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Abstract	There appears to have been an attempt by the EEC Commission 'Information Service' and its supporters, to misrepresent the facts regarding international economic relationships between EEC members and Japan. The methods used are reminiscent of those used triumphantly in Britain to persuade that country to join the EEC and now to obscure the adverse economic effects of membership. Therefore the Commission and its Information Service must be regarded only as an ambitious and as yet unrivalled 'pressure group' and not as a 'responsible government'. Some understanding of this situation can be obtained through the 'founding paradox' of the EEC - that whilst it purports to promote the 'liberal' ideals of an open world economy, in the service of free trade and peace, its very progress depends on a process of 'corporatist' power. Hope of reform lies in the emergence of strong 'liberal' opposition to the EEC from within member countries, and in countering that opposition the Commission seems to have chosen an unwelcome role for Japan.
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**THE EEC IN JAPAN AND BRITAIN.
PARADOX, PERSUASION AND THE MISUSE OF ECONOMICS**

by

James Y. Bourlet

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SUMMARY

There appears to have been an attempt by the EEC Commission '*Information Service*' and its supporters, to misrepresent the facts regarding international economic relationships between EEC members and Japan.

The methods used are reminiscent of those used triumphantly in Britain to persuade that country to join the EEC and now to obscure the adverse economic effects of membership.

Therefore the Commission and its *Information Service* must be regarded only as an ambitious and as yet unrivalled 'pressure group' and not as a 'responsible government'.

Some understanding of this situation can be obtained through the 'founding paradox'

of the EEC — that whilst it purports to promote the 'liberal' ideals of an open world economy, in the service of free trade and peace, its very progress depends on a process of 'corporatist' power.

Hope of reform lies in the emergence of strong 'liberal' opposition to the EEC from within member countries, and in countering that opposition the Commission seems to have chosen an unwelcome role for Japan.

PREAMBLE — MEMBERSHIP AND OBJECTIVE OF THE EEC

In 1951 six nations, Germany, France, Italy, Belgium, The Netherlands and Luxembourg established an organisation called the 'European Coal and Steel Community' (ECSC) for the purpose of creating a Commission or group of civil servants who would, subject to the overall control of regular meetings of Ministers of Industry from each country, co-ordinate coal and steel production and marketing within the total area. At about the same time those countries established 'Euratom' with a similar organisation to deal with matters of atomic energy production. By the 'Treaty of Rome' in 1956, these same nations agreed to form a 'zollverein' (customs union) or 'Common Market' for all goods with yet another Commission and yet another Council of Ministers and this was called the 'EEC'.

Within the 'Six' lived about 190 million people and some time later it was decided to merge the three Commissions and three Councils into one of each and call the whole thing the 'European Communities' — referring to all three *organisations*. This remains the title used in official reports and so, whilst it is technically correct to use the initials 'E.C.' it is misleading to use the title 'European Community' in the singular since this would imply some sort of political/social organic unity which has not yet been achieved. The title 'EEC' will be used in this paper.

The EEC Commission, based in Brussels, has over ten thousand employees headed by fourteen 'Commissioners' who, though only appointees, regard themselves as something between civil servants and government ministers. Whilst many employees are concerned with publicity, translation and policy development, the majority administer the Common Agricultural Policy which accounts for 70% of expenditure.*

Between 1961 and 1975 Britain pondered membership and formally joined in 1972 as did Eire (Southern Ireland) and Denmark with Greenland. In a referendum, Norway decided not to join but some years later Greece joined and now Greenland has just left. At the present time Spain and Portugal are considering membership and the EEC has free trade arrangements with a number of countries such as Austria, Switzerland, Sweden, Finland and Norway, some special arrangements with Yugoslavia and there are some preferential access and aid arrangements with a few less developed countries — principally the old French colonial territories.

* See Appendix 1

The Treaty of Rome was more than just an agreement for economic regulation since it embodied the aspirations of those wishing to create a 'New Europe' — a unified and powerful 'super' nation in which there would be a dominant central government — perhaps similar to the Federal Government in the USA. In working towards this ambition, it is the aim of the EEC Commission progressively to accumulate powers of expenditure and decision making at the expense of member governments.

This 'paper' is concerned with some aspects of the Commission's methods of 'accumulation' and their constitutional implications.

There is justified concern amongst the people of Europe with the policies pursued by the EEC; obvious conflict between the central (EEC) executive and member (national governments) executives; and an increasing awareness that somehow, despite the newly formed 'European Parliament', legislative democratic control over executive power is being circumvented.

SECTION A — OBSERVATIONS

Part 1 Persuasion in Japan and Europe

Impressions

Impressions of reality are often more important than reality itself in moulding political decisions. They form the 'building blocks' for popular acceptance and thus the constraints within which politicians must operate. Hence they are a primary subject of enquiry for any policy analyst, applied economist or other social scientist.

On observing any strongly held and widely accepted view which seems to exaggerate, distort or even conflict with informed impartial assessment, it is worth asking questions. Who benefits from the resulting policies? Have they actively promoted the questionable view — or at least not attempted to correct it? What methods have been used to promote the view? Why were opposing voices ignored?

Now there is a widespread impression in Europe, and now in Japan, that Japan has, with militaristic economic determination, invaded the markets of other nations whilst it has imposed barriers against imports. Nationalistic, destructive, and selfish; this is seen as causing payments deficits and unemployment.

The Japanese *White Paper on International Trade 1982*¹ drily noted "In terms of the level of tariffs and the number of items subject to residual quantitative import restrictions Japan is no more closed to foreign competition than the Western countries. Much of the criticism about non-tariff trade barriers in Japan is based on misunderstandings." It is necessary for Japan to "endeavor to avert trade friction by promoting mutual understanding with other countries".

One expects other governments to respond positively to this rebuttal; pointing out exceptions no doubt but generally seeking to reinforce more accurate understanding

both in their own countries and in Japan. Prejudice, bias and even racism must be starved of false justification.

But such a positive response does not appear to be the 'line' taken by the EEC's *Information Service*, represented in Tokyo with its 35 staff in Chiyoda-ku. On the contrary, this 'Embassy', opened in 1974, issues numerous factual and authoritative pamphlets, press releases and educational display boards which give the trade figures displayed in the most alarming possible way without necessary explanation and which then contain thinly veiled threats of dire consequences unless corrective action is taken.

To illustrate. An April 1979 news release summarising a speech by Mr. Leslie Fielding, head of the Commission's delegation to Japan said "Trade relations with Japan are bad. The statistics speak for themselves . . . nevertheless . . . the EC does not seek to exploit the Japanese market as the Japanese have exploited the European market."

The important 1981 'Europe Information' pamphlet *The E.C. and Japan*² after giving many tables and an apparently comprehensive analysis stated "The trade imbalance represents a serious hindrance to developing a worthwhile and positive association between the Community and Japan . . . the economic weight of The Ten should be brought to bear on the question to ensure respect for the E.C. *per se*".

A July 1981 press release stated "There is a restless mood in the EC member countries at the impact of Japanese exports."

In 1982 the EEC took Japan to the 'court' of GATT but this will probably be withdrawn. The action was given widespread publicity.

The 1982 EC magazine 'EUROPE' contained an article which spoke of imports and exports with Japan of 18 and 6 billion dollars under this heading: "Trading with Japan — a one-way traffic — CHRISLOM outlines the Community's problems in combating the high performance and obstructive trading policies of the world's fastest-growing industrial power"³

The December 1982 'E.C. News' said, "... noting the lack of a satisfactory solution in the consultations so far conducted with Japan . . ."

The January 1983 'E.C. News' noted that "According to the analysis by the EC Commission services, little or no progress has been achieved."

In January 1983, an EEC press release on a symposium on industrial co-operation noted a speech by Commission President Gaston Thorn in which he said "members of the EC find it very hard to resist protectionist moves, especially since they are burdened with a heavy trade deficit vis-a-vis Japan . . . the chronic and excessive bilateral deficit gives rise to the impression in Europe that Japan is not totally integrated into the open trading system and that it does not make a contribution to this system that is in keeping with its stage of economic development."

The technique for influencing public opinion consists in providing apparently impartial and unemotional material, containing selected statistics and comment, (together with a great deal of 'helpful' background documentation on the EEC and events in Brussels generally) to journalists who then embellish and relay it to their readers who thus reach the intended, if alarming, conclusions.

Teachers who obtain this material as a basis for classwork are often part of this same

process but, with them, the effects are doubly influential – on the lines of the old Jesuit saying “Give us a child of an impressionable age – and it will be ours for life”.

Meanwhile, the EEC library cataloguing service keeps record of all publicity obtained, and reports on their content to Brussels. For example, an article in NIKKEI BUSINESS on 24 January 1983 entitled “The Day Europe Will Close its Market” was reported to be “basically informative” and “good shock treatment to Japanese readers”. A section based on some percentages given in *The EC in Japan*,² (though unacknowledged) was said to “alarm the readers of the danger that Japan is facing”. Criticism by Mr. Obayashi, EEC correspondent of the paper was described as “a few unnecessarily nasty remarks”.⁴

A misleading ‘selective’ approach

The ‘alarming conclusions’ on international business with Japan focus primarily on the extent of exports and imports but supplement this with ‘structural’ criticisms – the complaint that Japanese exports of highly desirable manufactured goods reduce sales of firms in the EEC forcing them to adapt rapidly – or reduce operations and employment.

Of course structural adjustment costs must be compared to consumer gains and such equations generally favour an open trading policy. Economists have traditionally recognised the claim, however, of an ‘infant industry’ to protection on a temporary basis.

But there are inconsistencies in the EEC’s arguments about the ‘structural impact’ of trade. Membership of the EEC for Britain has meant a dramatic ‘structural impact’ (far greater than the effects of Japanese imports) but the Brussels authorities have made little or no comment. The ‘structural impact’ on food supplying countries of British membership is also an unacknowledged responsibility – and in any case the manufacturers in the EEC who complain are hardly ‘infant industries’.

In principle, international product specialisation should be welcomed and, rather than blaming ‘structural changes’ for high unemployment, anti-inflation policies should be seen as the overwhelming factor. In this context, one may note the outstanding contribution that Japanese productivity gains have made in recent years to containing price rises – world wide.

There are thus arguments to be made on both sides, and each contains an element of truth. Regrettably however, EEC publications and derived publicity appear to support only one side and any justified concern is built into an alarming impression. This is particularly the case regarding the general trade statistics.

The Bank of Japan’s April issue of the *Balance of Payments Monthly*⁵ shows that the EEC quoted figures are only one of three essential elements; visible trade, invisibles and capital movements.

Taking all three together Japan is ‘in balance’ with the rest of the world and former Japanese Foreign Minister Saburo Okita has complained that “We hear on so few occasions any reference to the overall balance of payment aspect. I fear that it (the visible trade balance) may give a somewhat distorted picture of our economic relationships.”⁶

Capital movements are investments and loans made by Japanese firms abroad and

in 1982 they exceeded inward investments by nearly \$15bn. Officially welcomed everywhere, they are specifically encouraged in the EEC and, although Britain made a net investment in Japan of \$2 $\frac{1}{2}$ bn in 1982, the rest of the EEC gained, on balance, nearly \$4bn in that year.

