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TOWARDS "A TREATY OF COMMERCE"

EUROLAND AND NAFTA COMPARED

Keith Marsden

THE AUTHOR

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CONTENTS

SUMMARY

In 1776, the same year as the Declaration of Independence, Adam Smith looked forward to a time when Great Britain and America would sign a "treaty of commerce", one which would be "more advantageous to the great body of the people" (see page 41 for the full quotation).

In 2000, Britain faces a simple choice. Should we keep trying to argue for an end to "ever-closer union", knowing that this has little chance of success? Or should we consider renegotiating the terms of our membership of the EU, while exploring the possibility of joining another club whose rules and members' behaviour are more congenial?

In 1776, Adam Smith wrote of a time when Britain and its American colonies would sign a "treaty of commerce", one which would be "more advantageous to the great body of the people."

This paper compares the North American Free Trade Agreement (NAFTA) with the eleven "founding" members of the European Monetary Union (Euroland). It finds that:

- NAFTA has 38% more consumers than Euroland; and that those consumers are 20% better off in terms of GDP per head.
- The NAFTA economies are growing at twice the rate of those in Euroland: NAFTA has an average GDP growth rate of 3.6% over the last seven years, compared to only 1.8% in Euroland.

- NAFTA's markets are more open than Euroland's. 60% of NAFTA's imports came from outside the NAFTA area; only 37% of Euroland's came from beyond its own borders.

- NAFTA has developed far stronger links with the global economy than Euroland. The value of goods traded reached 75% of GDP in 1997, up from 50% in 1987. The reverse happened in Euroland. In 1987, the share of goods traded was 50%. In 1997 this had fallen to 39%.

- NAFTA relies far less on subsidies than Euroland. In Euroland, the value of reported subsidies was $203 billion in 1997, compared to just $33 billion in the US.

- NAFTA has a far better employment record than Euroland. Since 1992, the number of jobs has risen by 38% in Mexico, and 13% in both Canada and the US. In Euroland, the equivalent figure is just 3%.

- Workers in NAFTA countries earn more and are taxed less than those in Euroland. A single worker with no children on an average production wage has a net income of $20,388 in the US – compared to just $16,577 in Germany.

- NAFTA countries are more attractive to external investors than Euroland countries. In 1998, the value of foreign direct investment into NAFTA countries was $229 billion, compared to $140 billion in Euroland.

This paper does not touch on political, legal or constitutional issues pertaining to the UK's membership of the EU. However, it does suggest that for the UK, in trading terms alone, NAFTA represents a better environment than Euroland. Investigating the possibility of signing "a treaty of commerce" between NAFTA and the UK can therefore only be considered prudent. Should, at any stage in the future, the burdens of EU membership become intolerable, an attractive alternative to the EU is available.

CHAPTER ONE
INTRODUCTION

> What has made the European family of nations an improving instead of a stationary portion of mankind? Not any superior excellence in them, which, when it exists, exists as the effect, not as the cause; but their remarkable diversity of character and culture. Individuals, classes, nations, have been extremely unlike one another; they have struck out a great variety of paths, each leading to something valuable... Europe is, in my judgement, wholly indebted to this plurality of paths for its progressive and many-sided development.
>
> John Stuart Mill, *On Liberty,* Chapter III, 1859.

Writing in the *Los Angeles Times*, former French president Valéry Giscard d'Estaing and former German Chancellor Helmut Schmidt criticised "those in Washington who aspire to maintain some control over Europe in order to facilitate America's global geo-political aims". The EU's "historically unique goal", they say, is to form a country like the US. "First priority must be given to institutional reform". Enlarging the EU without first fortifying its institutions "may end up diluting the union into a mere free trade area". Deepening institutions can only be accomplished by a hard core of countries, they suggest. Britain is conspicuously absent from their list.

German Foreign Minister Joscha Fischer continued in a similar vein in a speech at Humboldt University, Berlin entitled *From Confederacy to Federation – Thoughts on the finality of European integration*:

> In the coming decade we will have to enlarge the EU to the east and south-east... If we are to be able to meet this historic challenge, we must put into place the last brick in the building of European integration, namely political integration.

Europe faced a stark choice, he suggested between '"erosion or integration":

> Enlargement will render imperative a fundamental reform of the European institutions... Clinging to a federation of states would mean a standstill with all its negative repercussions... There is a very simple answer: the transition from a union of states to full parliamentarisation as a European Federation... This means nothing less than a European Parliament and a European Government which really do exercise a legislative and executive power within the Federation. This Federation will have to be based on a constituent treaty.

Herr Fischer accepted the possible need to form a hard core, or in his words, "a centre of gravity."

> Such a group of states would conclude a new European framework treaty, the nucleus of a constitution of the Federation... Such a centre of gravity would have to be the avant-garde, the driving force for the completion of political integration.

"Such a group of states... would have to be the avant-garde, the driving force, for the completion of political integration" – Joscha Fischer, German Foreign Minister, Berlin, 2000

But he ruled out the idea of "variable geometry" where different groups would co-operate together while retaining sovereignty and policy flexibility in some areas:

> It is of paramount importance that closer co-operation should not be misunderstood as the end of integration... It would be critically important to ensure that the EU *acquis* is not jeopardised, that the union is not divided and the bonds holding it together are not damaged, either in political or legal terms.

In other words, alternative policies that might pose a competitive challenge to the "centre of gravity" would not be tolerated. The outspoken fear of federalists is that the countries which stay outside the "core" will prove to be more agile, and accelerate past them in economic performance. To prevent this, Herr Fischer calls for a unified legal system. In his view, the European Council meeting in Tampere:

> ...marked the beginning of a new far-reaching integration project, namely the development of a common area of justice and internal security... Common laws can be a highly integrative force.

And to ensure that the power of the hard core is not weakened by enlargement, he insisted that the current Intergovernmental Conference must:

> ...put in place the institutional preconditions for the next round of enlargement... Resolving the three key questions – the composition of the Commission, the weighting of majority votes in the Council and particularly the extension of majority decisions – is indispensable.

Herr Fischer also claimed that every stage of the process of European integration "depended essentially on the alliance of Franco-German interests". Moreover, "One thing at least is certain: no European project will succeed in the future without the closest Franco-German co-operation".

And he dismisses British reservations as mere semantical quibbles.

> I know that the term "federation" irritates many Britons but to date I have been unable to come up with another word. We do not wish to irritate anyone.

Herr Fischer states bluntly that:

> The introduction of the Euro was not only the crowning-point of economic integration, it was also a profoundly political act, because a currency is not just another economic factor but also symbolises the power of the sovereign who guarantees it.

