td>
<td>17.1</td>
<td>4.2</td>
<td>15.1</td>
<td>6.1</td>
<td>7.6</td>
<td>13.3</td>
</tr>
</tbody>
</table>

The percentage of British exports going to the Community rose from 28.3 in 1963 to 30.6 in 1972; it increased to 41.1 per cent by 1981. The corresponding figures for British imports from the Community for the three years were 22.6 per cent, 31.8 per cent, and 42.4 per cent.87 In contrast to this the share of both exports and imports going to "other developed countries" and the "Rest of

---

85 Ibid., Annex 1, Table 5.
86 The six original members of the EEC. The figures in this column would rise when Ireland, Denmark (after 1973) and Greece (after 1981) are included.
87 UK. Lords. n. 39. para 18.
the world" fell quite considerably since 1972 reflecting the diminution of trade with the Commonwealth.

An interesting change in the composition of British trade with the Community also came about during these years. Community members, notably Germany, became the biggest market for British oil exports taking in over half of the same in 1981.\(^{88}\) The Community took in 29.2 per cent of British manufactures and 32.9 per cent of its food, drink and tobacco exports and sent in 39.1 per cent and 32.8 per cent of the same respectively in 1972. The corresponding figures for 1981 were: British exports - Manufactures 36.6 per cent, food, drink and tobacco - 48.3 per cent; British imports - Manufactures - 49.3 per cent, food, drink and tobacco - 50.2 per cent.\(^{89}\) Thus there was an increase of 7.4 per cent for exports and 10.2 per cent for imports in the Community's share of trade in manufactures. This share which had increased somewhat during the 1960s rose very swiftly after 1972 while the share of all other areas except Japan in exports and imports declined.\(^{90}\) Changes in the direction of trade in food, drink and tobacco were even larger than those for manufactures with the EEC share in exports increasing by 15.4 per cent and its share in imports by 17.4 per cent. Most of the swing in British exports in these products was away from the U.S. market and to a lesser extent from EFTA and the rest of the world. The swing in imports was almost entirely at the cost of the rest of the world, i.e. essentially of the Commonwealth.\(^{91}\)


\(^{89}\) UK, Lords, n. 39, para 19.

\(^{90}\) Ibid., para 20.

\(^{91}\) Ibid., para 21.
Thus, British trade with the EEC underwent a rapid expansion - more so than that with the rest of the world during the period under review. For instance while the value of British exports to EEC countries rose at an annual average of 28 per cent compared to an average annual rate rise in imports of 24 per cent between 1972 and 1980, exports and imports to non-Community countries both increased by an annual average of 19 per cent. Important changes were also taking place in bilateral trade. In 1980 the Federal Republic of Germany became Britain's biggest trading partner displacing the United States when just over 11 per cent of British imports came from that country and 10.7 per cent of its exports were shipped there. The Netherlands became Britain's third largest export market with an 8.1 per cent share and all other Community states, except Greece, featured among Britain's top dozen markets.

Thus, one of the major objectives of Britain's joining the EEC, i.e., ensuring the Community countries as regular markets for a large proportion of British exports, had been achieved. So far as the deficit in the balance of payments with the EEC was concerned, this had to be viewed, as James Callaghan argued in the House of Commons, in the overall perspective of increased activity that had taken place. Britain was also buying more food from the EEC (a more secure, albeit costlier source, in the long run) and less from elsewhere. The conclusion however seems inescapable that whatever may have been the achievement for British trade, brought about by the EEC connection, this was at a substantially high cost.

92 Commission of the European Communities, n. 27, p. 8.
93 Ibid.
D. Budget Contribution

Of all the issues that have generated the greatest amount of acrimony and even passion in the EEC debate, the question of Britain's contributions to the Community budget has perhaps been the number one. Since its establishment in 1957 the Community and the operation of its common policies and institutions have required common financing as well. Accordingly, a Community budget, which covers both expenditure and revenue, has had to be maintained and under Article 199 of the Treaty of Rome it is required to be in balance. The budget is basically concerned with making provision for, and setting limits on, expenditure to be incurred within the framework of agreed Community policies.

During the period up to 1970, expenditures of the Community were financed jointly by proceeds from levies on agricultural imports turned over to the Community and financial contributions from the member States. But, this was a temporary arrangement as the Treaty of Rome had envisaged the replacement, in due course, of the national contributions by the Community's "own resources". In furtherance of this objective on 21 April 1970 the Council of Ministers decided, following agreements reached at a Summit meeting of the Six at The Hague in December 1969, to adopt a new system which would make the Community self-financing and bring its expenditure into one central budget.\footnote{Office for official publications of the European Communities, \textit{The European Community's Budget} (Luxembourg 1986), pp. 14-15.} 

According to the new system which came into operation from 1 January 1971 a greater proportion of the Community's finances for its budget would progressively come directly from agricultural
levies collected mainly on trade in agricultural products between the Community and the rest of the world and customs duties collected under the Common External Tariff on imports into the Community from the rest of the world. Member states would continue to make up the remaining proportion of the revenue necessary until 1975 by contributions according to an agreed fixed scale with the following share: Belgium 6.8 per cent, France - 32.6 per cent, Germany - 32.9 per cent, Italy 20.2 per cent, Luxemburg - 0.2 per cent and Netherlands - 7.3 per cent. In addition, from 1 January 1975 the Community would receive directly a proportion (equivalent to up to a 1 per cent rate) of the proceeds of a Value Added Tax, to be enforced throughout the Community by then, to the extent necessary to meet any deficiency.96

The revenue thus raised was to finance the Community's Common policies such as the Common Agricultural Policy, the administrative costs of European institutions, the European Social Fund (to promote the employment and mobility of workers), research and investment through the European Atomic Energy Community, the Community's Food Aid Programme for overseas and refunds to member states to cover the cost of collecting the levies and the customs duties which are paid to the Community.97

Thus, when Britain joined in 1973 the 'own Resources' system had already been incorporated as part of the Community policies. Realising that it would not be possible to seek to make fundamental alterations in the system of providing funds for the Community the Conservative Government of Edward Heath focussed its attention to

96 UK, HMSO, n. 5, pp. 41-2.
97 Ibid. Subsequently the Community's Regional Development Fund has also been added to the list of expenditure.
finding a method to enable Britain to gradually adapt to the Community system over a period of years without placing undue burden on its economy. 98

With Britain accepting the basic system of Community financing, an arrangement for its budget contribution was worked out under which a percentage or a "key" was set which broadly corresponded to Britain's share of the total Gross National Product (GNP) of the ten countries expected to form the enlarged Community. This was to represent the proportion of the budget Britain would nominally be expected to pay in the first year of membership. The key was to rise marginally in each of the four subsequent years. 100

Initially, however, Britain would pay only a proportion of its nominal contribution over the first five years. The proportion was to increase in annual steps. Table 9 101 gives an idea of the full arrangements for Britain's budget contribution worked out.