Invisibles are payments for such items as the purchase of holidays, sea and air transport, production rights, insurance, entertainment royalties and payments for the use of foreign capital invested in Japan. Japan had a world deficit of nearly \$9bn on this account in 1982 of which the EEC accounted for over \$5bn. (in 1981, nearly \$7 bn!)

Visible trade (The 'Trade balance') had to be in surplus in 1982 simply to cover these payments.

To understand trade it is essential to combine *visibles* with *invisibles*. (It is, after all, entirely legitimate to exchange a group holiday for a motor car.) On this basis, Japan's bilateral surplus with the EEC in 1982 was \$5bn rather than the much publicised \$10bn. With the UK alone, Japan 'broke even' in 1982 and in 1981 had a deficit of \$2bn.

But there is no mention of *invisibles* in the EEC pamphlet about Japan. Awareness of this omission is shown however by the *inclusion* of invisibles in the pamphlet of the same series relating to New Zealand. Unlike Japan, New Zealand has a visible trade deficit with the EEC and the inclusion of her invisibles surplus helps counteract demands for more New Zealand imports of butter and lamb.*

In an apparent attempt to support the omission of invisibles the British government have claimed that an entirely different method of recording should be used for invisibles and that on this alternative basis British 'invisibles' earnings from Japan are very small. The argument is as follows:

Any international transaction can be measured either in simple 'cash flow' terms or in 'value added' or 'net benefit' terms after excluding payments to other countries. This is analogous to saying that a company's performance can be measured either by sales or by profits. All international payments involve the vendor country in payments to third countries (for raw materials, for borrowed money, for components, for food etc.) and in the case of 'invisible' sales by Britain to Japan, London often pays interest on money borrowed elsewhere to 'on lend' to Japanese firms, or pays foreign shipowners for transportation supplied to Japan. ALL accounts, both for visible and invisible transactions are smaller on a 'value added' basis just as profits are always smaller than sales.

The British government claims that although visibles are recorded on a 'cash flow' basis, invisibles should be recorded by 'value added' – which it chooses to call the 'Economic Transactions basis'. On this basis the invisible surplus with Japan appears to be much smaller, and the figures have been published in the Department of Trade's "British Business" (April 1981 and January 1982).

The claim is made that (for example) the Interest, Profits and Dividends figures recorded by the Bank of Japan as, in 1980, 1,200 million pounds paid by Japan to Britain should be only 175 million pounds and the difference represents money simply passing through London to other countries. Now the high level of UK portfolio invest-

* Invisibles are also noted in the pamphlet "The E.C. and Portugal". Ref. 58/82

ment in Japan, the heavy outflow of capital from Britain in recent years and the investment of British citizens in Japan via other financial centres such as New York, Singapore or the Cayman Islands is alone enough to cast doubt on such a claim. Enquiries to London brokers suggest that the 'true' figure is more likely to be around 900 million pounds.

Similar unlikely claims are made with regard to transportation and the figure recorded by the Bank of Japan for tourist expenditure (based on Japanese requests for yen-pounds exchange) is reduced to one tenth based on some interviews with Japanese tourists intercepted at Heathrow airport.

Now there are simply not the resources, records or staff available in London accurately to collate figures on an 'Economics Transactions Basis'. The office responsible for the 'British Business' publication cannot provide any effective documentation for their figures, concede that Britain is the only country in the world attempting to measure transactions in this way, and accept that, as a measurement of 'cash flow' the Bank of Japan figures are unchallengeable.

Clearly it is wrong to mix methods. Comparing visibles measured on 'cash flow' with invisibles measured on 'value added' is as muddling as comparing one company's sales with another's profits.

In any event, most of the money 'passing through' London to third countries goes to other EEC members and so Bank of Japan figures may be used for EEC-Japan relationships.

Bi-lateral and multi-lateral trading statistics

It is a bad principle to indulge in comparisons of bi-lateral payments since multi-lateral patterns are the essence of the post-war successful growth of the world economy. Multi-lateral responsibility requires only that each country balances its total payments with total receipts thus neither hoarding other nations' currencies (or gold) nor supplying its own in excess. Of course, this is an elementary statement (ignoring many an economic and political caveat) but it is a great deal more sophisticated than bi-lateralism.

Large bi-lateral deficits are common the world over and pass largely unremarked. Japan has a large deficit with her energy supplying countries, Germany has a large industrial goods surplus with Britain and so on. But the EEC Commission seems determined to play the bi-lateralist game in which private transactions between willing buyers and willing sellers are turned into expressions of political gain and loss.

Graph 1 is provided by the EEC Tokyo *Information Office* for wall display – and is the first thing to greet the visitor to their premises. An alarming red coloured 'wedge' between imports and exports Japan-EEC is an aggressive visual statement of an apparently unquestionable problem.

However, a close inspection reveals it to ignore both 'invisibles' and the effects of inflation (though measurement in ECUs distracts the unwary). Also Japan's sales to the EEC are overstated slightly by including freight and insurance costs on one side but not on the other.

Table 1, Col. 1 gives the ECU figures on which graph 1 is based. Col. 2 lists these

same figures in current \$US and Col. 3 is a suggestion of the necessary correction of imports for freight and insurance costs. (Alternatively, a sum could have been added to exports but it is more conventional to account the whole picture on an 'f.o.b.' basis.) Col. 4 gives the same statistics but from the Bank of Japan, and what little difference exists between Cols. 3 and 4 quite possibly arises from the time lag in transport and customs clearance. Col. 5 adds 'invisibles' and the total (Col. 6) is corrected for inflation in Cols. 7 and 8.

Graph 2 is therefore an alternative view of the same information but the visual impression (perhaps the wedge could be coloured green this time!) is quite different, practically unexceptionable in world terms.

One could play the game further in at least two ways. From Col. 14 which expresses Japan's current deficit with the EEC as a percentage of her receipts from the EEC a graph — No. 3 — can be drawn showing that the position 'peaked' as long ago as 1977 and that the deficits 'the other way around' during the late 1960s were of about the same order. One did not hear Japan, however, in 1968 loudly demanding the EEC to 'ensure' higher imports.

Furthermore, the bar chart shows the EEC deficit in the context of other trade partners for 1981 (the USA position being different altogether) and also shows the differing position of Germany and Britain. Britain, in fact, needs 'invisibles' to be both recognised and safeguarded whilst British consumers need the lowest possible prices, neither of which interests are served by the present EEC stance. Given that Canada, Australia and New Zealand, like Britain, are all in surplus with Japan, it would be instructive were the figures available, to compare the position of the British Commonwealth with the EEC (minus UK) in dealings with Japan. Britain's interests might then be illustrated more clearly. Rather ominously, the Japanese 'White Paper on International Trade 1982', in discussing 'trade friction' and the 'deficit on invisible trade account' recommends that Japan should "recover the competitive position of its shipping industry" and "expand its service trade".

A paradox for japan

Thus in 1981/1982 Britain (in line with other leading Commonwealth countries) had a current account surplus with Japan; France, Belgium and Italy had really quite small deficits, and only one country — Germany, had a deficit which can be called 'alarming'.

This arose because Germany is weak on invisibles and because German trading policies towards Japan, for 'free trade' and historical sympathy reasons have provided a receptive market for Japanese goods. Perhaps one could say that Germany is regarded by Japan as her 'best friend' in Europe.

So here is a paradox. Japan *apparently* has a trade problem with all of Europe which seems unwilling to accept her exports whilst in *reality* Japan only has a trade problem with her friend Germany which is both willing and able to accept her exports!

Whilst the normal solution would be for Japanese negotiators to discuss matters with Germany and try to oblige any requests made, this paradox has arisen because several years ago the EEC Commission insulted Japan as "A nation of workaholics living

in rabbit hutches" and accused Japan of "playing one country off against another". The Japanese government then decided to deal with the EEC as a whole as 'requested' by the Commission. It is now flattered with invitations to attend EEC foreign policy 'summit' meetings.

Some consequences of persuasion

Agreements are now being made between Japan and EEC Commission representatives (subject to approval by the Council of Ministers). Recently Commissioners Etienne Davignon and Wilhelm Haferkamp made arrangements with Trade Minister Sadanori Yamanaka to restrict trade of various manufactures – notably of videocassette recorders, and both sides found that their respective publics had been, through articles, news reports and TV programmes etc. 'softened up' and ready to accept the costs: – reduced employment opportunities in Japan; and in Europe, higher prices for the goods. But Grundig in Germany and Philips in Holland, both large companies, well able to finance competitive entry into the VCR market, have been given protection.

One doubts whether these arrangements* would have been acceptable either in the capitals of European countries, or in Japan had it not been for the orchestrated adverse trade publicity which, as has been demonstrated is both partial and damaging to international relations.** In the case of Britain, the goodwill built up over many years through traditional diplomatic events and the efforts of such organizations as the Anglo-Japan Society, plus the current account balance in Britain's favour, seems to be arrogantly negated by the EEC Commission's statement "Trade relations with Japan are bad".

But resulting 'arrangements' with MITI have brought advantage to manufacturing interests in Europe and have involved an increase in the activity and power of the EEC as an institution.

* In London, Peter Rees, British Minister for Trade, reported to Parliament that the 'arrangements' had been 'endorsed' by the Foreign Affairs Council (The assembled Foreign Ministers of the EEC in Brussels)⁷ though, as it happens, the arrangements regarding videocassette recorders is particularly adverse for the UK.

The limit set for Japanese exports of 4.5 million units *includes* those made by Japanese companies manufacturing in Britain which must discourage all Japanese companies from such investment. The agreement stipulates that Grundig in Germany and Philips in Holland *must* sell at least 1.2 million units per year or else Japanese sales must be reduced, which means, in effect, that those companies can set a high price without risking lost sales. (But the Commission has carefully avoided the task of naming new prices which would involve obvious adverse publicity.) Britain is the largest market for VCRs in the EEC (more have been bought per capita than in the other member countries) and so even if the price is raised by as little as 20%, sales of one million units per year will mean a consumer loss – and a balance of payments loss – of around £100m.

It is also worrying constitutionally, to note that this controversial economic decision was, in the EEC, dealt with by Foreign and not Economic Ministers.

** Diplomatically, it seems that France should be treated with good humour, Germany with great seriousness and Britain with a strictly factual response and so it is hard to imagine a *single* policy approach by Japan which could be correct for all three – let alone the other 7 members.