"The introduction of the Euro was not only the crowning point of economic integration, it was also a profoundly political act" – Joscha Fischer

Such frankness should be welcomed. It helps to clarify the debate on Europe. Romano Prodi, President of the European Commission, has also become more forthright. Addressing the European Parliament, he attacked the unanimity requirement which "means either complete paralysis or reducing everything to the lowest common denominator."

Britain faces a simple choice. Should we continue to argue for an end to "ever-closer union", knowing that this has little chance of success? Or should we consider renegotiating the terms of our membership, while exploring the possibility of joining another club whose rules and members' behaviour are more congenial?

This paper examines one such alternative club – the North American Free Trade Agreement (NAFTA) whose current members are the United States, Canada and Mexico. The analysis compares NAFTA with the eleven "founding" members of the European Monetary Union (Euroland). The US International Trade Commission has recently begun hearings on the possibility of enlarging NAFTA to include Britain and perhaps other European countries (when it could be renamed NAAFTA – the North American and Atlantic Free Trade Area).

This paper highlights economic trends since December 1992 (i.e. the date when NAFTA was formed). Wherever available, aggregate or average data for the two groups are cited. Data for the UK and Eastern European countries show how they have been affected by their different forms of association with the EU. Information is also provided for Russia. World aggregate data are given in some cases to serve as overall reference points.

The following issues are addressed:

- Which area offers the largest markets?
- How affluent are their customers?
- Where is market demand growing fastest?
- Whose markets are most open to outsiders?
- Which group has the strongest links with the global economy?
- Whose trade expansion is the most dynamic?
- Are markets distorted by government subsidies?
- Which system creates most jobs?
- Where is labour productivity rising fastest?
- Are workers better off in NAFTA or Euroland?
- How do their "human development records" compare?
- Where are living standards rising fastest?
- Whose fiscal policies encourage hard work and enterprise?
- Where is investment capital better mobilised?
- Which system has attracted most foreign investment?
- Where has investment grown fastest?
- What are their strengths in science and technology?
- Where are foreign workers more welcome?
- Where is economic freedom better safeguarded?

CHAPTER TWO
WHICH AREA OFFERS THE LARGEST MARKETS?

NAFTA's total population of 399 million in 1999 topped Euroland's by more than 100 million, as shown in Table 1.

TABLE ONE: MARKET SIZE (1999)

	Population		GDP	
	Millions	%	$ppp billions	%
US	271	4.6	9,054	21.9
Canada	31	0.5	827	2.0
Mexico	97	1.6	909	2.2
NAFTA	399	6.7	10,790	26.1
Euroland	290	4.9	6,532	15.8
UK	59	1.0	1,323	3.2
East & Central Europe	184	3.1	1,199	5.8
Russia	149	2.5	992	2.9
World	5,950	100	41,344	100

Sources: World Bank, *World Development Indicators*, Table 2.1 and IMF, *World Economic Outlook*, April 2000, Statistical Appendix Tables A and I.

Some commentators talk about British access to 370 million customers in the EU. But this includes Britain's own domestic market of 59 million consumers. Indeed, if Britain joined an enlarged NAAFTA, it would have free access to 55% more customers than in Euroland.

And the value of NAAFTA's markets would be larger still. The combined purchasing power of NAFTA and the UK, measured in Purchasing Power

Parity (PPP) dollars (which take account of differences in domestic prices), amounted to more than 12 trillion dollars in 1999. This was nearly double that of Euroland and over 29% of total world GDP.

The combined GDP of NAFTA and the UK was over \$12 trillion in 1999; Euroland's combined GDP was just \$6.5 trillion.

Enlargement of Euroland to include Eastern and Central European countries would add 184 million customers. Their purchasing power is substantially lower however. So even if all 18 of these countries (excluding Russia) joined overnight, they would boost Euroland demand by only \$1.8 trillion, or 18%.

CHAPTER THREE

HOW AFFLUENT ARE THEIR CUSTOMERS?

Despite Mexico's relative poverty, NAFTA's average per capita GDP of $27,040 was 20% higher than Euroland's in 1999.

Despite Mexico's relative poverty, NAFTA's average per capita GDP of $27,000 was 20% higher that Euroland's in 1999.

NAFTA customers have more disposable income to spend on the sophisticated products and services on which Britain's industrial future depends. The US in particular offers rich pickings. On average, its 271 million customers each had over $33,000 to spend (including the outlays of firms and the government on their ultimate behalf) in 1999.

This was nearly 50% more than in either Euroland or the UK.

National incomes per head in Russia and other Eastern and Central European countries were just a fifth of the American level, and below the world average, as indicated in Table 2.

TABLE TWO: GDP PER HEAD (1999)

	$ppp per head	Index
US	33,410	481
Canada	26,680	384
Mexico	9,370	135
NAFTA	27,040	389
Euroland	22,520	324
UK	22,420	323
East & Central Europe	6,520	94
Russia	6,660	96
World	6,950	100

Sources: World Bank, *World Development Indicators*, 2000, Table 2.1 and IMF, *World Economic Outlook*, April 2000, Statistical Appendix Tables A and I.

CHAPTER FOUR
WHERE IS MARKET DEMAND GROWING FASTEST?

NAFTA's market is more dynamic than that of Euroland. Its real GDP rose at an average annual rate of 3.6% since 1992, double Euroland's rate. Total NAFTA real income was 28% higher in 1999 than seven years earlier, compared with a 13% increase in Euroland (see Table 3).

The NAFTA economies are growing at the twice the rate of Euroland's: real GDP growth rose by 3.6% p.a. between 1992 and 1999, compared to 1.8% in Euroland.

TABLE THREE: GROWTH IN GDP (ANNUAL PERCENTAGE CHANGE, 1993-99)

	1993	1994	1995	1996	1997	1998	1999	Average 1993-99	Increase 1999/92
US	2.4	4.0	2.7	3.7	4.5	4.3	4.2	3.7	29
Canada	2.3	4.7	2.8	1.7	4.0	3.1	4.2	3.3	26
Mexico	0.7	4.5	-6.2	5.1	6.8	4.8	3.4	2.7	21
NAFTA	2.3	4.1	2.0	3.7	4.6	4.2	4.1	3.6	28
Euroland	-0.8	2.3	2.2	1.3	2.2	2.8	2.3	1.8	13
UK	2.3	4.4	2.8	2.6	3.5	2.2	2.0	2.8	22
East & Central Europe	-3.8	-2.9	1.7	1.6	2.3	1.8	1.4	0.3	2
Russia	-10.4	-11.6	-4.2	-3.4	0.9	-4.5	3.2	-2.0	-15
World	2.3	3.7	3.6	4.1	4.1	2.5	3.3	3.7	29

Sources: OECD, *Economic Outlook* December 1999, Annex Table 1 and IMF, *World Economic Outlook*, April 2000, Appendix Table 1.