<table>
<thead>
<tr>
<th>Year</th>
<th>UK Key (% of EEC Budget)</th>
<th>% of Key to be paid</th>
<th>UK Contribution (% of EC budget)</th>
<th>Possible UK gross contrib. (£ m)</th>
<th>Possible UK Receipts (£ m)</th>
<th>Possible UK Contrib. (£ m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1973</td>
<td>19.19</td>
<td>45.0</td>
<td>8.64</td>
<td>120</td>
<td>20</td>
<td>100</td>
</tr>
<tr>
<td>1974</td>
<td>19.38</td>
<td>56.0</td>
<td>10.85</td>
<td>155</td>
<td>40</td>
<td>115</td>
</tr>
<tr>
<td>1975</td>
<td>19.77</td>
<td>67.5</td>
<td>13.34</td>
<td>195</td>
<td>55</td>
<td>140</td>
</tr>
<tr>
<td>1976</td>
<td>20.16</td>
<td>79.5</td>
<td>16.03</td>
<td>245</td>
<td>75</td>
<td>170</td>
</tr>
<tr>
<td>1977</td>
<td>20.56</td>
<td>92.0</td>
<td>18.92</td>
<td>300</td>
<td>100</td>
<td>200</td>
</tr>
</tbody>
</table>

98 Ibid., para 91, pp. 23-4.
99 Norway subsequently decided not to join following an adverse national referendum verdict.
100 UK, HMSO, n. 5, para 92, p. 24.
101 Ibid., para 93, p. 24.
Likewise, contributions for 1978 and 1979, i.e. beyond the transition period, were to continue to remain limited by an agreed mechanism.

Controversy on the question of contribution to the EEC budget started right on the heels of the arrival of the conservative Government in June, 1970 and the resumption of negotiation between Britain and the Community. The principal reason for the uncertainty was that under the 'own resource' system it was almost impossible to make any valid estimate of the size of the levy and duty receipts of a member state beyond a short period. This was more so in the case of Britain whose trading pattern was expected to undergo a very significant shift following its move into the EEC.

Right from the beginning the anti-Marketeers and others opposed to the terms negotiated by the Conservative Government raised fundamental questions about the exact magnitude of the budget contributions Britain would be expected to make. This was reflected in the debate in the House of Commons preceding the passage of the European Communities Bill in October, 1971. Denis Healey, then opposing the terms according to Labour Party Policy, referred to a paper prepared by the Treasury in July 1970 which gave detailed estimates of what would be involved for Britain under the financial regulations which the Community had agreed upon. If Britain accepted, the rules fixed by the Six, in its absence, asserted the Treasury paper, it would end up paying 31 per cent of the budget and getting only 6 per cent back; it would be paying net...
four times as much as Germany although Germany's GNP in 1971 was 
50% higher than Britain's. Britain would be paying 25% net of the 
total when its GNP was only 17% of that of the Community as a 
whole. According to the Government's own estimates, Denis Healey 
进一步维持，英国将不得不在1973年承担外汇负担£100 million in 1973, £500 million in 1977 "and it would go through the roof between 1977 and 1980". 103

In response to the Labour Party criticism Geoffrey Rippon, 
the Conservative Government's spokesman on EEC matters, who had 
done most of the negotiating himself, asserted that it was very 
difficult to quantify the effect of tariff changes since a lot 
depended on "the vigour of British industry's response to the 
opportunities and challenges of membership". 104

On the question of British budget contributions in 1979 and 
thereafter, Rippon thought that Britain was not joining a static 
Community and from the outset it would have a full and influential 
voice in the decision-making process of the Community including 
decisions relating to the shape of the budget. Britain would be 
active enough to ensure that the predominant role of agricultural 
expenditure did not remain in 1977-78 as it was then in 1971; it 
would be pressing for the development of regional, industrial and 
social policies which should bring it big benefits. Most import-
antly the Community had assured Britain that if an unacceptable 
situation should arise it would take necessary measures to put it 
right. 105

103 UK, Commons, Parliamentary Debates, Session 1970-71, vol. 823, 
col. 931.
104 Ibid., col. 1247-48.
105 Ibid., col. 1248-49. Sir Michael Palliser, the former UK 
permanent representative to the European Community and the
The Labour Party, however, refused to accept the position as presented by the Conservative Government and incorporated the budget question in their programme of renegotiating the terms of entry if and when they came to power. The following resolution on the community budget was included in 'Labour's Programme 1973' which was submitted to the Party's autumn Conference (and subsequently incorporated in the Party manifesto for the General Elections in February, 1974).

New and fairer methods of financing the 'Community Budget'. Neither the taxes that form the so-called 'own resources' of the Communities, nor the purposes, mainly agricultural support, on which the funds are mainly to be spent, are acceptable to us. We would be ready to contribute to community finance only such sums as were fair in relation to what is paid and what is received by other member countries. (106)

The installation of a Labour Government headed by Harold Wilson following the General Election of February 1974 hastened the process of stock taking on the budget contributions and other issues to figure in the re-negotiation of Britain's membership of the Community. The Foreign Secretary James Callaghan took the first available opportunity and presented Britain's case at the EEC Council of Ministers which met on 1 and 2 April 1974. While transmitting Britain's anxieties on the future shape of its contributions to the Community budget Callaghan noted that even in the transitional period when it was paying only 8.5 per cent of the budget

Head of the Diplomatic Service told the author in an interview that the British negotiating team, sensing the likelihood of a rising British contribution in later years, had raised the matter with the Community which assured them, (recorded in a written minute, and is thus not part of the Treaty) that if an unacceptable situation did arise the very survival of the Community would require adoption of corrective measures. The Heath Government, continued Sir Michael, decided that it was preferable to go in on these terms and seek improvement from within. See the author's interview with Sir Michael Palliser, on 2 February 1987 in London.

Britain was already the second largest net contributor and in the post-transitional period it should have to provide 19 per cent.  