Table 1 The E.E.C. Current Account with Japan

Imports (Japan to E.E.C.) (Million)								
Year	(1) E.E.C. fig. Yen (E.C.U.) (c.i.f.)	(2) E.E.C. fig. (\$ U.S.) (c.i.f.)	(3) E.E.C. - 14% (\$ U.S.) (f.o.b.)	(4) B.O.J. fig. (\$ U.S.) (f.o.b.)	(5) B.O.J. services & transfers	(6) B.O.J. total	(7) At 1981 \$s	(8) At 1967 \$s
1966				852	263	1115	3150	1115
1967				912	357	1269	3350	1186
1968				1089	387	1476	3658	1295
1969				1368	476	1844	4415	1520
1970				1853	647	2500	5822	1995
1971				2253	766	3019	6806	2409
1972				3255	1138	4393	9324	3301
1973	3399	4186	3671	3941	1580	5521	10560	3738
1974	4376	5219	4577	5756	2271	8027	14067	4980
1975	4826	5987	5251	5492	2560	8052	16569	4723
1976	6399	7153	6273	7035	2643	9678	15064	5332
1977	7668	8750	7674	8501	2634	11135	16098	5699
1978	8730	11124	9756	10536	3130	13666	17758	6286
1979	9792	13421	11770	12394	3776	16170	18509	6552
1980	12462	17351	15217	16032	5027	21059	21840	7731
1981	16204	18091	15866	18102	6821	24923	24923	8822
1982	17911	17547	15389	17074	7088	24162	23233	8224
Exports (E.E.C. to Japan) (Million)								
	(f.o.b.)	(f.o.b.)		(f.o.b.)				
1966				531	650	1181	3336	1181
1967				651	815	1466	3870	1370
1968				913	917	1830	4616	1591
1969				1139	1090	2229	5524	1889
1970				1448	1384	2832	6596	2522
1971				1488	1552	3040	6854	2426
1972				1802	1981	3783	8035	2842
1973	2306	2835		2930	2920	5850	11189	3961
1974	2769	3306		3439	4242	7681	13460	4765
1975	2227	2767		2992	4560	7552	12513	4429
1976	2722	3043		3128	4712	7840	12203	4320
1977	3092	3528		3798	4651	8449	12215	4324
1978	3726	4746		5085	5567	10652	13842	4900
1979	4632	6334		7643	7172	14815	16958	6003
1980	4569	6362		6719	9481	16200	16800	5947
1981	5604	6256		7286	13672	20958	20958	7419
1982	6319	6911		7145	12169	19314	18571	6573

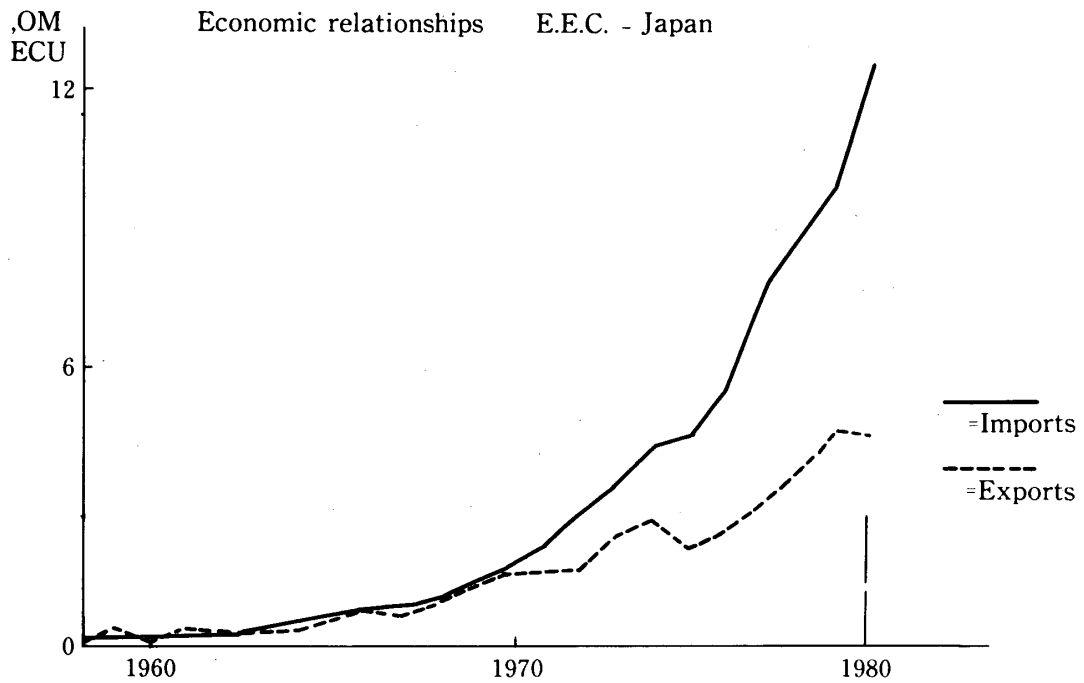
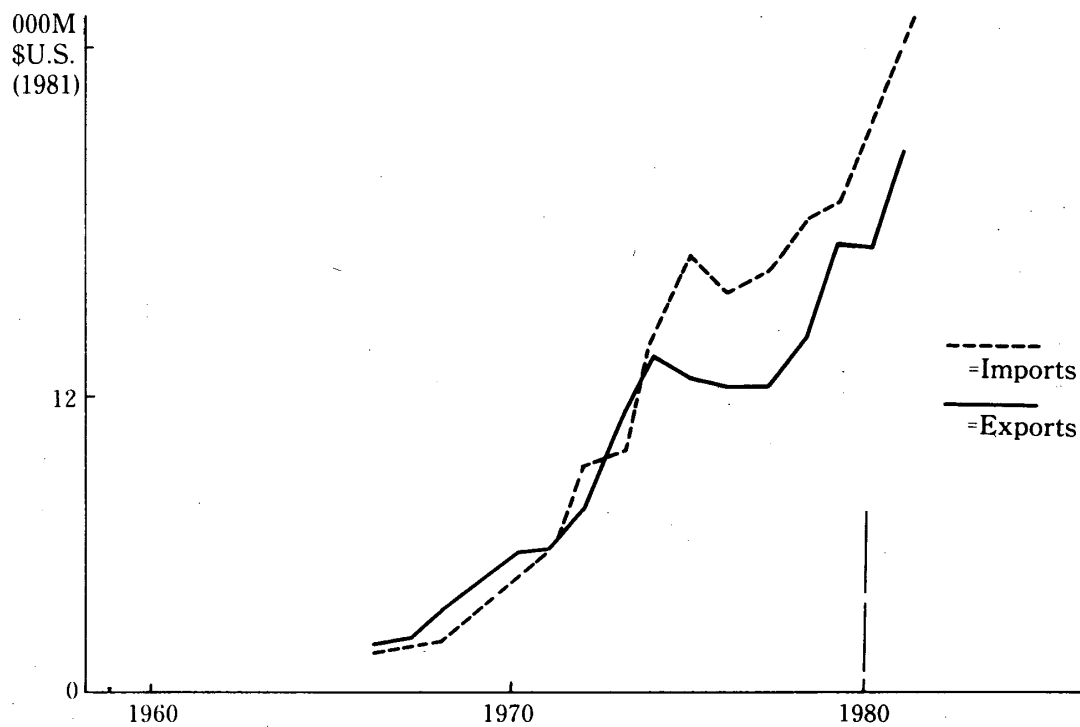
Balances E.E.C. with Japan

Year	(9) Visible trade Balance \$ U.S.	(10) Invisibles Balance	(11) Current Balance	(12) Current Balance 1981 Prices	(13) (14) Balance as % of E.E.C. current a/c receipts from Japan
1966	-321	387	66	186	5.6 (5.9)
1967	-261	458	197	520	13.4 (15.5)
1968	-185	530	345	958	18.9 (23.4)
1969	-229	614	385	1109	17.3 (20.9)
1970	-405	737	332	774	11.7 (13.3)
1971	-765	786	21	48	.7 (.7)
1972	-1453	843	-610	-1289	-16.1 (-13.9)
1973	-1011	1340	329	629	5.6 (11.4)
1974	-2317	1971	-346	-607	-4.5 (-4.3)
1975	-2500	2000	-500	-4056	-6.6 (-6.2)
1976	-3907	2069	-1838	-2861	-23.4 (-19.0)
1977	-4703	2017	-2686	-3883	-31.8 (-24.1)
1978	-5451	2437	-3014	-3916	-28.3 (-22.0)
1979	-4751	3396	-1355	-1551	-9.1 (-8.4)
1980	-9313	4454	-4859	-5040	-29.9 (-23.1)
1981	-10816	6851	-3965	-3965	-18.9 (-15.9)
1982	-9929	5081	-4848	-4662	-25.1 (-20.1)

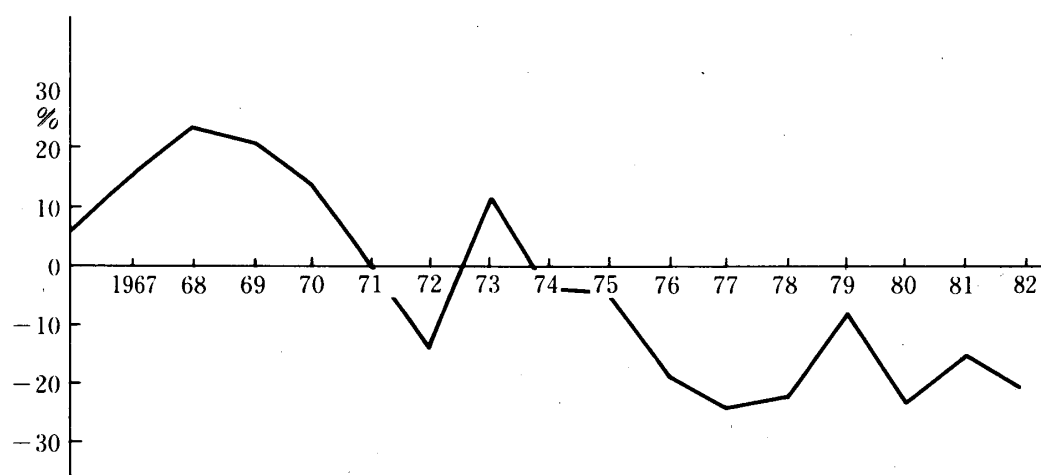
(Figs () = % on payments to Japan)