While Euroland's growth has picked up recently – the IMF projects that it will reach 3.2% in 2000 – its long term trends are far from encouraging. Since the EU began its drift to "ever-closer union", the more its economic growth has slowed down, unemployment has soared and real wages have stagnated. Eurostat data show that the real GDP growth of the eleven present members of Euroland averaged 5.3% annually during the 1960s and 3.3% in the 1970s (when seven countries were not yet members of the EU), and then dropped to 2.4% in the 1980s and a mere 1.8% in the 1990s. Their average unemployment rate has gone in the opposite direction, rising from 2.3% in the 1960s, to 4.2% in the 1970s, to 9.1% in the 1980s, and to 10.5% over the last decade. And wage increases have become desultory: in the heady years of the 1960s, workers' real compensation soared by 5.9% annually. During the 1990s they have had to be content with annual increases of just 0.7%.[1]

Mexico's growth was held back by a severe recession in 1995, due to a financial crisis. But it rebounded the following year and has forged ahead at a rapid pace as the benefits of NAFTA membership became more widespread. Since 1992, its GDP has risen by 21%. A blistering 7.9% growth rate was achieved in the first quarter of this year. And its financial recovery is reflected in Moody's Investors Services Inc. giving Mexican bonds and notes an investment-grade rating for the first time (only three other Latin American countries are members of this exclusive club). A Moody vice-president is quoted in the *International Herald Tribune* (12 June 2000) as saying that it had based its decision on the perceived success of many initiatives of Mexican President Ernesto Zedillo: a more manageable debt load, a flexible exchange rate policy and a dynamic export sector that is "well-integrated into the North American economy."

In contrast, Eastern European economies have stagnated. Growth rates have averaged a mere 0.3% annually since 1992. Geographical proximity to higher-income countries to the West has been of little help. Nor, apparently, have the considerable sums spent by the EU on technical assistance designed to prepare them for full membership.

UK output jumped by 22% over the last seven years. It was boosted by a more flexible labour market, lower taxes and a more attractive climate for foreign investors.

Russia has remained deep in the doldrums. Its GDP has dropped by 29% since 1992.

In sharp contrast, world output has risen by 29%, reflecting buoyant demand in Asia in particular.

1 See Eurostat, *Economic Data Pocket Book*, 31 May 2000, Tables 1, 7 and 11.

CHAPTER FIVE

WHICH MARKETS ARE MOST OPEN TO OUTSIDERS?

NAFTA markets are more accessible to exporters located outside its area, as shown in Table 4. Extra-NAFTA merchandise imports reached $759 billion in 1998, nearly 60% of its total imports. In comparison, Euroland countries bought an estimated $637 billion of goods from outside the EU, representing around 37% of their total merchandise imports.

TABLE FOUR: MERCHANDISE IMPORTS

	Value (1998) $ billions	Share in total imports 1990	1997	1998
NAFTA				
Total Imports	1,271	100.0	100.0	100.0
Intra-imports	512	34.4	39.9	40.3
Extra-imports	759	65.6	60.1	59.7
Euroland				
Total Imports	1,726	100.0	100.0	100.0
Intra-imports	1,089*	63.0*	62.9*	63.1*
Extra-imports	637*	37.1*	37.1*	36.9*

* Estimate

Source: World Trade Organisation, *Annual Report 1999*, Tables 1.5 and 1.9.

The formation of the EU has resulted in trade diversion at the expense of other regions. For Western Europe as a whole, the share of total imports coming from the rest of the world has dropped to 31.0% in 1998 from 43.8% in 1963.

WTO data for the US and Canada combined show that inter-regional imports remained at a remarkably constant 72.5% of total imports in 1993 and 1998, and were up from 65.7% in 1963. But Mexico's exports to its North American partners rose to 8.8% of their total imports, from 5.9% in 1993 and 2.5% in 1963.

Mexico has recently negotiated a free trade agreement with the EU which will, *inter alia*, abolish tariffs on industrial goods by the year 2003. As with NAFTA, this agreement will ease Mexico's access to the EU's markets without any loss of sovereignty or independence. In return, Mexican markets will become more open to the UK (and Euroland) exporters. Their ability to take advantage of the opportunities is constrained by a growing EU regulatory burden which is estimated to cost up to 3% of GDP.[2]

Were Britain to join NAFTA, our exports to this market could be expected to receive a substantial boost. Despite existing trade barriers, Americans spent $237 per head on British goods in 1998 compared with $500 by other EU members. Removal of import tariffs (currently averaging 5.2% in the US, 7.5% in Canada and 13.% in Mexico) would open up larger and wider market opportunities for British exporters, even if they were obliged to give up their duty-free access to Euroland.

2 See *The Mexico-EU Free Trade Agreement*, Global Britain Briefing Note No. 8, June 2000.

CHAPTER SIX
WHO HAS THE STRONGEST LINKS TO THE GLOBAL ECONOMY?

The growing importance of trade in the world's economies is one indication of strengthening global economic relationships. This has occurred without political integration. In fact, the number of nation states has increased markedly since the foundation of the United Nations and other multilateral institutions involved with trade, such as the World Bank, GATT/WTO, and the IMF.

Table 5 shows the changes between 1987 and 1997 in the relative importance of the trade in goods in relation to overall GDP. It also shows the trade in goods as a proportion of GDP derived from the production of physical goods (that is, excluding services).

TABLE FIVE: LINKS WITH THE GLOBAL ECONOMY (1987 & 1997)

	Trade in Goods			
	% of ppp GDP		% of Goods GDP	
	1987	1997	1987	1997
US	14.0	20.4	50.3	75.3
Canada	44.0	62.9	109.5	n.a.
Mexico	7.3	29.3	55.4	144.8
Euroland	15.7*	22.9*	49.6*	38.5*
UK	35.5	47.6	92.5	81.2
Poland	13.9	27.0	58.7	96.2
Hungary	30.1	55.2	112.1	181.4
Russia	......	21.3	.....	64.4

* Extra-Euroland trade only; intra-Euroland trade is excluded because it is equivalent to trade between US states which is not recorded in international trade statistics.

Source: World Bank, *World Development Indicators 1999*, Tables 6.1 and 6.5.

It is noteworthy that Euroland has become less integrated with the rest of the world over this ten year period. The share of goods traded (imports plus exports) with countries outside Euroland dropped to 38.5% of the GDP generated in its goods sector in 1997, down from 49.6% in 1987.

