

TRADE POLICY - IMPORT CONTROLS[A Paper by Mr. Higgins]

Pressure for the UK to introduce import controls has been building up steadily for some time.

This pressure comes from two directions. First, a group of economists - generally known as "The Cambridge New School", although the faces have long been familiar, - has been advocating import controls as a general solution to our economic problems. Secondly, trade unionists and others in particular industries - notably those where excessive wage claims have made them uncompetitive compared with producers in other countries - are seeking protection as a means of avoiding consequent unemployment.

In addition "dumping" of exports by other countries has become an increasing problem, in part because of the world recession, in part because of the difficulty of defining "dumping" when the goods come from the USSR and other Communist countries.

This Paper is designed to define our attitude in these circumstances so that if the Government seems likely to succumb to the combination of academic and trade union pressure we can react sensibly.

General Controls

"The Cambridge New School's" argument is complex and sophisticated. (Research Department have a selection of articles for those who wish to examine it in detail).

I myself find it wholly unconvincing, although in a recent letter to "The Times" Professor Lord Kahn and other distinguished economists appeared to be converts. In fact their letter brings out the nub of the question. The case for general import controls rests on the assumption that the Government will succeed in introducing an effective prices and incomes policy and avoid excess demand.

But increased production for British industry would itself make it more difficult to prevent excessive wage claims. We should become less and less competitive and the introduction of import controls would merely put off the day of reckoning.

In addition there is the obvious danger of retaliation and widespread adoption of beggar my neighbour policies.

I therefore recommend that, if the Government attempts to introduce increased import controls of whatever sort we should oppose them. A seige economy is surely inconsistent with Conservative Principles.

Import Controls on Specific Products

The other danger is that the Government will be persuaded to give protection to particular industries. Peter Shore's recent statements in the House suggest he is more open to persuasion on this than he has been. The problems can best be analysed by taking the two obvious examples, motor-cars and textiles.

The Automobile Industry

Given the state of the British car industry, excessive wage claims, strikes, restrictive practices and Government involvement in British Leyland, it is not surprising protectionist pressures are increasing. But clearly any attempt to protect our domestic car market would precipitate retaliation. If the Government risk this I am sure we should oppose them.

A more likely outcome is that they will be persuaded to take action against "dumping". The crucial problem is to distinguish "cheap imports" from "unfair competition".

Difficulties of defining "dumping" present the Government and Opposition with different problems. I recommend the basic free trade stance outlined above should be combined with support for action against "genuine dumping". But if there is doubt about whether the dumping is genuine, for example, in the case of Japanese cars, we may appear to be going along with a protectionist policy. Once on this slippery slope it would be more difficult for us to take a clear stand against further import controls.

Conversely, it may be the Government will be reluctant to take action against dumping when they should. Russian cars, Fiat designs built under licence, are currently being imported from the Eastern block and selling for about two-thirds of the price of the comparable Fiat. Similar problems arise with other goods but the Government, committed to more trade with Communist countries, is evidently reluctant to take action. I recommend we should press for clearer more effective definition of "dumping" of goods produced in Communist countries.

The Textile Industry

So far the Government has resisted appeals from the textile industry for further protection. I believe this is right but again they are being too lenient on goods "dumped" from Communist countries.

The dilemma is that the Multifibre Agreement with the EEC which should result in our European partners "burden sharing" (in the curious sense that their consumers get more cheap textile products) will not come into effect for some time and if we meanwhile increase protection for our own textile industry the MFA is likely to break down.

In addition further protection for an industry already heavily protected by tariffs and quotas is likely to precipitate retaliation e.g. against our substantial woollen exports to Japan.

"Textiles" in fact covers a number of different industries and the "cotton" problem is not the same as the "wool" problem. But there are lots of votes involved in each sector.

There is a danger that if we treat textiles as a special case this will undermine our basic free trade posture. For the moment the Prime Minister's statement of 23rd May has made it clear the Government propose to give help by financial measures rather than increased import controls. But, personally, provided an initiative comes from the Government side I would not feel bound to oppose a temporary arrangement designed to bridge the time between now and the start of the MFA.

Summary

To summarise I recommend:

1. We should strongly oppose any general move towards protectionism in the form of quotas, import deposits, or higher tariffs.
2. We should also encourage competition and strongly oppose protection for any particular industry but press for a clearer definition of "dumping" and more rapid action against it, particularly as far as imports from Communist countries are concerned. We should not support action against "dumping" if this appears suspect and aimed at "cheap" imports rather than "unfair" competition.
3. We should not oppose a Government initiative for transitional protection for the textile industry until the MFA is operative providing we are sure this will not extend beyond the introduction of the MFA.
4. In the longer term as part of our overall economic policy should be to achieve further reductions in tariff and non-tariff barriers within the EEC and as far as the common external tariff is concerned.

TH

The Conservative Research Department,
24, Old Queen Street, S.W.1.

TH/SH
25.6.75