The apprehensions of the Labour Government on the prospects of a sharp escalation in Britain's contributions were based on estimates provided by the Treasury as well as a basic dissatisfaction with the arrangements accepted by the previous Conservative Government. In his detailed submission to the Council of Ministers at Luxembourg on 4 June 1974 James Callaghan provided lengthy explanation of Britain's position. The existing Community Budget arrangements, Callaghan said, involved an increasing and serious transfer of resource from the United Kingdom to other members of the Community during the rest of the transitional arrangements up to 1977 and on a rapidly growing scale thereafter. According to the Government estimate Britain's net contribution would be of the order of 300-550 million European Units of Account (EUA) in 1975, 550-600 in 1977 and 700-800 million in 1980. This was to mean a net contribution of about 3,500 million in the period 1974-80. Unless rectified, the existing system would lead to permanent disadvantages for Britain "because the 'own resources' system was devised to suit a smaller Community made up of countries which are not such large importers as the UK". There would also be a striking contrast between Britain's expected share of Community GDP and its contribution to the budget. Notwithstanding its economic position in relation to the other members of the Community Britain would

108 The European Units of Account is a weighted average of a basket of Community currencies, the value of which is calculated on a daily basis against all major world currencies. See European Communities, n. 95, p. 32.
have to provide, as per the Labour Government's estimates, about 24 per cent of the Community's "own Resources" in 1980. Its share of the Community GDP, however, would be about 16.5 per cent in 1977 and 14 per cent by 1980.109

Following the statement of James Callaghan the Council of Ministers asked the EEC Commission "to draw up a report taking stock of the economic and financial situation of the Community since the enlargement and outlining future developments."110 The main thrust of the study on the budget which the Commission undertook over the next few months confirmed that the British contributions to the budget would be substantially more than its fair share of the cost based on the size of its GNP.111 It also supported the contention that Britain already was below the Community average as far as per head income was concerned and it was expected to decline further as British growth rate was also below the Community average.112

The findings of the Commission further strengthened the position of the Labour Government, and at their summit meeting in Paris on 9 and 10 December 1974 the Heads of Governments and States asked the Council of Ministers and the Commission to set up "a correcting mechanism of general application" which, while safeguarding the frame work of the system of 'own resources' and

109 EC, Bulletin of the European Communities (Brussels), vol. 7, no. 6, 1974, Point 1103.

110 Ibid., Point 1108.


harmonious functioning of the Community would lead to a settlement of the problem of British budget contribution. 113

In January, 1975 the EEC Commission came up with its proposal for a budget correcting mechanism to be applied in case of disproportionate budget contribution by a member state. According to these proposals the country concerned had to meet a set of fairly complex criteria before it was eligible for a partial refund of its gross contributions. These were: (i) the case of a member state which in a particular year had a GNP per capita less than 85 per cent of the Community average; (ii) a growth rate of per capita GNP below 120 per cent of the Community average; and (iii) a deficit on balance of payments on current account. These criteria were to assess the economic situation of the country concerned with regard to the question at issue and for the mechanism to be applied all of them had to be present at the same time. 114

The final settlement of the budget question was arrived at the Dublin summit of EEC Heads of Governments and States on 10 and 11 March 1975. Agreement on the correcting mechanism was based primarily on the proposals made by the Commission except two main changes on the operation of the balance of payments criteria and on the proposed limits on refunds. 115 Thus, a member state with the

114 Ibid., vol. 8, No. 1, 1975, Point 2506.
115 Under the Commission proposals a country with a balance of payments surplus on average over three years would not be eligible for a refund. But, now the country with such a position could continue to qualify for a refund related to its VAT contribution provided it met other criteria. On limits on refund the European Council "agreed to drop the Commission proposal that refunds should be limited to a two-thirds of the amount by which a country's share of the budgetary contributions exceeded its share of the Community's GNP ... Instead the Council agreed upon a ceiling of 250 million units of account on the amount of a refund to any qualifying country
first two of the above criteria as well as a share of gross contributions exceeding its share of Community GNP by at least 10 per cent should receive a partial refund of the amount by which its share in total gross contribution exceeded its share in Community GNP.116

The agreement seemed to meet the British requirements (on budget and a host of other issues) at least for the time being. But even a cursory look at the final settlement makes it evident that the solution found was more of an ad hoc nature designed to help the Labour Government tide over a domestic political crisis than a serious attempt at meaningful structural changes which would have been of long-term benefit for Britain. Even the ad hoc mechanism provided no more than a very short-term relief117 as the conditions for it to be set in motion had to be met simultaneously.118

Thus, after an interval of two years Britain's net contribution to the EEC budget began to climb up once again from 1977 onwards. Table 10 would give an idea about the nature of its gross and net contributions up to the year 1978.

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117 As a result of the 1975 agreement Britain received a net refund for 1975. See Table 10.

118 Because of these eligibility criteria Britain has never in fact qualified for any refund under the mechanism. See Central Office of Information, Britain in Europe (London, 1983), p. 24. Apparently, the German Finance Ministry had briefed Chancellor Helmut Schmidt to propose "that the operation of the corrective mechanism under discussion should be subject to conditions which, they hoped and believed, were unlikely to be fulfilled." Sir Michael Butler, n. 102, p. 93.
Table - 10

British Gross and Net Budget Contributions

<table>
<thead>
<tr>
<th>Year</th>
<th>Gross</th>
<th>Net</th>
</tr>
</thead>
<tbody>
<tr>
<td>1973</td>
<td>181.1</td>
<td>102.4</td>
</tr>
<tr>
<td>1974</td>
<td>180.5</td>
<td>30.6</td>
</tr>
<tr>
<td>1975</td>
<td>341.7</td>
<td>-56.0</td>
</tr>
<tr>
<td>1976</td>
<td>462.8</td>
<td>167.3</td>
</tr>
<tr>
<td>1977</td>
<td>736.8</td>
<td>368.4</td>
</tr>
<tr>
<td>1978</td>
<td>1348.3</td>
<td>803.8</td>
</tr>
</tbody>
</table>

The oddity of the situation is evident since earlier calculations about the expected contributions in later 1970s were turning out to be underestimates. For instance at the beginning of 1978 it was estimated that net British contributions for 1978, 1979, 1980, 1981 and 1982 would be £ 660 million, £ 765 million, £ 830 million, £ 790 million and £ 800 million respectively. These estimates, in turn, were revisions of those given in "The Government's Expenditure Plans, 1978-79 to 1981-82" (Cmd 7049-II) which had projected net contributions for these years of £ 640 million, £ 775 million, £ 860 million, £ 820 million and £ 825 million respectively. However, the actual figures were higher; it was £ 803.8 million in 1978, £ 845 million in 1979 and it was projected to be £ 1310 million for 1980.