On the other hand, the US developed stronger links with the global economy. The value of goods traded reached 75% of its goods GDP in 1997, up from 50% in 1987. Britain's trade in goods dropped in relative terms, but still amounted to a hefty 81% of goods GDP. But neither the US nor the UK got close to Mexican levels of outward orientation. Its trade in goods reached nearly 145% of its goods GDP. But it should be pointed out that the bulk of its exports go to the US.

These trends show political integration is not a prerequisite for closer economic ties between nations, nor for effective international co-operation.

Smaller Eastern European countries like Poland and Hungary have extensive trading relationship with other countries, but much of their trade is with lower income customers and suppliers within their own region. They have lost most of their former market in Russia (which, for example, accounted for only 3% of Hungary's exports in 1998). They seem to have focused their energies on trying to meet the legislative demands of the EU, hoping to become members. But because of numerous tariff and non-tariff barriers, they have been unable to increase their penetration of Western European markets substantially.

The value of merchandise exports from the whole of the former Soviet bloc fell by 5% in 1998 and represented only 4% of world exports. Their combined share of Western European imports dropped to 4.7% in 1998 from 5.4% in 1983.[3]

[3] WTO, *Annual Report 1999*, Tables I.3 and II.4.

CHAPTER SEVEN

WHOSE TRADE IS MOST DYNAMIC?

NAFTA's merchandise imports are growing faster than the EU's. They increased by over 8% annually from 1990 to 1999, double the EU rate. By 1999, NAFTA imports accounted for 31.8% of world imports, more than twice Euroland's share (excluding intra-Euroland imports for the reason given above). Mexico provides the most buoyant market for foreign suppliers. Table 6 shows that its merchandise imports rose by nearly 16% annually during the 1990s.

In 1999, NAFTA imports accounted for 32% of all world imports – more than twice the share of Euroland.

TABLE SIX: VALUE AND GROWTH OF MERCHANDISE IMPORTS

	Value ($ billion)	Share	Annual percentage change		
	1999	%	1990-97	1998	1999
US & Canada	1,281	28.5	8	4	11
Mexico	148	3.3	16	15	15
NAFTA	1,429	31.8	8	5	11
Euroland*†	678	15.1	4	6	3
UK*†	121	2.7	5	2	2
East & Central Europe	129	2.9	12	11	-2
Russia	41	0.9	...	-20	-30
World†	4,494	100.0	7	-1	4

* Excluding intra-Euroland imports.

† Estimate

Sources: WTO, *Annual Report 2000*, Table 11.3 and Appendix Tables 1 and 2; WTO, *Annual Report 1999*, Tables 1.6 and A14; and WTO, *Annual Report 1998*, Table 11.4.

Trade in commercial services is less dynamic than trade in goods. The data reproduced in Table 7 show that imports of services grew at a similar pace in North America, Mexico, and Euroland – around 7% annually during the 1990s. Note that the figures for Euroland overstate its share of world trade in services because they include trade between members. Separate data for extra-Euroland imports are not available.

TABLE SEVEN: IMPORTS OF COMMERCIAL SERVICES

	Value ($ billion)	Share	Annual percentage change		
	1999	%	1990-97	1998	1999
US & Canada	219	16.5	7	1	3
Mexico	14	1.0	n.a	7	9
NAFTA	233	17.5	n.a	n.a	n.a
Euroland*	430	32.2	6	7	2
UK†	81	6.1	6	11	4
East & Central Europe	30	2.2	n.a	1	-8
Russia	12	0.9	n.a	-14	-27
World	1,335	100.0	7	1	2

* Estimates, including intra-Euroland imports.

† Including intra-Euroland imports.

Sources: WTO, *Annual Report 2000*, Table 11.4 and Appendix Table 3; and WTO, *Annual Report 1998*, Table 11.8.

The share of Eastern Europe in world imports of services is similar to that for merchandise, around 2 to 3%. But its market has been depressed recently. Imports fell by 8% in 1999. Russia's share of world trade in services is small (0.9%) and contracting (down 27% in 1999).

CHAPTER EIGHT
WHOSE MARKETS ARE MOST DISTORTED BY SUBSIDIES?

Government subsidies distort free trade. They allow firms to undercut their competitors by selling their products and services at prices below their economic costs.

Table 8 shows the relative magnitude of various subsidies used by the EU and the US during the latest year for which comparative data are available (1997). Some of the figures are actual values given in the sources cited. Others are estimates derived from average ratios reported by the same organisations.

TABLE EIGHT: WHO SUBSIDISES MOST? (1997)

	European Union				United States			
	GDP		Exports		GDP		Exports	
	$ billion	%	$ billion	%	$ billion	%	$ billion	%
Total	9,461	100.0	1,030*	100.0	7,824	100.0	946	100.0
Reported Subsidies	203	2.1	22	2.1	33	0.4	4	0.4
Disguised Subsidies:								
– labour programmes	104	1.1	11	1.1	16	0.2	2	0.2
– social security	1,930	20.4	210	20.4	1,025	13.1	124	13.1
– non-defence R&D	66	0.7	7	0.7	31	0.4	4	0.4

* extra-EU exports only.

Sources: OECD, *National Accounts 1999*; OECD, *Government Revenue Statistics 1999*; OECD, *Employment Outlook 1999*; OECD, *Historical Statistics 1998*; OECD, *OECD in Figures, 2000*; WTO, *Annual Report 1998*; and WTO, *Trade Policy Review: United States 1999*.

Reported subsidies to enterprises in the form of cash grants, soft loans, equity participation and guarantees from the government amounted to $203 billion in the whole of the EU in 1997 (2.1% of GDP). It is assumed that these subsidies are of proportionate benefit to exporters, suggesting that exporters from the EU receive reported subsidies of $22 billion. The figures for the US were just $33 billion and 0.4% respectively for the economy as a whole – or just $4 billion for exporters.

In addition to reported subsidies, there are various disguised subsidies. EU governments spend more than six times as much as the US on training and other so-called "active" labour market programmes. The costs of similar activities in the US are largely borne by private employers and employees.

R&D activities are also subsidised more extensively in the EU. Government appropriations for non-defence R&D were worth an estimated $7 billion to EU exporters, $3 billion more than received by US exporters.

Although EU treaties are supposed to put a cap on subsidies, there are so many grounds for exemptions that many Euroland countries continue to obtain an unfair edge in global markets in this way. Table 9 shows the extent of this distortion in the field of agriculture.

TABLE NINE: AGRICULTURAL SUBSIDIES

	1986-88		1996/97	
	PSE ($ billion)*	**% of agricultural production**	**PSE ($ billion)***	**% of agricultural production**
US	32.5	30	22.8	16
EU	70.8	48	85.0	43

* PSE: "Producer Subsidy Equivalent."