Notes on Tables

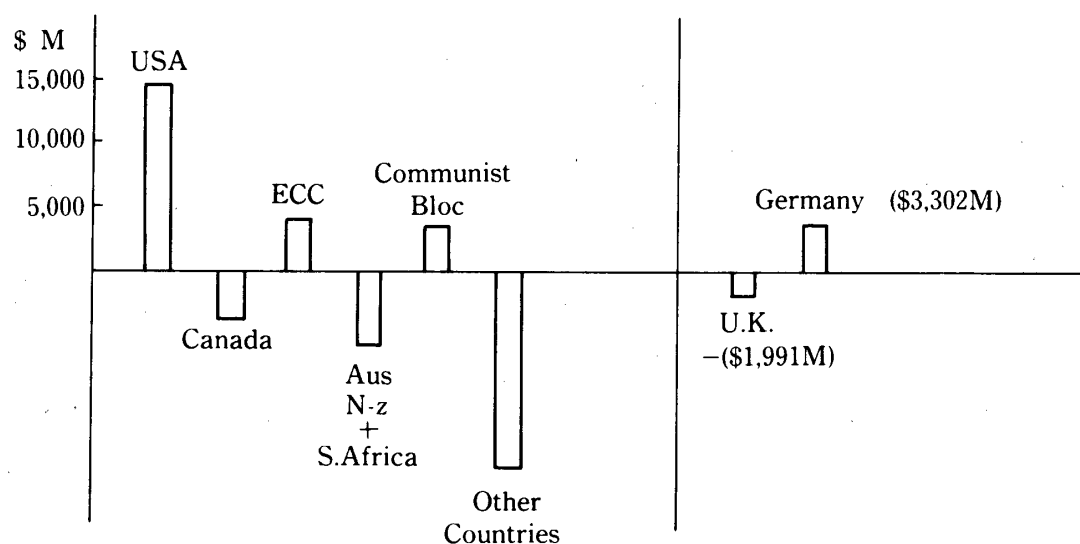
- 1) All figures refer to EEC of present 10 members. For 1966 to 1974 a 'guesstimate' based on 1970-1972 data was made for transactions between Japan and Denmark, Ireland and Greece. Japanese receipts from these countries was taken to equal 5% of receipts from the other members. 3% was taken for payments. This was based on Eurostat data.
- 2) Bank of Japan export figures are given on an f.o.b. basis but EEC imports are given on a 'customs clearance basis' which includes insurance and freight charges — perhaps a 14% increase.
- 3) Correction for inflation has been based on the USA cost of living index issued on 1 January each year. With 1967 base 100 1968=107; 1969=112; 1970=114; 1971=121.3; 1972=125.3; 1973=133.1; 1974=147.7; 1975=161.2; 1976=170.5; 1977=181.5; 1978=195.4; 1979=217.4; 1980=246.8; 1981=272.4; 1982=282.5; 1983=293.8 Jan. 1st prices were taken to apply to the previous year's transactions (though ideally a mid year figure should be used).
- 4) ECUs were changed in 1980 to EUAs (European Units of Account) and the values were based on a basket of EEC currencies. However, today, as in 1966, its value is very close to that of a current \$US, but during the 1970s it differed markedly, being about 40% higher in 1980. It is mainly used in calculating prices for the Common Agricultural Policy and its use for EEC-Japan statistics seems little more than confusing.

Graph 1. As Portrayed by E.E.C. Commission.**Graph 2.** Including 'Invisibles' & Corrected for Inflation

Graph 3 E.E.C. Current Balance with Japan Expressed
as a Percentage of Payments to Japan. (Col.14)



Bar chart. Japan's Surplus's and Deficits in 1981
(From B.O.J. April 1982, page 69)



Part 2 Persuasion in Britain – to 1975

Persuasion

Persuasion, on reflection, was the most interesting aspect of the debate in Britain about EEC membership – and indeed, in 1973, a book on this subject by a leading authority on the EEC was published called 'Diplomacy and Persuasion.'⁸ Current events in Japan remind one of the methods used to persuade the British public that membership would bring both prosperity and security.

Interests and decisions

But the real reason why Britain joined the EEC was that the Commission in Brussels very much wanted to include Britain in their plans for a federal state of Europe and it suited the ambitions of certain individuals and institutions in Britain to respond positively to this. Other individuals and institutions saw their interests endangered by the proposal and opposed it. There were idealists, of course, both misguided and honest, on both sides but, in the main, self-interest played the major role. It is a curious tale and historians will long puzzle over it. How, they will ask, was Britain persuaded to accept the authority of an organization which, on its record, was most likely to pursue economic policies disadvantageous to Britain, by its sympathies, was most likely to distance Britain from other Commonwealth nations, and whose motivating philosophy was, as we shall see, at odds with Britain's liberal traditions? They will note that there were many individuals and some very badly financed voluntary pressure groups who strove to oppose joining but they will find two major and very well heeled institutions which tirelessly promoted membership – and succeeded. These were the British Foreign Office* and the EEC Information Office in Kensington Gardens.

The Foreign Office wooed politicians of all political parties and the *Information Office* partly financed and basically co-ordinated a most remarkable campaign of public persuasion, the basic strategy of which was to promote discussion of pseudo-economics to obscure the costs whilst attracting emotional support with grand slogans of apparent political wisdom. An economic smokescreen and a political flag.

Following a government 'White Paper' in 1967⁹ which indicated the possible costs of adopting the CAP (Common Agricultural Policy), public opinion polls had shown a two

* The reasons for FO support do not appear to be well documented but it has been suggested that, after the debacle of the Suez war in 1956 the FO (and perhaps the 'establishment' generally) seemed to lose self confidence in Britain's world role and saw in the EEC a potential new power base which they felt their abilities and experience would enable them eventually to control.¹⁰ It has also been unkindly suggested that instead of Dean Rusk's phrase 'Britain has lost an empire and has not yet found a role' one should substitute 'The FO have lost their nice jobs in the colonies and are looking for promotion in Brussels!' In fact, since the Falklands war and the Grenada affair, people have begun to ask whether the FO is not a 'State within a State', meaning that the members of it seem out of touch with the opinions of British people generally and have too much opportunity to influence events.

to one ratio against joining. This resistance had to be broken down if any government was to carry through entry without committing electoral suicide. For this purpose, all that was required was for a large number of ordinary voters to be temporarily persuaded – For then, if the thoughtful minority remained split on the issue, the number seriously opposed could be overcome.

In fact, of those MPs who regarded the EEC as a 'special interest' at least half resisted entry and remain opposed to this day. Even now, the Labour Party is committed to withdrawal. But the recently promoted Social Democratic Party (SDP) consists exclusively of politicians from the 'pro-market' side and any success by that party at the next election will simply prevent Labour regaining power – and thus prevent withdrawal.*

The arguments

The *political* argument involved slogans such as:

“Britain's future lies with Europe”

&

“Yes to unity – for peace”

and there was a general claim that a third world war, originating, one was to presume, in Europe, could only be prevented if Britain gave up 'narrow nationalism' and joined continental countries to “build a safe future for our grandchildren”. At the same time, Britain, perhaps the most internationally connected nation in the world, was constantly described as 'isolated'. During debates in which the CAP was raised a kind of superior attitude could be taken – “with great respect to the lady worried about tomato prices, sacrifices must be made in the interests of world peace”, etc.. “Destiny” was the 'in' word.

In fact there is an interesting case for the proposition that British membership increases rather than decreases the chances of conflict. The final political unification of both Germany and Italy during the last century from previously independent states was only confirmed through war. Today, a superstate in western Europe, able to challenge either the USSR or the USA could end up doing just that – the USA being the likelier candidate given the anti-American prejudice often found in EEC countries and the more obvious trade rivalries. Protectionism fuels bitterness and conflict. (It could be argued that partial denial of the traditional EEC markets for Argentine beef and

* During the debates on UK membership of the EEC in 1971 a number of Labour MPs, notably Roy Jenkins, Shirley Williams, William Rodgers and David Owen organized, with an unofficial 'whip', Labour pro-marketeers to vote with the Conservative pro-marketeers every time there was a possibility of Conservative anti-marketeers (of whom there were about 35, sufficient to defeat the Government if allied to the whole Labour party) voting against entry. For this activity they earned the enmity and distrust of their Labour party colleagues. When, in time, the Labour party officially advocated first a referendum and then withdrawal their tactic changed to undermining Labour support by forming a new party (whose donors and media supporters correlate closely with those for the original EEC entry campaign) to which they 'defected' from Labour. They have joined forces with the Liberal party in advocating a change in election procedure (to proportional representation) which could undermine the two party system and render practically impossible any future clear Labour majority in Parliament.

grain contributed to difficulties there and thus political unrest and thus the conflict over the Falkland Islands.) As yet another point for discussion we can note that 'civil wars' are sometimes fought if a minority resents the rule of a majority as in Biafra, the USA, Bangladesh – or for that matter in Northern Spain. That is possible, if unlikely, in Europe too.

Thus, since the roots of international conflict lie, not so much in the independence of nations, as in their internal political health, the 'political argument' must be regarded as, at best, a hopeful and brave hypothesis and, at worst, a cover for more commonplace ambitions; exciting 'new' nationalism supplanting its tired, if sadly experienced, older predecessors.

The *economic* case could not deny the costs of the CAP. But unrealistic hopes of reform were promoted and the effects were minimised. There was talk of it adding perhaps 1% to the cost of living per year – a 'small price'.

On the positive side three main arguments were used:

Firstly, since economic growth rates during the 1960s had been much higher in the 'Six' than in Britain it was claimed that membership would bring such growth rates to Britain – perhaps via higher investment in plant and in research and development. This 'economic measles' argument failed to point out that growth rates in the 'Six' were the product of many factors other than EEC membership – notably the movement of workers from agriculture to industry in France and immigrants from East to West Germany.

These factors could not apply to Britain and, in fact, investment in Britain during the last ten years has been disappointing.

Secondly, since the British economy suffers from many institutional defects – restrictive labour practices, inappropriate class attitudes, monopolies, subsidised nationalised industries, politically determined domestic rents, an over-extended public sector etc., it was argued that membership would 'shock' the country into reform because Britain, it was said, always 'rises to a challenge'. Embarrassment and pride were played upon. This was the 'cold shower' argument and, in the event, quite unsurprisingly, the patient has chosen retreat as would most prudent individuals when faced with adverse conditions.

Thirdly, it was claimed that British exports would increase and thus lead to economies of scale.* In fact the average tariff for British goods entering the 'Six' in 1972

* This was the so-called 'dynamic effect' of membership. The White Paper¹² suggested that 'There are dynamic effects resulting from a much larger and faster growing market. This will open up to our industrial producers substantial opportunities for increasing 'export sales'. Mr. Roy Jenkins told the House of Commons in 1970 that 'Management leaders with very few exceptions, in the advanced industries on which our growth hopes must depend, are most enthusiastic for British entry'. Mr. Anthony Barber, Chancellor of the Exchequer, in 1971 said that 'Those who really know like our Confederation of British Industries, have no doubt that the EEC's existence has given great economic opportunities to its members'.

But this assessment is incomplete without an acknowledgement that, given the trading conditions between Britain and the EEC prior to entry these effects, if real, could largely operate regardless of membership and Peter Oppenheimer, Cambridge economist pointed out that businessmen are

was only about 7% but exporters enjoyed preferential access to Commonwealth and EFTA markets. Membership would involve losses of these advantages as well as gains to the 'Six' and the overall balance was unlikely to bring a net gain. When this was pointed out pro-marketeers claimed that the 'Six' might soon raise trade barriers against Britain. Fear played its part.