By the time the new Conservative Government of Margaret Thatcher came to power Britain's EEC budget contributions were already reaching intolerable proportions. The concern of the new Government was made plain in a debate on the budget question at the House of Commons in July 1979. The Government was particularly anxious at the prospect of a net contribution for 1980 above the £1000 million mark. The primary cause of this situation was the failure of the financial mechanism of 1975 from the British point of view. Besides its other weaknesses, noted earlier, the device was also designed to correct only an excessive gross contribution to the budget whereas the trouble lay with the British net contribution attributable to the low level of British receipts from the Community. While the Community per capita budget expenditure in Britain amounted to only £10, the EEC per capita average was between £25 and £30. In the opinion of the Government some relief to Britain was possible by removing some of the existing restrictions on the operation of the mechanism; but relief on a scale urgently required was not possible unless the mechanism, concerned only with excessive gross contribution and balance of payments difficulties, was changed.\(^{123}\)

The Government of Margaret Thatcher which was seized of the issue from the very beginning of its term of office impressed upon its Community partners of the need for an adequate and durable solution. Accordingly the European Council meeting in Strasbourg on 21-22 June 1979 invited the Commission to examine the nature and scale of the problem in 1979 and 1980. Over the next few months were much lower following the Community agreement to reduce the British contributions.

the Commission produced some general proposals for solutions which provided the basis for a Community offer at the European Council in Dublin on 29-30 November 1979 for a revision of the 1975 financial mechanism which would have reduced the British net contribution by about a third, but only on the understanding that there would be no further offer beyond this. Mrs. Thatcher, however, rejected the offer as inadequate on the ground that any solution to the problem must be a lasting one to forestall any further recurrence along with its concomittant damaging consequences for all concerned.

In fact there were justifiable reasons for Mrs. Thatcher's grouse. Britain, the third poorest country in the Community, had now become the largest net contributor to the Community budget, thus surpassing West Germany, another net contributor, the richest member state. Table 11 would clearly bring out the anomaly.

Table - 11

<table>
<thead>
<tr>
<th>Net contributions of member states (Net Budget Transfers)</th>
<th>£ millions.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Belgium/Luxembourg</td>
<td>222</td>
</tr>
<tr>
<td>Denmark</td>
<td>236</td>
</tr>
<tr>
<td>Germany</td>
<td>-631</td>
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<tr>
<td>France</td>
<td>64</td>
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Table - 11 (Contd.)

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<td>267</td>
<td>356</td>
<td>362</td>
<td>342</td>
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<td>-43</td>
<td>-500</td>
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<td>187</td>
<td>146</td>
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<td>250</td>
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<tr>
<td>UK</td>
<td>-140</td>
<td>-408</td>
<td>-625</td>
<td>-145</td>
<td>-1310</td>
</tr>
</tbody>
</table>

* Estimated. + denotes net beneficiary, - denotes net contributor.

As can be seen Britain, along with Germany has consistently been a net contributor over the years referred to above. More importantly the percentage rise in the British contributions was considerably higher than those of Germany suggesting a structural anomaly which, if not rectified on an emergency footing, would turn Britain into the virtual paymaster of the Community. Clearly the Community assurances at the time of entry as well as at the time of renegotiation in 1975 about developing expenditure from the budget in areas potentially beneficial for the United Kingdom such as regional and social policies (which, though begun, had remained at low levels) were largely unfulfilled. For instance out of the total annual budget payments of 12,846.6 million European Currency Units (ECU) to member states for implementation of the various Community policies in 1979, 10,434.5 was allocated for the guarantee section of the European Agricultural Guidance and Guarantee Fund (EAGGF) which operates the Community's Common Agricultural Policy.127 Out of this amount Germany, France, Italy and the Netherlands obtained 2,329.8, 2,252.9, 1,642.6 and 1,416.9 million ECUs respectively, while Britain received only 925.7 million ECUs.128 In contrast the Regional and Social Funds received only 513.1 and 595.7 million ECUs.

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128 Ibid.
respectively. Similar pattern has been observed throughout the period under review. It is thus no wonder that the stranglehold of agricultural spending remained unaltered due to the fierce resistance expected from Member states such as France, Ireland, Denmark and Italy, which benefitted immensely from the CAP, for any attempt to cut back drastically on agricultural expenditure although this was one of the principal methods which would reduce net British contributions.

In the light of this background Margaret Thatcher identified three elements for a satisfactory long term solution. Firstly, removal of the constraints limiting the effectiveness of 1975 corrective mechanism. Secondly, more Community expenditure in Britain to bring it closer to the Community average. And thirdly, the longer term element, i.e. change to be brought about in the pattern of Community expenditure with more spending on structural measures and less on agriculture.\textsuperscript{129}

The problem was a fundamental one both from the British as well as the Community viewpoint. For Britain the sums of money involved, which were not inconsiderable and created a balance of payments problem, would have been available for Government expenditure if they did not have to flow out to Brussels. For the Community, the solution to safeguard British interests within the given framework would have warranted sacrifices by other member states which was not acceptable to them. The only way out seemed to be structural changes involving substantial modification of the Common Agricultural Policy which continued to consume over two-thirds of the Community's budgetary resources. This, however, was

\textsuperscript{129} UK, Commons, \textit{Parliamentary Debates}, Session 1979-80, vol. 975, col. 29.
a long-term solution whereas some action was called for in the short run.