Sources: WTO, *Trade Policy Review*, *The European Union*, 1997, Table IV.2, and *Trade Policy Review*, *The United States*, 1999, Table III.2.3.

Combining various forms of protection including tariffs and direct subsidies, the WTO estimates that the Producer Subsidy Equivalent (PSE) for farmers amounted to 16% of the value of agricultural production in the US in 1997, down from 30% in 1986-88. The total value of the PSE was $22.8 billion in 1997. EU agricultural subsidies have stayed nearly four times higher, with transfers costing $85 billion in 1996, 43% of the value of output.

Subsidies are not only unfair to competitors. They also prop up inefficient enterprises and they delay the transfer of capital and labour to more productive uses. And, ultimately, consumers end up paying more.

CHAPTER NINE

WHO CREATES MOST JOBS?

NAFTA's employment record is significantly better than that in Euroland, as shown in Table 10.

TABLE TEN: GROWTH IN EMPLOYMENT (ANNUAL PERCENTAGE CHANGE, 1993-99)

	1993	1994	1995	1996	1997	1998	1999	Average 1993-99	Increase 1999/92
US	1.5	2.3	1.5	1.4	2.2	1.5	1.5	1.7	13
Canada	1.4	2.1	1.6	1.2	1.9	1.5	2.8	1.8	13
Mexico	4.1	0.9	1.9	5.0	13.3	4.9	2.9	4.7	38
Euroland	-2.1	-0.3	0.5	0.4	0.8	1.6	1.7	0.4	3
UK	-0.7	0.8	0.8	1.1	1.8	1.4	0.5	0.8	6

Sources: IMF, *World Economic Outlook*, April 2000, Appendix Table 2; OECD, *Economic Outlook*, December 1999, Annex Table 20 (for Mexico);

NAFTA's employment record is significantly better than Euroland's: since 1992, the number of jobs has risen by 38% in Mexico and 13% in both the US and Canada – compared to just 3% in Euroland.

Since 1992, the number of jobs has risen by 38% in Mexico and 13% in Canada and the US, compared with only 3% in Euroland and 6% in the UK.

A substantially higher proportion of the working age population was actually employed in NAFTA in 1998 – 74% in the US, 69% in Canada, and 62% in Mexico (see Table 11). The ratios for the largest Euroland countries were 64% in Germany, 59% in France, and 51% in Italy and Spain in 1998, and an estimated 58% for the whole of Euroland.

TABLE ELEVEN: EMPLOYMENT RATIOS AND LEVELS

	Level 1998 (millions)	Employment Ratio* 1998 (%)	Unemployment rate† 2000
US	130	74	4.1
Canada	14	69	5.8
Mexico	18‡	62	2.4
NAFTA	162	72	4.0
Euroland	111	58	9.2
Germany	34	64	9.3
France	22	59	9.8
Italy	20	51	11.2
UK	27	71	3.9**

* Defined as the percentage of persons aged 15 to 64 in employment.
† April-May 2000.
‡ Urban areas.
** Claimant count.
Sources: OECD, *Employment Outlook*, June 1999, Tables 1.2 and Annex B; *The Economist*, June 10, 2000; OECD, *Economic Outlook*, June 2000, Table 21.

NAFTA's unemployment rate is currently less than half that of Euroland. Mexico has brought its rate down to 2.4%, thanks largely to booming exports to its North American partners. Britain's less regulated labour market has resulted in a much lower unemployment rate (3.9%) than in Euroland (9.2%).

CHAPTER TEN
WHERE IS PRODUCTIVITY RISING FASTEST?

The ability of economic unions and associations to raise the incomes of their citizens depends not only on harnessing their labour resources as fully as possible, but also on lifting labour productivity. Data on economy-wide changes in productivity are given in Table 12.

TABLE TWELVE: GROWTH OF LABOUR PRODUCTIVITY (ANNUAL PERCENTAGE CHANGE, 1993-99)

	1993	1994	1995	1996	1997	1998	1999	Average 1993-99	Increase 1999/92
US	1.2	1.7	1.2	2.2	2.0	2.8	2.7	2.0	15
Canada	1.1	2.6	1.2	0.5	2.1	2.6	1.4	1.6	12
Mexico	-3.4	2.2	-4.3	0.1	-6.5	-0.1	0.5	-1.6	-12
Euroland	1.3	2.7	1.8	1.1	1.8	1.2	0.6	1.5	11
UK	3.0	3.6	2.0	1.5	1.7	0.8	1.5	2.0	15

Sources: IMF, *World Economic Outlook*, April 2000, Appendix Tables 1 & 2; and OECD, *Economic Outlook*, December 1999, Annex Tables 1 and 20 (for Mexico).

There are no great differences in the performances of most NAFTA and Euroland members. The US and the UK top the league with a 15% improvement over the last seven years, four percentage points higher than the Euroland average. But the most striking finding is the 12% decline in Mexican labour productivity. This result can be explained by the rapid growth of employment in labour-intensive export industries and related services, This has changed the balance of Mexico's urban employment away from import-substituting heavy industry. This structural shift has provided a better base for GDP growth, as already shown in Table 3.

CHAPTER ELEVEN

ARE WORKERS BETTER OFF IN NAFTA OR EUROLAND?

It is often alleged that NAFTA's strong export and job performances have been achieved by the payment of sweat-shop wages. OECD data reproduced in Table 12 reject this claim. Average annual gross earnings (measured in $ppp) for production workers in the manufacturing sector were $27,482 in the US and $27,214 in Canada in 1996. These levels compared with $21,908 in Italy, $18,451 in France and $10,573 in Portugal.

A single US production worker on average wages kept over $20,000 after taxes – 23% more than the German equivalent.

The US and Canada appear even better off if net income – i.e. income after social security contributions, income tax and other transfers – is taken into account. Table 13 shows that a US single worker on average wages kept $20,388 in his or her pockets after tax in 1996. This was 23% more than the German equivalent. Single workers in Britain, which has also been accused of 'social dumping", received 53% and 29% more than their French and Italian counterparts respectively after tax.

The net average wage ($6,421) of a single worker in Mexico was lower than in all Euroland members, but was not much below Portugal's ($8,661). Mexican wages were on a par with Poland's $6,482, and exceeded Hungary's $4,727.

Table 13 also shows differences in the net income of families with two children and two adult earners – one paid the average wage of production workers, the other receiving two-thirds of the average. Once again, North American families come out on top. They received three to four thousand dollars more annually than their best-rewarded Euroland equivalents (Germans), and more than double their counterparts in Portugal. The same category of working family in Mexico gained $10,925 net, 17% more than its counterpart in Hungary.

