

Common Market and Us

by Henry Hazlitt



LAST week I discussed seven basic issues and principles involved in foreign-trade policy, but never got to the complicated problem of the European Common Market and what our relations with it ought to be.

At the heart of that problem is the difficulty of knowing whether the Common Market will prove in the long run to be a step toward free trade or a step toward increased protection. It is a step toward freer trade among its six members—France, West Germany, Italy, Belgium, Luxembourg, and the Netherlands—but it remains a protectionist area against the rest of the world. Even internally it is not yet certain whether its net effect will be to encourage a free economy or collectivist controls. So far as agricultural products are concerned, subsidies, tariffs, and quotas on the part of member nations are as entrenched as ever. Industrial products, such as coal and steel, are on a cartel and quota basis. And unless the Six either adopt a common currency, or return individually to a gold basis, free trade among them will not in the long run be feasible.

DISCRIMINATION

In seeking free trade within the area, but continued discrimination against non-members, the Common Market suffers from an internal contradiction. It says to the Italian automobile manufacturer: We will continue to protect you against the competition of the Ford, but you must now accept the competition of the Volkswagen, because the Germans are now One of Us. We will let you buy raw materials from Germany if you can get them cheaper there, but we will not let you buy them from the U.S. because Americans are Foreigners. And the Common Market likewise says to the Italian consumer: To give you a wider range of choice and price, we will let you buy a Volkswagen from Germany; but we will not let you buy a Falcon or a Cadillac, unless you pay a stiff penalty tariff.

In brief, the Common Market discriminates against American products. This is what it was intended to do. Yet our own officials have from the beginning actively encouraged the

Common Market. They have even gratuitously interfered to encourage the Common Market as against the European Free Trade Association, or Outer Seven, though the latter worked on the much sounder principle of lowering their trade barriers vis-à-vis each other without requiring any member to raise its tariffs against non-member nations.

BARGAINING FALLACY

As of now, the Common Market has triumphed over the Free Trade Area, not because it is nearer to free trade, but because it is farther from it. It is precisely its discrimination as a unit against non-members that gives it the bargaining power to force others to negotiate to "get in under the tent." If Britain joins, and others of the Outer Seven follow suit, the chief country against which it will discriminate will be the United States. And if we joined, against whom would the common tariff wall be built? Katanga?

The President has not suggested that we join the Common Market. He has correctly insisted that we adhere to "our traditional most-favored-nation policy." This means that we would not discriminate against any nation, but grant to every one as free an entrance or as low a duty for specific products as we grant to the "most favored." Surely this is the policy that we ought to follow, not only vis-à-vis the Atlantic Community, but the whole non-Communist world.

But with such a policy, nation-to-nation or region-to-region bargaining would be not only unnecessary but inconsistent. Each nation could act by itself, realizing that it helps its own consumers and even the great bulk of its own producers by reducing trade barriers even if other countries refuse to do likewise.

Today this may sound like a counsel of perfection. The Common Market is a fact; and perhaps the most effective way of dealing with it, as of now, is through reciprocal bargaining. But let us not forget that such reciprocal bargaining rests on the protectionist fallacy that reduction of barriers to imports is a "sacrifice" or "concession" justified only by the reciprocal "concession" another country makes in favor of our exports to it.