The EC Commission itself was suggesting a two part framework for an acceptable solution. Firstly, the 1975 Financial Mechanism, which had so far provided no relief whatsoever, would be amended so as to yield a refund sufficient to bring the British share of the Community's contribution into line with its share in Community GNP. Secondly, the Community would consider measures to increase its expenditure in Britain.\textsuperscript{130} At the next European Council meeting at Luxembourg on 27-28 April 1980, which met in a tense and surcharged atmosphere, there was broad understanding of the British difficulties, the acrimonious exchanges notwithstanding. Broad agreement was also reached on the method by which the Community would reduce both the British contribution and increase the benefits to it from the Community expenditure. The Community partners made several successive offers which, for 1980 at least, would have reduced the net British contribution by more than two-thirds, from the forecast level of £1,088 million to £324 million. No agreement, however, could be reached as Mrs. Thatcher insisted on firm commitment over several years which her partners were unable to accept.\textsuperscript{131}

After nearly a month-long negotiations a settlement of the budget issue, at least for the time being, was reached at the meeting of the EEC Foreign Ministers in Brussels on 29-30 May, 1980. There were two elements in the agreement arrived at. The first


\textsuperscript{131} Ibid., vol. 13, No. 4, 1980, Point 1.1.4. Also see UK, Commons, \textit{Parliamentary Debates}, Session 1979-80, vol. 983, col. 1153; and \textit{The Times}, 31 May 1980.
element involved the British net contributions for 1980 and 1981. 1,175 million EUA was to be deducted from the Commission estimated figure of 1,784 million EUA for 1980 leaving a net British contribution of 609 million EUA for the year. For 1981 the British contribution which was to be calculated on the basis of the Commission estimate of 2,140 million EUA would increase by a percentage equal to the difference between 1,784 and 2,140 million EUA i.e. 19.9 per cent or 121 million EUA. The final figure for 1981 therefore became 730 million EUA. Thus the total British contributions for 1980 and 1981 was reduced by 2,585 million EUA (1784-609 = 1175 + 2140 - 730 = 1410). The offer was further cushioned by a risk-sharing formula under which if Britain's actual contributions for these years were higher than those projected the difference was to be split between Britain and other member states. For 1980 Britain was to bear 25 per cent and 75 per cent was to be borne by the other eight. For 1981 Britain was to bear in full the increase from 730 million, which was the projected figure, to 750 million; in any increase from 750 to 850 million EUA, the UK was to bear 50 per cent and the other eight the rest; above 850 million EUA 25 per cent was to be borne by the UK and 75 per cent by the others.

The second element in the budget settlement provided for the Council to undertake a radical review of the pattern of Community expenditure and the operation of the budget. However, if it had not produced arrangements resolving the British budget problem

132 The conversion rate was roughly £1 = 1.65 EUA. See UK, HMSO, Developments in the European Community, January-June 1980 (London), Cmnd. 8042 (1980), p. 5.


134 Ibid., para 4.
by 1982, the Commission would put forward proposals along the lines of 1980 and 1981 formula thus keeping contributions for 1982 at the levels of those 2 years as well. 135

Refund of the money to Britain was to be by way of improvements in the operation of the 1975 financial mechanism, bringing British Gross contribution more or less in line with its share of Community GNP and for the rest through increased Community expenditure in Britain. The most important part of the package, in the eyes of the Conservative Government, was the commitment of the Council to review the development of the Community policies and the operation of the budget thus enabling creation of opportunity for lasting reforms which would resolve the British budget contribution problem. 136

Over the next one year the EEC Commission developed certain ideas whose main thrust was to make provision for a medium term solution, as the package of agricultural and structural measures, the ultimate long term solution, would take time to bear fruit. This medium term solution could take the form of compensation for Britain based on a comparative assessment of its share of the Community GNP with the proportion it obtained from the EAGGF Guarantee section expenditure. This compensation could be financed either from the budget on the basis of the 'Own Resources' system or (if the former arrangement failed) from funds made available by abatements on the receipts of Member States other than Britain from the EAGGF Guarantee section. The money thus made available could be used to finance projects in Britain which were in line with the

135 Ibid., para 7.
Community policies.\textsuperscript{137}

However, despite the mandate of the European Council, in November 1981, to the Foreign Ministers to find a compromise on this issue and the latter's repeated efforts, Britain and the other member states were unable to agree on a multi-annual formula. The Community was thus obliged to go for the option provided in the Mandate of 30 May 1980, i.e. settle for an arrangement covering 1982. Under the agreement reached on 24-25 May 1982 Britain was to receive a basic refund for 1982 of some £490 million (650 million ECUs) with provision for this to be increased if the British net contribution turned out to be higher than expected. The Community offer was further backed by an undertaking to sustain the efforts to settle the longer-term problems by the end of the year.\textsuperscript{138}

Thus, no basic solution to the root cause of persistent high British net contributions to the Community budget could be found during the period under review though the dogged determination of Mrs. Thatcher over the years of her tenure as Prime Minister was successful in considerably scaling down the British bill to levels which could be considered acceptable. In fact, as things turned out, the Commission estimates for the uncorrected British net contributions for 1980 and 1981 had proved to be far too pessimistic. As a result, after taking into account of the refunds, Britain's net contribution for 1980 turned out to be only some

\begin{footnotesize}
\begin{itemize}
\item \textsuperscript{137} EC, Commission, \textit{Bulletin of the European Communities}, vol. 14, No. 6, 1981, Point 1.2.12.
\item \textsuperscript{138} Ibid., vol. 15, No. 5, 1982, Point 1.1.4; and also see UK, HMSO, \textit{Developments in the European Community, January to June, 1982}, Cmnd. 8669 (1982), Point 1.10.
\end{itemize}
\end{footnotesize}
£ 200 million rather than the £ 370 million forecast and only £ 6 million instead of the £ 400 million forecast for 1981. The 1982 net contributions, estimated to be £ 622.1 million, were expected to be a modest £ 132.1 million after taking into account the rebate of £ 490 million. Another positive development from the British point of view was the widespread recognition within the Community that the British budget problem was not just an isolated phenomenon but the manifestation of a deep seated structural malady, i.e. the problem of the CAP, which needed to be corrected in its own right.

Nevertheless experience of the first ten years of its membership showed that new policies beneficial to Britain would be slow to develop and the proportion of the Community budget devoted to agriculture would continue to be large. Meanwhile, Britain had to sustain a large financial contribution during the period under review while the expectation that the benefits from free trade for British industry would handsomely exceed the cost of the budget contributions remained largely unfulfilled due to the lingering international economic depression as well as domestic structural weaknesses and poor productivity. The budget problem thus became a very important focal point of all the frustration and disillusionment that membership of the Community generated in Britain.

139 UK, HMSO, n. 138, Point 1.9. The British bonanza stemmed from a Community error in not asking "for a risk-sharing formula downwards to match the risk-sharing upwards ...." See Sir Michael Butler, n. 102, pp. 100-1.