TABLE THIRTEEN: ANNUAL GROSS WAGES AND NET INCOME AFTER TAXES* IN MANUFACTURING (1996)

	Single earner, no children on average production wage		Married family, 2 earners, one on average production wage, one on 67% of average production wage	
	Gross income ($ppp)	**Net income ($ppp)**	**Gross income ($ppp)**	**Net income ($ppp)**
US	27,482	20,388	45,803	35,151
Canada	27,214	19,690	45,356	34,242
Mexico	7,142	6,421	11,903	10,925
Germany	28,227	16,577	47,045	31,199
France	18,451	13,315	30,751	24,650
Italy	21,908	15,767	36,513	27,205
UK	23,650	17,555	39,417	31,815
Portugal	10,573	8,661	17,621	15,404
Poland	7,902	6,481	13,169	11,328
Hungary	6,716	4,727	11,193	9,361

* After employees social security contributions, personal income tax and transfer payments.
Source: OECD, *The Tax/Benefit Position of Employees 1998*, Tables 16 and 17.

CHAPTER TWELVE

HOW DO THEIR LIVING STANDARDS COMPARE?

Some critics of the United States claim that country's unequal income distribution and lower government expenditure on social services result in poorer levels of attainment in overall human development. The United Nations Development Programme (UNDP) reports on various indicators to measure the relative performance of over 170 countries. It has also devised a composite Human Development Index (HDI) to encompass achievements in the most basic human capabilities – leading to a longer life, being educated and enjoying a decent income. The measures chosen are life expectancy at birth, adult literacy and combined educational enrolment rates, and adjusted per capita income in $ppp.

The UN ranks Canada and the US far ahead of the three largest Euroland countries in terms of its "Human Development Index".

Table 14 gives UNDP's latest HDI rankings for some members of NAFTA and Euroland and other comparator countries, together with tertiary education rates and levels of private consumption per head. This last indicator is a better measure of living standards than GDP per head, which includes investment and government spending on defence and public administration.

UNDP's findings rank Canada and the US well above the three largest Euroland countries in its composite HDI and on the percentage of the relevant age group enrolled at tertiary (higher) education institutions. The US is well ahead in the level of real private consumption, while Canada is roughly on a par with Germany, France, and the UK.

Mexico's HDI ranking lies in between Poland and the Czech Republic on the one hand and Latvia and Russia on the other. But it has some way to go before matching them in higher education.

TABLE FOURTEEN: HUMAN DEVELOPMENT INDICATORS

	Human Development Index		Tertiary education enrolment rate	Private Consumption
	Value, 1997	Ranking, 1997	1997 (%)	Per head ($ppp, 1997)
Canada	0.932	1	90	15,643
US	0.927	3	81	21,515
UK	0.918	10	52	14,804
France	0.918	11	51	14,115
Germany	0.906	14	47	15,577
Italy	0.900	19	44	13,415
Czech Republic	0.833	36	24	7,592
Poland	0.802	44	24	5,532
Mexico	0.786	50	16	5,453
Russia	0.747	71	41	4,324
Latvia	0.744	74	33	4,099

Sources: UNDP, *Human Development Report 1999*, Table 1 and World Bank, *World Development Indicators 2000*, Tables 2.10 and 4.11.

CHAPTER THIRTEEN
WHERE IS PRIVATE CONSUMPTION RISING FASTEST?

Table 15 compares changes in private consumption levels since 1992. NAFTA citizens benefited from faster economic growth. Americans were able to increase their real private spending, where they alone determined the kinds of goods and services bought, by 30% over the seven year period. This rise was two and a half times greater than the consumption increase obtained by Euroland citizens.

UK inhabitants also enjoyed more rapid growth in disposable incomes. Their consumption jumped by 25%, double that of people living in Euroland. Britons also depend less on government hand-outs. Euroland governments spent 48% of national income in 1999, compared with 40% in the UK and 30% in the US. (see OECD, *Economic Outlook*, December 1999 Annex Table 29).

Real private consumption rose by 20% in Mexico, and at a particularly rapid rate over the last four years as the stimulus of NAFTA took full effect, and more people were drawn into the modern export economy and its related services. Thus Mexican workers have benefited from a free trade area that hasn't insisted on uniform labour standards as a prerequisite of membership.

Comparable data for Eastern Europe and Russia are not available, but they are likely to have experienced stagnation and contraction in their average living standards respectively. The EU's trade barriers, and its insistence that applicant countries must first adopt its innumerable *acquis* and regulations before admission, have prevented its neighbours from using their labour resources rationally. Imports from Russia, Central and Eastern Europe and the Baltic states (with a total population four times Mexico's) amounted to only 4.6% of total EU imports in 1998, up from 3.4% in 1990. Mexico's share of US imports jumped to 10.2% from 5.9% over the same period

TABLE FIFTEEN: GROWTH OF REAL PRIVATE CONSUMPTION (ANNUAL PERCENTAGE CHANGE, 1993-99)

	1993	1994	1995	1996	1997	1998	1999	Average 1993-99	Increase 1999/92
US	3.0	3.8	3.1	3.3	3.4	4.9	5.3	3.8	30
Canada	1.8	3.1	2.1	2.5	4.2	2.8	3.2	2.8	21
Mexico	0.2	4.6	-9.5	2.2	6.5	5.4	4.3	2.0	15
Euroland	2.0	-1.0	1.2	1.8	1.5	3.0	2.5	1.6	12
UK	2.9	2.9	1.7	3.6	3.9	3.2	3.9	3.2	25

Sources: OECD, *Economic Outlook*, December 1999 and June 2000, Annex Table 3.

CHAPTER FOURTEEN

WHO ENCOURAGES HARD WORK AND ENTERPRISE?

In 1999, the state took a substantially smaller slice of national income in the US (31.0%) than in Euroland (46%). Estimates for Mexico indicate a tax take of just 15% of GNP (see Table 16). The levels in Eastern Europe and Russia are similar to Britain's, around 40%.