Opponents of membership warned of the dangers of trade protectionism arising from such a move by Britain. For example, the late Professor Harry Johnson of Chicago and London Universities wrote in 1971 that:

"British accession to the Common Market will in all probability mean a halt to the progressive liberalisation of international trade that has characterised the post-war period"

and warned that the United States may be forced to

"retreat into protectionism out of dissatisfaction with the Common Agricultural Policy" and "become more willing to consider, with Japan, a regional trading arrangement based on the Pacific".¹¹

So as good sense at the time, and experience now for eleven years have proved, the arguments used by the opponents of membership were the more appropriate and correct. But the majority of the British public were temporarily persuaded that there was a 'good economic case' to back the 'obvious political case' for joining.

Methods of persuasion

By what means were they so persuaded?

The EEC *Information Office* in London, partly funded from Brussels, set out to influence 'opinion formers' such as journalists, politicians and broadcasters and this was achieved mainly by organizing a highly effective series of 'press releases' and holding numerous press conferences to brief, in detail, such people on every conceivable aspect of the debate. This went on over many years.

Now, one must understand that journalists are busy people, up against deadlines to hand in their 'copy' for publication. They have little time for independent research and their livelihood depends on producing as many stories as possible. If they are 'spoon fed' with ready made material, the inherent bias in that material inevitably wins through especially if, on occasion the source acknowledges disadvantageous points as a strategy to win trust.

One can only admire the skill with which all but a few bravely independent journalists were eventually brought within the pro-market fold. Once a journalist had written, under his own name, arguments which were unrealistic, partial or false, he could not subsequently give the opposing view without risking personal credibility.

Much the same applied to the speeches of politicians who, in addition to being fed 'information' were often treated to paid-for visits to the EEC institutions on the continent where they were generously entertained.

hardly qualified to assess the complex effects of multiple economic changes involving food costs, exchange rate changes, protectionism and compensatory tariff changes.

At the same time the *Information Office* fostered the formation of 'independent' groups to promote publicity. The 'European Movement' was one of these and, since membership of the EEC promised trade protection from non-European lower cost suppliers* and the free movement of capital with the EEC, it collected numerous 'donations' from Banks and industrialists for the cause.

The money was used to generate publicity of all kinds. There was an extensive poster advertising campaign; there were minibuses decorated with pro-market pictures sent out to tour the country and to talk to the public wherever they stopped. A brightly coloured newspaper called the 'British European' was published and distributed free at meetings.¹³ This paper had front page headlines such as 'EUROPE IS FUN' (with a picture of a lovely model dressed only in a Union Jack bikini) and 'EUROPE – FOR A PROSPEROUS FUTURE TOGETHER' and, inside, articles insisted that inside the EEC there were 'BARGAINS FOR ALL' (to which one felt like adding 'except consumers!') but it read "The truth is we have got a bargain. Britain will get a new home market five times bigger than the present one. This means more mass production, less unemployment, keener prices, higher earnings." The slogans were repeated "say YES to expansion – for prosperity; YES to unity – for peace; YES to leadership – for Britain" and "We've got to get in – to get on", "Let's GO with Europe – for a prosperous future together", "We can't go it alone." An editorial read "So Britain's choice is either to secure her future by joining the more prosperous Europe or stay permanently out on her own." "Is that what we would plan for our children?" A 'pop' song advocating entry was recorded.

At the same time, anyone prepared and able to give lectures from a pro-market viewpoint was able, apparently, to earn several pounds per lecture – as expenses; a nice little income for local lecturers and others prepared to make two or three dates a week to talk to local school groups, Women's Institute branches, Young Conservatives, Rotary clubs or any other group needing a speaker for an occasion. Mountains of free hand-out material was provided.

Meanwhile, the leaders of the three main political parties had been mostly brought round to the pro-market viewpoint by the Foreign Office and the evolving press opinion. A subtle pressure, arising from the feeling of being an 'outsider' or 'non-conformer' was exerted on the doubting politician and most, especially in the Conservative party, fell into line.

Prime Minister Edward Heath, one of the few genuinely idealistic supporters, had the government finance a large number of leaflets and a booklet using very questionable arguments, which were distributed free at all post offices throughout Britain whilst a Foreign Office inspired 'White Paper' gave a long but one-sided assessment. Statistics were often quoted misleadingly, for example describing Commonwealth trade (and thus

* Recognising the potential challenge from Japanese car makers, Lord Stokes, head of British Leyland in 1972, even bought full page advertisements in *The Times* and other papers to advocate EEC membership. (BL has since almost collapsed anyway but continental makers have taken a market share which consumers may well have preferred to have given to Japan.)

Commonwealth importance) as 'declining' – which was only true proportionately, not absolutely.

By this stage only the most informed and able economists were able to assess the proposal independently. Some of them were 'Federalists' in any case,* but others such as Professor Nicholas Kaldor, Professor Harry Johnson and Reader Peter Oppenheimer comprehensively attacked the arguments. But their audience was limited.

Throughout all this, the political opponents of membership were rather disorganized and were hopelessly ill financed. Furthermore, they were for ever reacting to events, rarely able to seize the initiative. And some of their leading figures, such as Tony Benn and Enoch Powell, were easy targets for personal innuendo, even attack.

Every pro-market argument was countered of course – in letters to the press, in speeches in Parliament, in public debates and in leaflets for distribution. But for every one person with whom the anti-marketeers managed to communicate, the pro-EEC side reached 100.

Gradually public opinion against membership was eroded. By mid 1972 it was finely balanced, 'for' and 'against'.¹⁴ After formal entry, when the persuasion subsided, it swung back against membership, but in the month or two before the referendum in 1975 it was brought into a majority 'for' – a situation which soon afterwards collapsed, but by then it was too late.¹⁵

After entry, many of the pro-market activists went on, unlike their opponents, to obtain jobs associated with the EEC in one way or another – as journalists posted to Brussels, as lobbyists there, as members of consultative committees,¹⁶ as members of the European Parliament, as Commission advisers or as employees of the Commission itself. The Foreign Office maintains a staff in Brussels and has expanded its premises in London. Roy Jenkins MP, who had led the minority Labour Party faction which consistently undermined that Party's ability to oppose membership, became the EEC Commission President.

Part 3 Persuasion in Britain 1982–83

The costs

Ten years have now passed since entry and there is some discussion of the effects, though these are rather difficult to assess because of the complications of North Sea oil and the kaleidoscope of anti-inflation policies.

Lacking a trustable report** it is still possible for extreme enthusiasts for membership to see it as a Utopia whilst extreme opponents view the tired old British economy, subjected to the policies of the EEC rather as a 'retired person whose home is being

* See P. 26.

** The nearest attempt was a Select Committee of the House of Lords to study the CAP in 1980.¹⁷ But in its conclusions the problem of 'artificially high prices' was brushed aside with the terse comment "The Committee were not convinced that prices could be reduced sufficiently without causing unacceptable disruption to the agricultural sector." Peers typically represent Conservative rural interests.

looted – on the invitation of the eldest son, who has thus gained membership of the gang' (Oil money, however, enables the old chap to keep up appearances!).

The direct tax payments are known and there is an acrimonious debate going on about their level. Other costs can only be assessed by the 'best estimates' of economists – and so there ought to be an official enquiry to which they could submit evidence. Such an enquiry would consider:—

- 1) The extra costs to consumers of high priced food.
- 2) The fact that growth in the economy has been even slower than before membership, industrial investment has fallen and unemployment has increased dramatically, mainly from the industrial sector which now employs only 30% of the labour force. There is talk of the de-industrialization of Britain.
- 3) Evidence from the Cambridge Economic Policy Group showing that EEC Balance of Payments burdens have forced the Government into deflating the economy by about \$8bn per year.¹⁸
- 4) The costs which have been imposed on other countries such as lost exports by New Zealand and, if there is now to be not only a Common Agricultural Policy but also a Common Car Policy, a common VCR Policy and others, there will be further costs.
- 5) The costs of trade diversion, exports foregone and protectionism.

Against this the enquiry would be told that there are some gains, in standardized practices, harmonized laws, in technical food production efficiency and in industrial component specialization. It would be pointed out that motor car manufacturers have rationalized production locations to some extent – but this means that over half of the apparently 'British' cars now sold in the UK are, in fact, made on the continent. (Ford alone imports more cars than all the Japanese companies combined). It would be claimed that membership has caused a big increase in Japanese investment in Britain and a big increase in exports to other EEC members.

The Government has no wish to initiate any such serious enquiry for it would almost certainly reach a damning conclusion. The public suspects this and so the EEC *Information Office* and the Conservative Party have recently set to work to create the impression that 'while not all the hopes have been met, there *has* been a net economic benefit'. No matter that claimed gains are either false, irrelevant or of little significance. Persuasion is at work again! And now there are few in the general public who have the ability, the strength and the memory to challenge this impression.¹⁹

The familiar techniques are being used – incomplete statistics, expertly produced press briefings and a reliance on friendly journalists and associated pressure groups to embellish the chosen message.

Persuasion again

At the Conservative Party Conference of October last year leaflets were distributed claiming all sorts of benefits from EEC membership and these included:

"An enormous increase in US and Japanese investment in Britain — 'over half of all US and Japanese investment in the EEC now comes to Britain. This would melt like snow if we were to withdraw.'"²⁰

Enquiries at the American and Japanese embassy libraries showed this to be a false impression. American investment has increased somewhat but is mainly in businesses which owe little to the EEC — such as 'MacDonalds' or petrol service stations — and in any case American investment in Britain was on a rising trend before entry.

The Japanese proportions are quite the opposite — being highest in the late 1960s and early 1970s and showing an erratic picture since then. The 1976 to 1982 yearly figures are 14%, 21%, 17%, 14%, 42%, 12% and 23%.²¹ Thus only the 1980 figure gives the flimsiest basis for 'half'.

It is invaluable, however, at a political meeting in Britain, to be able to say "Those clever Japanese . . . are backing Britain's membership". The British public is somewhat overawed by Japanese economic success and invest them with quite mysterious abilities and intelligence.

It is also a disservice to suggest that investment by Japanese companies in Britain might 'melt like snow' since it is quite uncharacteristic of them to abandon enterprises and loyal employees.*

In November 1982, with much publicity for a speech by Gaston Thorn,²² the London *Information Office* issued to journalists an assessment of the effects of membership.²³ Journalists dutifully wrote that there has been "tremendous benefits" including a big increase in Japanese investment".

The November publicity set the scene for full coverage publicity which took place on 1 January 1983 to coincide with the 10th anniversary of entry.