Regional Policy

At the time of entry in 1973 there were apprehensions in Britain about the potentially harmful impact of the principal Community policy - the Common Agricultural Policy. However, there was hope that the damages, if any, could be offset through the development of other Community policies such as the regional policy which would be beneficial for Britain. Hopes were held out by the Conservative Government of Edward Heath that Britain would be able to pursue more fruitful policies and share experience with other countries to deal with its problems of regional development through the membership of the Community. 141

Britain is one of several West European countries which face serious problems of regional economic imbalance caused primarily by a decline in its traditional industries such as steel, manufacture, shipbuilding and textiles. These industries which were in the forefront of the first industrial revolution now have aging plants and services. The British steel and shipbuilding industries were already suffering as a result of recession and structural bottlenecks. The textile industry was facing increasing competition from the low-cost manufactures of Asia such as Hongkong, Taiwan and South Korea and was in need of imminent modernisation and cost reduction. The regions dependent on these industries such as Scotland, Northern England and Wales were hard hit and all British Governments, Conservative or Labour, had consistently followed policies designed to provide as much assistance as was possible from public expenditure.

141 UK, HMSO, n. 5, para 137-39, p. 35.
Development of a common Community policy for regional development was in conformity, as reflected in the preamble to the Treaty of Rome, with a principal objective of the EEC since its inception, i.e. encouragement of parallel development in the economies of member states, especially in those countries whose levels of economic growth and record of overall prosperity were well below the Community average. It is the Community's task, "to promote a greater convergence between the economies of member states and to ensure a better spread of economic activity throughout its territory. Lesser favoured areas are in this way, to be given opportunities for more rapid development". Creation of a Regional Development Fund, intended to promote this, was envisaged in 1971. Very little progress, however, was achieved in the discussions about its size and distribution between 1971 and 1974 though there was agreement at the Paris summit of October 1972 "that the Community should give high priority to correcting structural and regional imbalances which might affect the realisation of economic and monetary union". The Commission was asked to analyse the regional problems likely to arise in the enlarged Community and make suitable recommendations for their solution. The Community Institutions were specifically asked to set up a Regional Development Fund before 31 December 1973.

The Government of Edward Heath, which was well aware of the likely development of a budgetary imbalance, decided to concentrate on Britain's regional problems as a means of attracting Community

142 Office for the official publications of the European Communities, European Regional Policy (Luxembourg, 1985), p. 4.
expenditure in the UK. Hence, at the 1972 and 1973 Paris and Copenhagen summits Heath employed his major negotiating effort in agreeing on the Regional Fund. From the British point of view the Regional Fund was the means to plough the Community money back into Britain. Since successive British Governments, Labour and Conservative, had exerted themselves in the development of policies designed to counteract regional difficulties, the Community Regional Fund could act as a complement and supplement to national expenditure.

However, right from the beginning conflict of interests posed a serious problem. While the Dutch and the Germans showed relatively low interest in it as they had fewer regional problems, and thus tried to keep the fund as small as possible, the French on their part made it clear that they would not allow the Fund to be financed by a reduction to the Agricultural Budget, evidently to foreclose the prospect of any damage to the incomes of their own farmers. Thus, Britain was faced with the position that smaller the Fund the smaller would be the likely net balance of payment gains to itself.

The series of bilateral discussions initiated by George Thomson, the British EEC Commissioner for Regional Policies, which ultimately led to the establishment of the Regional Development Fund, in 1975, revealed that the net contributors to the Fund wished to keep it pegged at a smaller scale than had been originally

144 Sir Michael Butler, n. 102, p. 87.
145 Elaine Kellelt-Bowman and Kenneth Clark, Britain in Europe: New Hope for the Regions (European Conservative Group) (London 1979), p. 18. Elaine Kellelt Bowman has been a Conservative MP for Lancaster since 1968. As Member of European Parliament she has served on its Regional Policy, Regional Planning and Transport Committee.
146 Hugh, M. Begg and J. Allan Stewart, n. 143.
In July 1973 the EEC Commission had proposed the establishment of a European Regional Development Fund (ERDF) of 2,250 million EUA (£ 931.5 million) to be spent over three years. The money was to be spent to complement the efforts of national governments to assist underdeveloped regions defined by impartial Community criteria. The fund, however, could not be set up by the deadline of 31 December 1973.

It was not until the Paris Summit of the EEC Heads of Governments in December 1974 that the final decision to set up the Fund, with effect from 1 January 1975, was taken. Meanwhile, it had become clear that the Community Governments were willing to create a centralised Community regional policy with the Commission allocating funds on the basis of the objective needs of problem areas as it saw them. Thus, the objective of a set of Community criteria had to be given up and a system of rigid proportional distribution between Member States took its place.

Initially the Fund was to be endowed with 1,300 million European Units of Account (EUA) (about £ 550 million), reduced from the proposed 2,250 million EUA, for a period of 3 years - 300 million EUA in 1975 and 500 million each for 1976 and 1977. The resources of the Fund were to be divided as follows: Belgium - 1.5 per cent, Denmark - 1.3 per cent, France - 15 per cent; Ireland - 6 per cent, Italy - 40 per cent, Luxembourg - 0.1 per cent, the Netherlands - 1.7 per cent, Germany - 6.4 per cent and the U.K. - 28 per cent.

148 Elaine Kelleyt-Bowman and Kenneth Clark, n. 145.
149 Sir Michael Butler, n. 102, p. 87.
From the British point of view the size of the Fund as well as the proportion of its own allocation was a very modest beginning indeed. After taking into consideration its share of gross contributions which was to vary a little from year to year with exchange rate movements Britain could hope to make a net gain of only about 7 per cent. on the basis of its own percentage share of the Fund Britain could expect an amount of approximately £150 million spread over a period of 3 years which had to be juxtaposed against the British Government's own national expenditure on the regions of about £500 million a year. 151

In spite of its relatively smaller size Britain has been one of the major beneficiaries of the Fund since it started operating in 1975. Money was provided from the Community Budget as a contribution towards Britain's own regional policies subject to regulations agreed at the Community level. During the first seven years of its operation between 1975 and 1981 Britain received over £720 million in ERDF Commitments which was informally divided between England (40 per cent), Scotland (25 per cent), Wales (15 per cent) and Northern Ireland (15 per cent). 152 More than 2,000 projects were benefitted from ERDF assistance to Britain between January 1975 and January 1979. Among these, over 1,200 projects were located in Northern and North-West England, Yorkshire and Humberside, East and West Midlands, and South West England. 412

According to the arrangements Germany was to be the principal net contributor and it was not before some bitter comments from Helmut Schmidt during the preceding discussions that agreement was finally reached. Harold Wilson, Final Term: The Labour Government, 1974-76 (London, 1979), p. 93.