TABLE SIXTEEN: GENERAL GOVERNMENT RECEIPTS (AS A PERCENTAGE OF GDP)

	1993	1994	1995	1996	1997	1998	1999	Average 1993-99
US	29.2	29.4	29.8	30.2	30.5	30.9	31.0	30.1
Canada	42.4	41.9	42.0	42.6	43.2	42.8	42.8	42.6
Mexico	n.a.	n.a.	n.a.	n.a.	15.1*	n.a.	n.a.	15.1*
Euroland	45.5	45.0	44.7	45.7	45.9	45.9	45.9	45.5
UK	37.4	37.9	38.6	38.6	38.9	40.3	40.3	38.8
Czech Republic	42.3	42.1	41.5	39.8	38.9	38.2	39.6	40.3
Hungary	47.0	44.9	42.8	40.7	39.7	39.7	39.7	42.1
Russia	n.a.	n.a.	n.a.	n.a.	40.6	35.8	n.a.	38.2*

* Estimate

Sources: OECD, *Economic Outlook*, December 1999, Annex Table 29. Data for Mexico from World Bank, *World Development Indicators 1999*, Table 5.5 and *World Development Report 2000*, Table A.1. Data for Russia from ECE, *Economic Survey of Europe 2000* No. 1, Table 3.2.7.

Top marginal tax rates on individuals are significantly lower in NAFTA and the UK than in Euroland. Top rates in Eastern Europe and Russia kick in at low levels of income.

By leaving workers and entrepreneurs more money in their own pockets, NAFTA governments have encouraged hard work and innovation.

TABLE SEVENTEEN: HIGHEST MARGINAL TAX RATES

	Tax Rate (%) 1999	Charged on Income over ($) 1999	Corporate Rate 1999 (%)
US	40	283,150	35
Canada	29	38,604	38
Mexico	40	200,000	35
Germany	53	66,690	30
France	n.a.	n.a.	33
Belgium	55	69,993	39
Italy	46	81,665	37
Spain	40	71,398	35
UK	40	46,589	31
Poland	40	15,192	34
Russia	35	8,587	35

Source: World Bank, *World Development Indicators 2000*, Table 5.5.

CHAPTER FIFTEEN
WHERE IS CAPITAL BETTER MOBILISED?

Households and enterprises save and invest independently. The financial system's role is to intermediate between them and to recycle funds. Savers invest in financial institutions, which pass these funds to their final users. As an economy develops, this indirect lending by savers to borrowers becomes more efficient: financial assets increase gradually relative to GDP. This wealth allows increased saving and investment, facilitating and enhancing economic growth. The level of credit available to the private sector is therefore an important development indicator.

TABLE EIGHTEEN: CAPITAL MOBILISATION

	Credit to Private Sector	Market Capitalisation		Listed Domestic companies
	% of GDP	$ billions	% of GDP	Number
	1998	1999	1999	1999
US	138	13,451	144	8,450
Canada	92	543	94	1,384
Mexico	20	154	23	188
Euroland	91	4,223	65	3,106
UK	124	2,374	175	2,399
Poland	20	30	13	221
Hungary	22	16	29	66
Russia	13	72	7	207

Source: World Bank, *World Development Indicators 2000*, Table 5.5.

Table 18 shows that credit to the private sector had reached 138% of GDP in the US in 1998, 52% higher than the Euroland level. The strength of Britain's financial sector brought its credit availability to a level well above the average for its continental rivals. However Mexico and Eastern European countries have a long way to go before closing the gap.

Venture capitalists are a key source of funds for the "new economy", particularly for high-tech start-ups. NAFTA is well ahead of the game in this field also. A recent PricewaterhouseCoopers study revealed that venture capital investment in US technology firms reached $18 billion in 1999, compared with $2.2 billion in the UK, $1.4 billion in Germany and $1.0 billion in France.

As economies grow, specialised financial intermediaries and equity markets develop. Stock market size can be measured in a number of ways. Market capitalisation is the share price times the number of shares outstanding. The figures in Table 18 under this heading shows the overall size of a country's or group's stock market in billions of US dollars and as a percentage of GDP.

Market capitalisation totalled over $14 trillion in NAFTA in 1999. That of Euroland was $10 trillion less. There were more than three times as many companies listed on NAFTA stock exchanges than in Euroland. The value of the UK's stock market alone was 56% of the total for the eleven members of Euroland. As a percentage of GDP, Britain's market capitalisation was nearly three times higher than Euroland's.

Equity markets are still in their relative infancy in Eastern Europe. But they are growing rapidly in Mexico; its market value increased fivefold from 1990 to 1999.

CHAPTER SIXTEEN
WHO HAS ATTRACTED MOST FOREIGN INVESTMENT?

Inflows of foreign direct investment (FDI) into NAFTA grew twice as fast as flows into Euroland between 1993 and 1998. By 1998 the NAFTA levels were 53% higher than those in Euroland

Note that the data for Euroland exaggerate its attractions to investors outside the region as they include intra-EU transfers. These amounted to an estimated 60% of the total. Similarly, the data for NAFTA countries include investments made by one NAFTA country in another NAFTA country. The same remarks apply to the figures for the accumulated stocks of inward and outward FDI given in Table 20. Intra-Euroland transfers are equivalent to US inter-State transfers which are not included in the US's FDI data.

TABLE NINETEEN: FDI INFLOWS ($ BILLIONS)

	1993	1994	1995	1996	1997	1998
US	44	45	59	76	109	193
Canada	5	8	9	9	11	16
Mexico	7	12	10	9	13	10
NAFTA*	56	65	78	94	133	229
Euroland†	55*	56*	76*	76*	74*	140*
UK	15	9	20	26	37	63
Central & East Europe	6	5	12	10	13	16
Russia	1	1	2	2	6	2

* Includes intra-NAFTA investment.
† Includes intra-Euroland investment.
Source: UN, *World Investment Report 1999*, Annex Table B.1 and Figure 11.7.

TABLE TWENTY: STOCK OF FOREIGN DIRECT INVESTMENT

	INWARD INVESTMENT		OUTWARD INVESTMENT		TOTAL FDI†
	1990	1998	1990	1998	1998
	$ billion	$ billion	$ billion	$ billion	% of $ppp GDP
US	395	875	435	994	4.6
Canada	113	142	85	157	6.3
Mexico	22	61	1	6	1.4
NAFTA	530	1078	521	1157	4.7
Euroland	484*	1052*	501*	1327*	6.1*
UK	219	327	233	499	18.5
Central & East Europe	3	70	...	6	5.8
Russia	-	13	...	7	0.4

* Includes intra-Euroland investment

† Sum of absolute values of inward and outward flows

Source: UN, *World Investment Report 1999*, Annex Table B.3 and B.4; and World Bank, *World Development Indicators 2000*, Table 6.1.

Britain's lower tax, less-regulated economy has accumulated FDI valued at 18.5% of its GDP in 1998, easily the highest level among the groups covered. But pressure for "harmonisation" of EU taxes towards higher Euroland levels is increasing, and calls for abolition of the national veto in this field are becoming more strident. Both EU and foreign investors may be induced to seek more hospitable environments elsewhere, including NAFTA. Portfolio investors in the city of London could be similarly motivated, affecting one of the most vibrant parts of the British economy.