Now some journalists were sceptical, as was John Plender, writing in *The Financial Times*, but even in his case one feels that a propensity to say "membership has been disastrous" was blunted to "it is not an economic panacea" by the *Information Office* booklet, and even he was led to say "one area where something positive can be said is inward investment from the US and Japan"²⁴

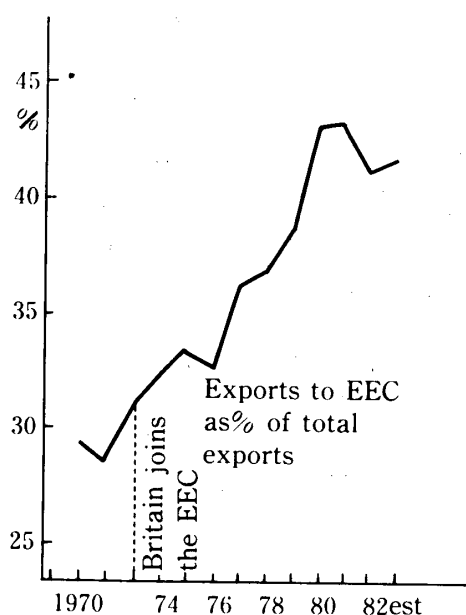
Other publications, such as *The Economist*, gave the 'facts' as supplied by the *Information Office*, and combining these with a light hearted jocular approach (we are drinking more wine now, ha ha. . .) managed to make out that membership is beneficial.²⁵

To illustrate the manipulation of statistics involved in this exercise consider the two graphs below. The first, from *The Economist*, indicates a dramatic rise of UK exports to the EEC. The second shows the exports to the 'Six' original members and isolates exports of oil. The second shows no change in trend from 1972 and is the more truthful account.**

Journalists, however, did not have the information presented to them in the latter way (though the *Information Office* is well aware of it) and in consequence the public have again been misled.

* A series of letters was published in the *Daily Telegraph* on this point on these dates: 1982, October 26 and 29; November 3, 9, 10, 12, 13 and 20.

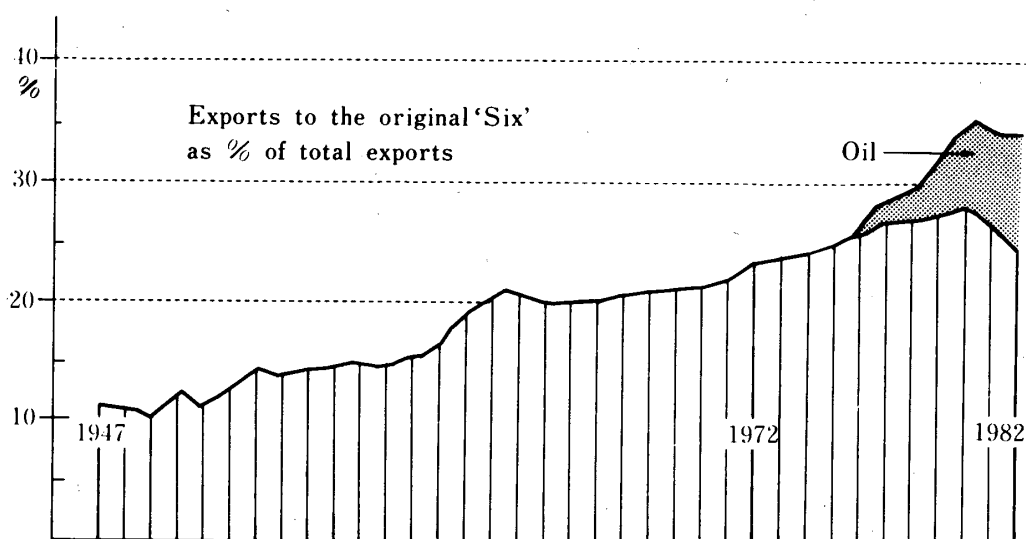
** See Appendix 3



Now, for students of statistics, this is all pretty elementary stuff. A man called Darrell Huff once wrote a famous little textbook entitled 'How to Lie with Statistics' and it is all there. But the point is that in the techniques of persuasion it jolly well works!

Here are two further examples.

The Tokyo *Information Office* publication 'Europe Information' on Japan states in page 2 "Nowadays, the Community share of Japanese exports amounts to about 12%. In proportion to total Japanese exports, sales to the Community are ten times greater than those of the Community to Japan." Now leaving aside the question of invisibles, one can forgive the poor journalist for not



grasping that the actual ratios of export/ import quantities are between a half and a third.

Secondly, one can return to the debate in Britain in 1971. During the 1960s, as 'car swapping' and other industrial trade accelerated between European nations, the proportion of British imports coming from Commonwealth countries such as New Zealand and Australia declined. But the actual volume of trade was about constant – the number of tons of butter, of bales of wool, of square yards of timber etc. and so one could describe the situation using either actual volumes (graphed as a horizontal line) or as proportions (graphed as a downward sloping line), and obtain quite different impressions of Commonwealth importance. There are no prizes for guessing which one was extensively publicised!

And you may be of the opinion that somehow 'complementary trade' of raw materials and food in exchange for manufactures is more wealth-creating than an exchange of

similar manufactures. But this was not mentioned.

Part 4 The Power of This Unrivalled Pressure Group

There is much more, of course, that can be said about Britain and EEC membership, but enough has been said to show that this organization and its supporters should be regarded as a 'Pressure Group' and not a 'Government'. Its dubious methods of persuasion might not be worth discussion if it were opposed by other 'equal strength' pressure groups competing for the attention of an impartial government but in fact it faces only voluntarily financed individual opposition.

Nor should these methods be passed off as mere amateur 'Euroenthusiasm'. It is highly professional* and one must conclude that to possess, unopposed, the ability and organization with which to manipulate public opinion, not in spite of, but *through* those in society called intellectual opinion formers and commentators, is to have acquired, in today's world, a quite awesome and potentially dangerous power.

If the arousal of unjustified emotions and the creation of desired (if often false) mass opinion can be achieved in advanced nations such as Japan and Britain, despite the existence of freedom of speech, then it is time to pay attention.

SECTION B – TOWARDS AN INTERPRETATION

Part 1 Philosophy

On ends and means

When questionable *means* are used for apparently acceptable *ends*, one is entitled to reassess those ends. One is often aware that something is amiss through observing *actions* on behalf of a cause long before one can perceive the flaws in the cause itself. There *is* something in the poet's words: "It matters not who won or lost, but how you played the game".

Power and restraint

Today's governments represent a compromise between the conflicting philosophies of 'Corporatism' and 'Liberalism'. Governments are pressed towards policies gainful

* Rumour is a bad source of information but, for what it may be worth, there has been a 'rumour' in Britain that the techniques and knowledge gained during the war for so-called 'psychological warfare' – overcoming the enemy by disheartening his supporters – were gathered and studied by a special Foreign Office team. This resource, it is suggested, was somehow used against the British public during the 'entry debate'. Certainly there are numerous examples (in technology, in economic planning, in government-industry co-ordination etc.) where war time advances led to their use in peace time. Why should the techniques of persuasion be an exception?! It seems too 'Orwellian' to merit credibility.²⁶

for powerful interest groups but are restrained by democratic politics.

'Corporatism' allows the State to adopt, as national goals, aims profitable to large corporations, monopoly trade unions, landowners etc., whilst small firms, consumers, tenants, the self-employed, the retired and other individuals are disadvantaged. The former support the government with finance, media patronage, co-operation — even block votes. The 'politically possible' rather than the 'idealistic' principle guides policy making. Usually somewhat cynical, in extreme cases associated with Fascism and military repression, its practitioners think it 'realistic'. It leads naturally to government-industry co-operation, 'indicative' economic planning and protectionism.

In contrast 'Liberalism' (or 'pluralism' or 'individualism') resists these activities, seeing the government as referee, not a team player, an unbiased judge hearing the claims of competing groups and supporting unorganized interests. Laws rather than goals occupy government and 'group muscle' is denied advantage. Market mechanisms are respected, not abandoned when inconvenient. Free trade is a principle, not an insincere election slogan.

Most voters support the 'liberal view' but most politicians find 'corporatism' their reliable route to success — because interest groups are constant, strong and single-minded whilst the general public is easily misled, has a short memory, is inadequately informed and is multi-allegiant.

But since the 'corporatist' is dependent only on sectional support and is acting, by definition, against the individual interests of those whom he governs (whom, to some extent, he must deceive to obtain power) he is constantly fearful of criticism and cannot feel secure, but opponents are easily dismissed if they can be labelled 'disloyal'.

Therefore, 'liberal' activity depends upon there being a focus of loyalty *above* government (widespread respect and affection for a symbolic embodiment of national consciousness such as a Queen, an Emperor or, in America, the Flag or Constitution) to which both government and opponents can demonstrate loyalty; and also a credible, experienced single opposition political party which can take advantage of relatively small shifts in electoral preferences to dismiss an existing government. Thus, in Britain and the USA, it is through the two-party system that the electorate can wield effective power and restrain 'corporatist' ambitions.

Neither of these factors is present, or is likely to become present, in the emerging superstate of New Europe where effective 'liberal' restraint exists only *within* member nations, and where the EEC Commission appears increasingly as an unbridled seat of economic 'corporatist' power.* Thus, were it just an international organization it would be valuable, but as an aspirant government it is a rogue institution.

* It is often argued that control of the EEC executive in Brussels is exercised effectively by the member state governments — through the Council of Ministers. But this is 'executive' controlling 'executive', not a 'legislature' controlling an 'executive' (the principle of the Magna Carta). Thus, for Britain, the *sovereignty* of Parliament and thus the 'sovereignty of the people' is compromised. Furthermore, the inherent dangers of 'delegated legislation' have reached an alarming level through the law-defining powers of the Commission. The so-called 'European Parliament' which many hope will fulfil the legislative control role is hopelessly inadequate. There is a multitude

Part 2 The European Economic Community

The founding paradox

Immediately after the 1939–45 war a major debate emerged in Western European countries between two groups who could be called the ‘Federalists’ and the ‘Internationalists’ (sometimes called the ‘Atlanticists’). The former, strongly emanating from Germany, urged the creation of a new, federal ‘super state’ of Europe. The latter urged the creation of a series of limited international bodies each working towards the solution of specified problems – in trade, labour law, shared technology, defence, freedom of movement, and the like, and this was very much the British position strongly supported by the smaller nations of Europe which, over the centuries, have feared European hegemony – and indeed had to fight against such ambitions only too often.

The ‘internationalist’ view enjoyed early success. The creation of the various United Nations bodies, of NATO and of the Council of Europe, which Sir Winston Churchill, in particular, warmly welcomed. We may note his words:

“We are bound to further every honest and practical step which the nations of Europe may take to reduce the barriers which divide them but we have our own dream and our own task. We are with Europe but not of it. We are linked but not comprised. We are interested and associated but not absorbed.”

During this time, a French civil servant and engineer, Jean Monnet, happened to be the chief of the French national economic planning agency which successfully co-ordinated bank credit and American aid to rebuild French industry. French ‘indicative planning’ was, therefore, his training ground for proposing, with Robert Schumann, first the formation of a European coal and steel marketing organization in 1951 and then the EEC in 1956. His belief was that the federalist aim of a New Europe could be achieved by gradually bringing all the economies of Europe within a single ‘planning framework’ (a much more active concept than the ‘guidelines’ of MITI in Japan) because he realised that powerful economic interest groups – corporations, banks, unions and landowners would increasingly support a body which could serve their aims. A power base could be created to which national governments might eventually be subordinated.

