

THE EFTA EXPERIENCE IN ABOLISHING BARRIERS TO TRADE

GEORGE R. YOUNG, DIRECTOR

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In the past ten years there have been two large-scale practical demonstrations in Western Europe of the effect of the adoption by industrial countries of liberal trade policies. In both cases the abolition of trade barriers has been accompanied by remarkable increases in trade and also in the economic growth of the participating countries. The fears of particular industries have been proved, almost without exception, to be without foundation in practice. The "escape clauses" which were incorporated into the agreements between countries to reduce tariffs have been little used, and then only for short periods. Perhaps most striking of all, as a result of these experiences the industrialists of Europe, with few exceptions, now have a much more relaxed attitude in regard to protection. They see a steady rate of economic growth as being much more important to their future prosperity than any measures to protect them from outside competition.

This recent European experience means that decisions on trade policy can now be made on a much sounder factual basis. In past years, decision-making on trade policy consisted of trying to choose between different hypotheses. The advocates of liberal policies expressed their confidence that all nations would greatly benefit from the reduction of barriers to international trade. Advocates of protection, on the other hand, sought to forecast the serious and possibly calamitous effects on particular industries, and on the economy as a whole, of a flood of foreign imports following the reduction of trade barriers. Government decisions on trade policy therefore inevitably represented a choice, or more often, a compromise between these different hypothetical possibilities.

The European experience of free trade in practice has vindicated those who analyzed U.S. prosperity as being very largely due to the existence of a huge single market without significant barriers to internal commerce. This example was accepted as the one for Western Europe to follow twenty years ago, when the OEEC was established to administer Marshall Aid and to liberalize trade and payments throughout the region. The effects of this liberalization were already apparent when decisions were made to embark on more intensive reduction of trade barriers in Europe, first by the formation of the European Economic Community and secondly by the creation early in 1960 of the European Free Trade Association (EFTA). This paper seeks only to analyze the economic effects produced by EFTA integration; it need only be said in passing that results in the EEC have been of the same type.

On the last day of 1966, trade in manufactured products between the EFTA countries—Austria, Denmark, Finland, Norway, Portugal, Sweden, Switzerland and the United Kingdom—became free of quota or tariff barriers, save for some minor temporary exceptions. EFTA became a single market, as is the United States, and industrial trade between its member countries became the equivalent of interstate commerce. Externally, of course, each EFTA country maintains its own tariff structure toward other countries. EFTA has no common external tariff.

For the largest member of EFTA, the United Kingdom, completion of the free trade area represented a doubling of her home market. For the smaller members of EFTA, their home market was enlarged between 10 and 25 times. In consequence, production and trade in the EFTA countries now operate in a quite different environment. The Swedish manufacturer, for example, now has a home market 12 times its previous size. It follows that his investment, production and marketing decisions must be set against a new background. It follows also that structural economic changes must be expected over future years. The tendency toward larger units of production and distribution is already very marked in EFTA and can confidently be expected to accelerate.

But the free trade area did not come into being overnight. The process of reducing trade barriers began in 1960 and proceeded by reductions of 10% to 20% a year until the end of 1966. In other words, the businessmen of the EFTA countries have had a new background for their decisions for several years past, based on the commitment by their governments to the timetable of tariff cuts. Even during the transition period, therefore, very encouraging results were obtained in terms of increased trade. Taking EFTA as a whole, commodity trade between its eight countries increased from \$3.5 billion in 1959 to \$7.5 billion in 1966, an increase of 110%, or an average growth of about 12% a year. In those