152 Commission of the European Communities, n. 27, p. 63.
projects in Scotland, 448 in Wales and 163 in Northern Ireland were also benefitted from the Fund during this period.\textsuperscript{153}

Some minor adjustments were made in the distribution arrangements when the ERDF was renewed in 1979. Total expenditure from the Fund was divided into two sections - a Quota section which was allocated 95\% of the money and a non-quota section which was given the rest.\textsuperscript{154} The latter expenditure was to be guided by a direct application of Community-devised criteria. The shares of the existing recipients were further revised downwards with the accession of Greece in 1981; the share of Britain was now fixed at 23.8 per cent.\textsuperscript{155}

So far as the impact of the Fund on the British regional development is concerned the Commission's own assessment, even at its most optimistic level, has been somewhat guarded. If the incentives to industry as a result of the operation of the Fund are taken into consideration the share of investment taken by the main assisted areas increased by about 6 per cent though any direct linkage is hard to prove. The benefit on the infrastructure side which consumed 60-70 per cent of the grants was however more apparent. Since the money was coming direct from Brussels the public utilities and local authorities had saved interest repayments on their hard-pressed revenue accounts. The Fund's existence, if not its resources, have also apparently influenced them in the formulation of their projects as well as needs.\textsuperscript{156}

\textsuperscript{153} Kellett-Bowman and Clark, n. 145, p. 26.  
\textsuperscript{154} Commission of the European Communities, n. 27, p. 63.  
\textsuperscript{155} Ibid.  
\textsuperscript{156} Ibid., p. 64.
However, even without going into a detailed analysis it is possible to argue that the scope of the ERDF has remained essentially limited especially when measured as a percentage of the total EEC budgetary expenditure. Table 12 provides some indications.\(^\text{157}\)

**Table - 12**

**The General Budget (Payments to Member-States)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Total EUA (in millions)</th>
<th>Regional Fund (in millions)</th>
<th>UK Receipt from ERDF (in millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1976</td>
<td>6579.2</td>
<td>277.3</td>
<td>88.3</td>
</tr>
<tr>
<td>1977</td>
<td>7817.2</td>
<td>372.5</td>
<td>118.6</td>
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<tr>
<td>1978</td>
<td>10804.0</td>
<td>254.9</td>
<td>59.0</td>
</tr>
<tr>
<td>1979</td>
<td>12846.6</td>
<td>513.1</td>
<td>165.7</td>
</tr>
<tr>
<td>1980</td>
<td>14591.7</td>
<td>726.7</td>
<td>189.8</td>
</tr>
<tr>
<td>1980</td>
<td>15514.7</td>
<td>798.7</td>
<td>255.2</td>
</tr>
<tr>
<td>1980</td>
<td>18024.9</td>
<td>973.0</td>
<td>225.1</td>
</tr>
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</table>

The very modest size of the Regional Fund and the British receipts from the ERDF leave little scope to overemphasize the benefit of the EEC Regional Policy to countries such as Britain who were large net contributors to the budget during the period under review. As the cost of the CAP soared the proportion of the total budget being spent on farming not only did not fall but even tended to increase. The post-1973 recession made it much more difficult for Britain to persuade its partners who were already making determined efforts to try to hold down national public spending as a proportion of their GNPs to agree to the large-scale development of new common policies such as the Regional Policy which brought it net receipts. Consequently, it would not be farfetched to argue that the

expectations generated about Regional Policy at the time of British entry did not materialise during the period under review.

E. Other Miscellaneous Areas

There are two other areas - investment and growth rates which need to be looked at briefly to complete this survey of the economic impact of the membership of the European Community on Britain. The 1971 British White Paper had placed a great deal of emphasis on the experience of the six founder member-states whose economic progress had apparently been promoted in large measure by the changes brought about by the creation of the Community. It was hoped that Britain, whose economic structure was in many respects similar to that of the member countries of the Community, too would benefit from Membership which would result in a higher rate of investment and a faster growth of the economy. 158

In the light of the expectations generated the pattern of investment within Britain by the British and foreign-owned firms during the period under review received considerable attention. The report of the Lords Select Committee on European Community refers to extensive evidence to it from industry to the effect that membership had an important influence on the pattern of investment. The CBI was quoted as having said that had Britain not been in the Community "much of the investment that has taken place in the United Kingdom would not in fact have taken place". 159 The Committee itself too concluded that while the size of the "Community effect" on investment could not be measured, "in industries where foreign investment is an alternative to external trade as a

158 UK, HMSO, n. 5, paras 55-7.
159 UK, Lords, n. 39, para 82.
means of supplying a market, membership had promoted the flow of US and Japanese investments into manufacturing facilities in the United Kingdom. It may have tended to promote some United Kingdom investment in the Community; but, on balance, the British investment there was probably reduced while domestic investment was raised.¹⁶⁰

Indeed if figures are taken into consideration it can be shown that important changes did take place in British investment patterns. For instance Britain's outward direct investment (excluding oil, Banks and Insurance) in the 8 other EEC countries had increased from 17.9 per cent in 1971 to 23.7 per cent in 1978 while the same had declined from 26.3 per cent to 19.8 per cent in the rest of the world during these years.¹⁶¹ So far as inward investment was concerned, direct investment into Britain, excluding oil, from the EEC countries increased from 11 per cent in 1972 to 24 per cent in 1978 though it subsequently declined to 13 per cent in 1979 and 7 per cent in 1980. Japanese direct investment was also attracted. For instance the following percentages of Japanese direct investment in the Community came to Britain: 1973-80 per cent; 1974 - 79.1 per cent, 1975 - 30.0 per cent, 1976 - 14.3 per cent, 1977 - 21.0 per cent, 1978 - 16.8 per cent, 1979 - 14.0 per cent, 1980 - 42 per cent, and 1981 - 12.0 per cent.¹⁶² Besides the Lords Committee, the EEC Commission too was of the opinion that these investments were attracted primarily due to British membership of the Community.¹⁶³