At the same time, popular support for the initial treaty transfer of powers to the new body would be required. Now was it not Plato who cynically commented that a King should, to successfully rule ‘adopt and never oppose sentiments’?²⁷ Accordingly, despite the ‘corporatist’ nature of Monnet’s ambitions, a ‘liberal’ prospectus had to be purveyed which rightly could be allied to the theme of avoiding war.

Thus we find in the Treaty of Rome a largely acceptable list of stated aims, though contrary clauses were slipped in which have allowed the EEC performance to show such an alarming growth of protectionism and anti free trade activities. For example, Article 113 of the Treaty reads:

of parties, constituency sizes are far too large for customary voter-member relationships; and few vote in elections. This ‘Parliament’ lacks the cohesion, power, authority, affection and experience that would be required for it to replace member state legislatures.

“After the transitional period has ended, the common commercial policy shall be based on uniform principles, particularly in regard to changes in tariff rates, the conclusion of tariff and trade agreements, the achievement of uniformity in measures of liberalization, export policy and measures to protect trade such as those taken in case of dumping or subsidies”.

Thus the very foundation of the EEC involved the juxtaposition of a public stance incompatible with its power intention reality.²⁸

This is a second paradox to which our attention should be drawn – whilst the EEC proclaims its desire and intention to secure free trade, the foundations of its support and ambitions propel it in the opposite direction!

Some consequences

Advantage for strong interests was evident from the beginning. The French Government desperately needed finance to subsidise its politically powerful but hopelessly uncompetitive export capable agricultural supporters; and Germany, with a large urban, industrial, food-importing population, eager to gain post-war international respectability and still starry-eyed for European unity, provided this through the CAP. Germany has thus effectively supported French land values through the purchase of food at high prices which otherwise could have been bought on the world market, often at the half the price.

Consequently, the effects of agricultural protectionism are felt as shock waves around the world. The United States, losing sales in Europe, demands greater access for farm products to the Japanese market; Argentina, losing sales of wheat and beef to Britain, is forced to sell to the Soviet Union; sugar producing poor countries find the world market price ruinously reduced by EEC dumping. International relations are soured inevitably.

Britain, which, after the campaigning of Richard Cobden for free trade, and the Irish potato famine, reformed the ‘Corn Laws’ in 1845 and practised free trade in food for more than a century, has become engulfed in this miserable quagmire.

Now we are seeing the accelerated practice of ‘corporatism’ in industrial policy. The Multi Fibre Agreement limits the imports of textiles – even from the British colony of Hong Kong; steel is increasingly protected; aircraft manufacture is organized on a European level with massive subsidies; measures are taken to limit motor car imports and many other items.²⁹ Britain, whose largest surplus in manufactured goods trade in 1981 was with Australia and whose largest deficit in manufactured goods was with Germany (not Japan), is forced to discriminate against Australian food imports and subsidise those from Germany.

The German journal ‘Intereconomics’, in an editorial has commented that:

“Today, the Community is – as the skirmishes with Japan and the USA show – on the point of becoming a protectionist pest due to its uninhibited bilateralism.”

After showing that non-tariff barriers into Japan are in fact lower than those into the EEC, the journal commented on the demands for restrictions on Japanese imports:

"This is an obvious case of someone who lives in a glass house throwing stones."³⁰

The London Trade Policy Research Centre summarised EEC trade complaints in a booklet entitled "Spectators of their own actions".³¹

Part 3 Opposition and Japan

Opposition continues

The original hostility between the 'Federalists' and their opponents is by no means ended though it exists mainly within individual countries rather than on an EEC wide level. Opponents in Britain became the 'Anti Marketeers' (who the Federalists try to imply are 'disloyal' by calling them 'anti-Europeans') and, as the debate in the House of Commons on 21 February 1983 illustrated, they can mount a spirited and convincing challenge.³² The Labour party is committed to withdrawal. Many individuals are profoundly unhappy with developments but lack the knowledge, organization, strategy and self-confidence to make an effective impact. Voices of protest are heard in the other member countries, Norway is well content with its decision to stay out, and Greenland has just left. An awakening of public awareness, and opposition, could erupt at any time. The path of the EEC seems unendingly provocative. Consequently, the EEC Commission finds it increasingly difficult to justify its development, its burgeoning expenditures — and even its existence.

The danger of biased publicity about Japan

It follows that the Commission faces an obvious temptation to use Japan in a cunning strategy. Japan, a far away country, strong in industry but quiet in international political debate, against which a superficial case for strong collective action can be made presents a heaven-sent opportunity for *internal* persuasion. In response to the apparent 'threat' from Japan, any EEC-Japan 'agreement', however willingly given, can be presented as a 'victory' which *only* the EEC could achieve.

Thus, by co-operating, the Japanese may be used in a power wrangle to which they should be mere spectators. One suspects that if the 'trade issue' were to be 'solved' tomorrow, the EEC would erect some new issue of contention (perhaps market shares in third countries) because Japan is far too useful in countering opposition within Europe to the EEC to be 'let off the hook'.

Even though Japan has just agreed to practically all the specific requests made by the EEC for restraint of exports, the EEC is now to conduct a duplicative great 'investigation' of Japanese trade.³³ Can this be anything other than a search for more potential ammunition? Are not the reports made by various embassies and independent researchers together with the permanent mechanisms of GATT capable of revealing everything required? (And should it discover nothing new, it can always be used for a patronising 'pat on the back'!)

So, whilst there undoubtedly are faults, and Japan can do much to further facilitate imports, the *motive* for EEC criticism, rather than angelic trading principles, or an unfor-

tunate misunderstanding of the overall balance of Japanese payments, may be closer to political mischief.

POSTSCRIPT

For Japan, the EEC and the USA present quite different problems. The supremacy of the Washington government is unquestioned, the 'invisibles' deficit is small and America's exports of food and raw materials can complement Japan's needs. The American commitment to free trade is more secure than that of the EEC and so 'trade friction' problems can most probably be 'solved' – and the debate will subside.

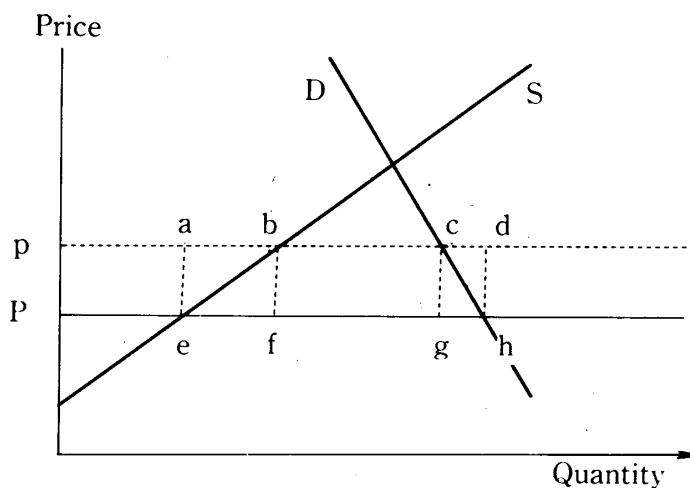
For Europe, it must be remembered that the EEC Commission is a very well funded, apparently permanent institution with a formidable publicity machine and numerous client interests. Eventually power must be restored to 'liberal' control – but that is a task for European countries themselves.

Appendix 1

The common agricultural policy

The Common Agricultural Policy is used to raise the incomes of farmland owners and agricultural workers by maintaining artificially high prices. EEC funds (taxes from each member state) are used to buy and store 'surpluses' and often to subsidise exports in order to reduce these 'surpluses'. There is a general presumption that imports should be restricted and if possible reduced and that 'self sufficiency' should be aimed at.

Thus for each country the cost of the CAP consists not only of taxes paid as contributions funding the system, but also of the excess paid by consumers over that which they would otherwise pay. There are also welfare losses due to reduced consumption and there are complicated calculations to be made about gains and losses by the agricultural industry. This may be illustrated:



Demand and domestic supply curves are shown for a particular commodity. At the world (lower) price 'P' P_e will be produced and e_h will be imported. At the CAP price 'p' domestic production is expanded to b while only bc is imported.

Consumers suffer a loss represented by P_{gcp} and the money is divided between domestic farmers who receive P_{fbp} and the government which receives import levies $fgcb$. Also costs are incurred by farmers beyond import costs of efb and consumers suffer a welfare loss equal to ghc .

Given that this system applies on an EEC wide basis and some members such as Britain are net importers whilst others such as Eire are net exporters, there are important transfers of wealth as well as a net resource loss overall.

To give some perspective to this, EEC statistics for 1979 showed that EEC wheat prices averaged 63% above world prices, barley 61%, maize 90%, sugar 31%, beef and veal 104% and butter 311%.³⁴ The EEC has not yet published more recent figures but world prices have been declining in many instances. This policy has led to an amazing increase in agricultural production in Britain which is now said to be over 70% self-sufficient compared with about 55% ten years ago, but this is at a cost of around £3bn a year to consumers.³⁵

There has been a complicated evolution of the mechanics of the CAP with 'variable levies', 'intervention stores', 'the farm fund', 'monetary compensation payments', 'green pounds' and the like which is beyond the comprehension of practically everybody and there is a deliberate reluctance by the EEC authorities to issue figures which would clarify the costs.

But there is an ever greater transfer of resources to agricultural interests — witness the rising value of farmland.

Appendix 3

Britain's exports to the EEC

Imports of manufactured goods to Britain from the EEC have increased much more rapidly than exports of manufactured goods so that they are now 50% higher. To use the EEC jargon there is a 'cover ratio' of two thirds. The 'gap' however is bridged by two factors — oil and 'invisibles' and the *Impact of Membership* quotes 'invisibles' as recording a surplus with the EEC of £440m in 1973 rising to £645m in 1980 (a fall though, in 'real' terms).

The most important claim, however, concerns *exports* — that they have increased dramatically since 1972, that they now constitute nearly half of total British exports and that, in consequence, around 3 million jobs are dependent on continued membership. Selected statistics are used. The *Impact of Membership* states:

"In the 10 years since accession, trade with the other member countries has grown at a remarkable rate — exports from Britain to its EEC partners rose by 28% a year on average between 1972 and 1980"

The figures are listed — £2.4bn in 1970 and £20.4bn in 1980. Source — Department of Trade.

