

C233393

TELEGRAM

From THE HIGH COMMISSIONER FOR CANADA IN GREAT BRITAIN

To THE SECRETARY OF STATE FOR EXTERNAL AFFAIRS, CANADA

- 5 -

LONDON.

7. You will be aware that from the outset the United Kingdom authorities have been skeptical whether a European customs union would yield sufficiently large immediate advantages to justify the toil and trouble which its formation would require and that they agreed to join in studying it chiefly in order to placate Mr. Will Clayton. The Foreign Secretary's proposal for western union gave the idea a new lease on life here and increased support for it. Now United Kingdom opinion seems to be reverting to its original state. Officials seem more and more convinced that the formation of a customs union would be of little immediate relevance to the problem of coordinating Europe economically. The belief that it would be so seems to me to rest on a fallacy of which officials here are keenly aware but which has perhaps been insufficiently exposed. A customs union could be expected to lead automatically and quickly to rationalization of production and to an efficient economic division of labour between the countries only within the context of a free enterprise society. For the most part, that does not exist in Europe. With negligible exceptions, all the countries in the OEEC have undertaken to a greater or less degree to manage their economies. Under these circumstances a customs union could not produce automatically a smoother and less wasteful articulation of production. It would merely raise in a somewhat different form the problems which in any case would have to be faced in any attempt to coordinate the economies of Western Europe; and deliberate planning would be necessary within the framework of managed or semi-managed economies if a customs union were to produce the beneficial results which would be its justification. The establishment of the Economic Committee of the Study Group was based on a recognition of that