¹⁶⁰ Ibid., para 83.
¹⁶¹ Ibid., Annexe 2, Table 1.
¹⁶² Ibid., Tables 3 and 4.
¹⁶³ Commission of the European Communities, n. 27, p. 11. Chapter 6 would consider the issue of US investments in the UK in detail.
However, the issue of investment in Britain is also not free from contention and others have disputed the conclusions referred to above. As noted earlier one of the major factors responsible for the lack of competitiveness in the British manufacturing industry during the period under review was held to be the low level of investment.\textsuperscript{164} According to one source total manufacturing investment in Britain was lower in 1981 than it was in 1971 (£2,938 million as against £3,896 million at 1975 prices).\textsuperscript{165} So far as the Japanese investment in Britain was concerned Teddy Taylor, the Conservative anti-Marketeer, pointed out that the official figures, referred to above, could be used "to prove that Membership of the EEC has led to a slump in Japanese investment in the UK and that it was now at an all time low".\textsuperscript{166} Another source pointed out that Japanese investment in Britain had historically been by far the largest part of such investment in EEC countries for reasons other than Britain's Community membership. Among these were listed British market and industrial structure - more international in outlook than in continental countries - the English Language, advantageous British Facilities and labour costs, etc.\textsuperscript{167}

Thus, in the light of such conflicting evidence and assertions it is hard to arrive at any definitive conclusion about the pattern of investment, inward and outward, as affected by the British membership of the Community. It is, however, important

\begin{footnotesize}
\begin{enumerate}
\item[164] UK, Commons, n. 43, para 13.
\item[166] Letter to \textit{The Daily Telegraph}, 12 November 1982, by Teddy Taylor, Conservative anti-Market M.P.
\end{enumerate}
\end{footnotesize}
to note that industry, Government, and Parliamentary circles were overwhelmingly of the opinion that the situation would have been much worse had Britain not been a Community member.

So far as the rates of growth of the British economy are concerned the performance during the period under review, compared to other developed, industrial countries, was extremely unsatisfactory indeed. Table 13 sums up the situation to the best extent possible.168

Table - 13

<table>
<thead>
<tr>
<th></th>
<th>France</th>
<th>W. Germany</th>
<th>Italy</th>
<th>Japan</th>
<th>U.S.A.</th>
<th>U.K.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average annual % growth in GDP by volume, 1973-78</td>
<td>2.9</td>
<td>1.9</td>
<td>2.1</td>
<td>3.7</td>
<td>2.4</td>
<td>0.9</td>
</tr>
<tr>
<td>Per capita GDP in Dollars, 1978</td>
<td>8827</td>
<td>10426</td>
<td>4180</td>
<td>8533</td>
<td>9602</td>
<td>5514</td>
</tr>
<tr>
<td>Average annual % rise in retail prices 1974-79</td>
<td>10.1</td>
<td>4.2</td>
<td>15.8</td>
<td>9.9</td>
<td>8.1</td>
<td>15.5</td>
</tr>
<tr>
<td>% change in industrial production, 1979-80</td>
<td>-6.0</td>
<td>-5.0</td>
<td>+0.5</td>
<td>+6.5</td>
<td>-4.5</td>
<td>-10.0</td>
</tr>
<tr>
<td>% unemployment autumn, 1980</td>
<td>7.1</td>
<td>4.1</td>
<td>8.3</td>
<td>2.0</td>
<td>7.6</td>
<td>8.5</td>
</tr>
</tbody>
</table>

The figures above seem to leave little doubt that the British economy had performed poorly during the years concerned and that the "dynamic effects" of the membership of the Community were conspicuous by their absence. If anything, the performance during these years, contrary to what was expected, has been much worse than the preceding years. For instance the average annual growth

rates of gross domestic product for Britain was 3.4 per cent between 1967 and 1973 i.e. before Britain joined the Community. It is of course possible to argue that the severe recession of the post 1973 period had hit all industrialized countries hard and consequently their performance had also declined. It does not however leave room for any doubt that Britain's growth rates declined even further and at 2.3 per cent between 1967 and 1978 reached only 60 per cent of the OECD average of 3.6 per cent.  

**The Balance Sheet**

In a study of this nature, concerned with as complex and confusing a phenomena as the economic impact of EEC membership on Britain it is hazardous to come to any definitive conclusions. However, if one keeps oneself confined to what was said in the Conservative Government's White Paper of 1971 it is possible to come to some conclusions. The optimism that was then expressed on the questions of food prices, balance of payments and budget contributions - areas where some of the worst blows from EEC membership were feared - as well as on the question of British industry, which was expected to become more efficient and productive proved misplaced. Food prices went up much higher than anticipated; the balance of payments position took a disastrous knock and the budget contributions in later years touched such levels which made the EEC domestically very unpopular and set Britain on a collision course with its other EEC partners. As far as regeneration of British industry is concerned the huge trade deficit with the EEC...  

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170 Ibid.
in manufactured goods as well as the continued rise in the jobless figures hardly indicated any progress in the desired direction.

It has been argued, primarily by pro-Market opinion, that the EEC itself was not responsible for the disappointing British economic performance. The timing of Britain's entry into the Community was unfortunate, having missed, partly through its own faults, the greatest period of the Community during the 1960s. The era since 1973 has coincided with the period of world slump and inflation. Due to faulty economic policy pursued by the Labour Government in the mid-70s British inflation outstripped that of Europe's which raised the costs of British industry and damaged its competitiveness in EEC Markets. Although the situation improved after 1976 heavy rise in Sterling after 1978, in anticipation of the North Sea oil bonanza, once again made British exports to the EEC too expensive.

However, the most ubiquitous stock-in-trade for the pro-Marketeers has been the argument that things would have been much worse had Britain not been a member of the EEC. In an uncertain and crisis ridden world the European Community is a much safer refuge for a country like Britain which is crucially dependent on trade for its economic survival. As for the poor economic performance, the EEC Membership acted essentially as an eye opener on

172 Interview with Sir Ian Gilmour, Lord Privy Seal, in the Europa Section, The Times, 5 February 1980, and Shirley Williams, "Why we must not retreat from Europe". The Times, 6 February, 1981.
the extent to which the British industry had become structurally obsolete. It was thus no surprise that the "dynamic effect" in fact worked in reverse: "accelerating the decline of uncompetitive industries and speeding up import dependence. In or out of the EEC this would have happened anyway." 175

It would indeed be wrong to blame the EEC for all the economic ills of Britain in the 1970s. However, one conclusion seems inescapable; that the Common Agricultural Policy which has always consumed nearly three-quarters of the EEC budget and even in 1982 accounted for 62 per cent of estimated Community spending 176 has cost Britain dearly. The CAP was unquestionably responsible for higher food prices as well as the very high British budget contributions. 177 It was Britain's misfortune that it could not join the Community when its common policies were being worked out. British calculations at the time of entry that new policies, suitable to British interests, could be worked out during the transition period proved to be illusory.


177 Even resolute yet sober supporters of the community in Britain concede this fact. John Palmer, n. 175.