Appendix 2 Regional Balance of Payments Summary 1982

(US\$ million)

Item	World	O.E.C.D. Countries	United States	E.C. Countries (a)	United Kingdom	Other O.E.C.D. Europe (b)	Communist Bloc (c)	Other Countries	Interna- tional Institution	Un- allocated
1. Current balance	6,850	17,494	14,334	4,848	98	△ 1,688	2,267	△ 12,931	35	△ 15
Trade balance	18,079	23,949	15,131	9,929	3,115	△ 1,111	1,976	△ 7,818	1	△ 29
Exports	137,663	66,513	36,477	17,074	5,157	12,962	8,191	62,958	1	—
Imports	119,584	42,564	21,346	7,145	2,042	14,073	6,215	70,776	—	29
Invisible trade balance	△ 9,848	△ 6,335	△ 677	△ 5,069	△ 2,999	△ 589	327	△ 4,234	394	—
Receipts	41,085	23,535	13,904	7,029	4,305	2,602	1,105	15,970	475	—
Payments	50,933	29,870	14,581	12,098	7,304	3,191	778	20,204	81	—
Transfers	△ 1,381	△ 120	△ 120	△ 12	△ 18	△ 12	△ 36	△ 879	△ 360	△ 14
Receipts	465	303	189	59	16	55	10	136	2	14
Payments	1,846	423	309	71	34	43	46	1,015	362	—
2. Long-term capital balance (d)	△ 14,969	△ 4,733	△ 1,700	△ 1,298	2,557	△ 1,735	△ 1,511	△ 5,815	△ 2,444	△ 466
Assets (out)	△ 27,418	△ 14,950	△ 3,645	△ 6,271	△ 2,424	△ 5,034	△ 1,505	△ 8,081	△ 2,426	△ 456
Liabilities (in)	12,449	10,217	1,945	4,973	4,981	3,299	△ 6	2,266	△ 78	△ 10
3. Fundamental balance	△ 8,119	12,761	12,634	3,550	2,655	△ 3,423	756	△ 18,746	△ 2,409	△ 481

(a) E.C. Countries: Belgium, Luxembourg, France, F.R. Germany, Italy, Netherlands, Denmark, Ireland, United Kingdom, Greece.

(b) Other O.E.C.D. Europe: Austria, Iceland, Norway, Portugal, Sweden, Switzerland, Finland.

(c) Communist Bloc: Albania, Bulgaria, U.S.S.R., Czechoslovakia, Peoples' Republic of China, German, D.R. Hungary, North Korea, Socialist Republic of Viet-Nam, Mongol, Poland, Roumania.

(d) △ shows outflow of Capital (an increase in assets or a decrease in liabilities).

Source: *Bank of Japan Monthly*

Thus any talk of withdrawal or simply of seeking alternative relationships with the EEC is met by the plausible pained innocence of the retort "all we are concerned about is to safeguard the jobs and security of so many British workers". In Lord Carrington's Conservative Party Political Broadcast of 11 December 1981 it was stated "Since we joined the EEC our exports to our Common Market partners have increased rapidly. They now buy nearly half our total exports".

Thus most British people now believe that, had Britain NOT joined, exports to the original six EEC members as a proportion of Britain's total exports would be a good deal lower than they in fact are – and that this would be bad for the British economy.

The figures are not false – the 9 other EEC members DID buy 43.4% of total British exports in 1980 and Western Europe as a whole DID buy 57.6%. But the original 6 members bought only 35% and this is disappointing bearing in mind export expectations, previous trends and North Sea oil.

Export expectations

Trade discrimination to divert sales from Britain towards the EEC and away from other countries *should* have led to an increased proportion for the EEC.

Before membership, Britain exported, often free of tariff barriers, to many markets, notably to Commonwealth countries; and at the same time faced a tariff on goods sent to the EEC. This tariff was estimated by the CBI to be, on average, 7.16%. Progressively, this position has been broadly reversed and goods now enter the EEC countries without tariffs.

(The effect of this tariff reduction, however, should not be exaggerated since it is only equal in effect to a reduction in the international value of the £ of about 10% – 15%.)

EEC membership has contributed towards a rapid decrease in exports to countries such as Australia which have been denied the normal trading access for food to British consumers. Between 1970 and 1980 the proportion of British exports going to Australia dropped from 4.3% to 1.7%; to Canada, from 3.6% to 1.6% and to New Zealand from 1.6% to 0.5%. This collapse in trade is quite unlike the gently falling export shares of the 1960 to 1970 period which were associated with rather static volume export figures.

Furthermore, there has been a loss of export share going to those countries in EFTA which did not join the EEC (Sweden, Norway, Portugal, Austria, Switzerland and Finland). British exporters no longer enjoy a tariff advantage over other competing Western European suppliers to these markets. Britain now competes with Germany, France and Italy on 'equal terms' not only in tariffs but also in costs arising from the CAP. As a result, whereas pre-1972 trends would suggest that by 1981 up to 15% of British exports could be going to these markets, only 11½% in fact was achieved – and this included 1½% oil.

(The only such EFTA country to which there has been a gain in export share is Switzerland but this may well be due to the present inclusion of gold and diamond transactions which used to be recorded separately.)

Similarly, pre-1972 trends would suggest export shares to Ireland and Denmark

by 1981 of 11% but only 8% was achieved.

On the other hand, the CAP has meant that food grown in Britain can be exported to the '6' where it is now protected from world competition. Though economically unjustifiable, this trade does contribute towards a higher share of British exports going to the EEC.

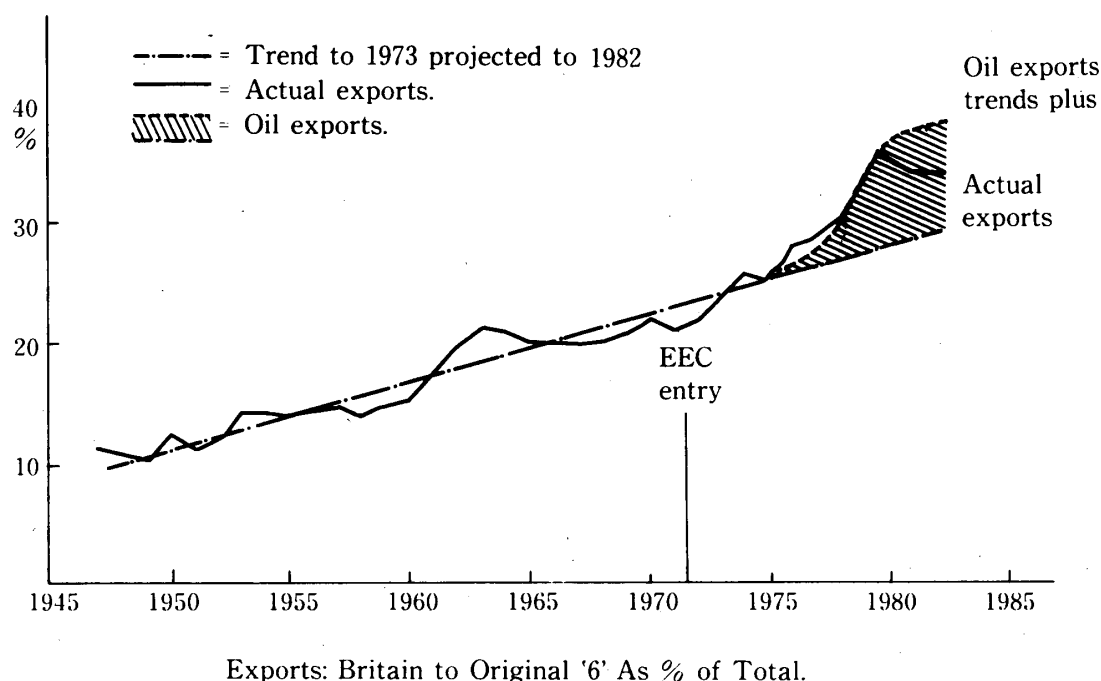
Thus, even without suggesting any 'dynamic' or 'beneficial' results of membership an increased export share should be expected.

Previous trends

Through the 25 post-war years prior to entry a clear trend of a rising export share of manufactured goods to the EEC was established. No one has seriously suggested that this would not have continued whatever the outcome of entry negotiations. Indeed, the EEC could only have reversed this trend by deliberate punitive action which would obviously have affected their exports also. The '6' showed no evidence of wanting to 'force' Britain by this means to join.

North sea oil

Britain exports about half of the crude oil from the North Sea, and exports have been rising by about 30% per year. There are also exports of oil-derived products such as jet fuel and lubricants based on North Sea oil. The major part of exported oil goes to the EEC where West Germany is by far the thirstiest client — a favour Britain could confer regardless of EEC membership.*



* Britain has three policy alternatives for selling North Sea oil.

- (i) The present position. Retention of about half and exports of half to the EEC while importing a similar amount from the Middle East.

Table 1

% British exports to the original '6'			
1947	11.4	Sources (i) <i>To 1971 Cambridge Monograph 18. Abstract of British Historical Statistics</i> (ii) <i>Annual Abstract of Statistics</i> (iii) <i>Overseas Trade Statistics</i>	
1948	11.1		
1949	10.5		
1950	12.3		
1951	11.6		
1952	12.2		
1953	14.3		
1954	14.3		
1955	14.1		
1956	14.5		
1957	14.8		
1958	14.0		
1959	14.8		
1960	16.1		
1961	17.3		
1962	19.8		
1963	21.0		
1964	20.6		
1965	20.0		
1966	20.0		
1967	20.0		
1968	20.1		
1969	20.9		
1970	21.8		
1971	20.7		
1972	21.9		
1973	23.9		
1974	25.3		
1975	25.2		
1976	27.9	Oil	Non-oil
1977	28.8		
1978	29.8		
1979	33.6		
1980	35.2		
1981	33.3		
1982	34.0		

(ii) At a certain cost of refinery adaptation, all North Sea oil could be used in Britain and imports could cease. (Such self-sufficiency, balanced with imported oil saving, would not affect exchange rates.)

(iii) Since oil can be sold almost anywhere, and there are no tariff barriers, Britain could diversify oil sales by increasing sales to non-EEC countries – such as Japan, South Africa and North America.

Table 2

Britain and 'the six' – exports 1978 to 1981			
	Total exports £000	Crude oil exports + ½ of oil derived products to the '6' £000	%
1978	35,380,300	$475,563 + \frac{320,014}{2}$ = 635,57	1.8
1979	40,637,000	$1,389,607 + \frac{532,506}{2}$ = 1,655,860	4.1
1980	47,329,000	$2,487,355 + \frac{752,81}{2}$ = 2,863,760	6.1
1981	50,998,080	$3,352,121 + \frac{2,627,70}{2}$ = 4,666,119	9.1
1982	55,538,408	$4,032,488 + \frac{3,163,57}{2}$ = 5,614,276	10.1

Sources

Total Exports – *Annual Abstract of Statistics*

+

Oil Exports – *Overseas Trade Statistics***35% represents only the continued trend + oil**

The graph shows the proportion for each year between 1947 and 1982. The trend between 1945 and 1971 has been projected forward to 1982 and oil sales added.

The rather dramatic but inescapable fact emerges that actual exports and exports that would have occurred in any case, had Britain not joined, are practically identical. Should Britain decide to retain, rather than export, North Sea oil, the co-incidence would be even more obvious.

For the advocates of membership, the disappointing conclusion is that it has not, on balance, led to an increase in exports. Indeed, given the trade diversion involved, this observation suggests that membership has caused export weakness rather than export strength, whilst falling exports to Commonwealth countries have contributed directly to rising unemployment.

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