FDI inflows to Eastern and Central Europe have been quite substantial, and the value of its FDI stock has reached 5.8% of its ppp GDP. However, much of it has taken the form of acquisitions of existing plants producing for domestic markets, and has not succeeded in boosting total national output or exports. This is in sharp contrast to Mexico, where in response to changes in the foreign investment regime and a strengthening of intellectual property rights, investment and marketing links with foreign (especially US) firms has contributed considerably to the surge in its Mexican exports, which rose by 14% annually from 1990 to 1998 (see WTO, *Annual Report 1999*, Table III. v23).

CHAPTER SEVENTEEN
WHERE HAS TOTAL INVESTMENT GROWN FASTEST?

NAFTA's success in mobilising savings and attracting FDI has been translated into faster growth of total fixed capital investment.

In 1999 in the US, total investment was 67% higher than it was in 1992. In Euroland, it went up by just 12% over the same period.

Last year, in the US, its level was 67% higher than in 1992. In Euroland, it went up by only 12%, well below the UK's 42% increase over the same period. Mexican investment growth has also been much more vigorous than Euroland's, especially since its 1995 recession (see Table 21).

TABLE TWENTY ONE: GROWTH OF REAL INVESTMENT* (ANNUAL PERCENTAGE CHANGE, 1993-99)

	1993	1994	1995	1996	1997	1998	1999	Average 1993-99	Increase 1999/93
US	5.7	7.3	5.3	8.3	7.5	10.6	8.2	7.6	67
Canada	-2.7	7.4	-1.9	6.5	13.9	3.6	9.3	5.2	43
Mexico	-1.2	8.4	-29.0	16.4	21.0	10.7	5.8	4.6	37
Euroland	-6.6	2.6	2.6	0.9	2.2	4.8	4.9	1.6	12
UK	0.8	3.6	2.9	4.9	7.5	11.0	5.2	5.1	42

* Total gross fixed capital formation

Sources: OECD, *Economic Outlook*, December 1999, Annex Table 5.

CHAPTER EIGHTEEN
WHAT ARE THEIR STRENGTHS IN SCIENCE AND TECHNOLOGY?

Rapid development in science and technology is changing the global economy. It is also driving rapid shifts in comparative advantage between countries. Table 22 shows some of the key indicators that provide a partial picture of the "technological base": availability of skilled human resources, the competitive edge countries enjoy in high-technology exports, sales of technology through royalties and licences, and the number of patent applications filed.

TABLE TWENTY TWO: SCIENCE AND TECHNOLOGY STRENGTHS

	Scientists & engineers in R&D Per million people 1987-97	Expenditure on R&D 1998 1987-97	High-tech exports % of exports (manufacturing) 1998	Royalty & licence fees Receipts $ millions 1998	Patents filed by residents Number 1997
US	3,676	2.6	33	36,808	125,808
Canada	2,719	1.7	15	574	4,192
Mexico	214	0.3	19	139	429
Euroland	2,126	2.2	15	9,808	101,037
Germany	2,831	2.4	14	3,252	62,052
France	2,659	2.2	23	2,336	18,669
Italy	1,318	2.2	20	477	2,574
UK	2,448	2.0	28	6,724	26,591
Poland	1,358	0.8	3	22	2,401
Hungary	1,099	0.7	21	46	774
Russia	3,587	0.9	12	28	15,277

Source: World Bank, *World Development Indicators 2000*, Table 5.12

Among the largest industrial economies, there is little difference in the number of scientists and engineers per million people, although Italy is less well staffed than its neighbours, As a percentage of GDP, US spending on R&D averaged 0.4 points higher than Euroland's over the ten year period from 1987 to 1997. But expenditure in Mexico was only 12% of the US level, while Eastern Europe and Russia were in the 27 to 35% range.

Big disparities exist in the ability to sell R&D results to foreigners. High technology exports accounted for a third of total US exports in 1997, and 28% in the UK. These proportions easily topped the Euroland average of 15%. Similarly, US receipts from royalties and licence fees were far higher than in other countries, and NAFTA's total was nearly four times greater than Euroland's. Britain earned more than twice as much as Germany, the highest individual Euroland recipient.

Russia has a high proportion of scientists and technologists. It also files plenty of patents. Political instability and the parlous state of its economy have prevented it from exploiting these resources adequately. However, some Eastern European countries, such as Hungary, are beginning to penetrate export markets for high tech products, mainly through partnerships with foreign firms.

CHAPTER NINETEEN
WHERE ARE FOREIGN WORKERS MORE WELCOME?

In most high-income countries, the natural growth of the population has been the main source of additional manpower needed to maintain their dynamism. But in many of these countries, population expansion has recently slowed to a trickle, and the proportion of retired persons is expanding rapidly. The World Bank projects that Euroland's population will decline by 0.1% per year between 1997 and 2015 while the percentage of over-65s will rise to 19.4% in 2015, from 15.6% in 1997.

In the future, could differences in the degree of openness to immigrants be a factor in economic performance? Table 23 shows that Canada and the US have substantially higher proportions of foreign workers in their labour forces than most Euroland economies Note that the figures probably underestimate the gap because European countries generally define foreigners by nationality of descent, whereas the US and Canada use place of birth, which is closer to the concept of the immigrant stock as defined by the United Nations. Furthermore, the figures for EU members include internal migrants (especially from Spain, Portugal and Italy). From the point of view of the impact on total labour resources, such intra-EU migration merely "robs Peter to pay Paul". The US and Canada, on the other hand, have highly effective visa programmes to attract skilled manpower and entrepreneurs from all over the world.

Data for inward migration to Mexico and Eastern European countries are not readily available. There has been substantial migration (both legal and illegal) from Mexico to the southern states of the US, particularly California and Texas. This immigration has helped to fill job vacancies in a wide range of occupations, and contributed to the well-known dynamism of these states.

TABLE TWENTY THREE: OPENNESS TO FOREIGN IMMIGRANTS

	Foreign Population		**Foreign Labour Force**		**Inflows of Foreign Population**	
	% of total population		**% of total population**		**Total, thousands**	
	1990	**1997**	**1990**	**1997**	**1990**	**1997**
US	7.9*	9.7*	9.4*	11.6*	1537*	798*
Canada	15.6*	21.1*	18.4*	24.8	214*	216*
Germany	8.4	9.0	8.4	9.1†	842	615
France	6.3	6.3†	6.4	6.1	102	102
Italy	1.4	2.0†	n.a.	1.7†	n.a.	n.a.
Spain	0.7	1.5	n.a.	1.1	n.a.	n.a.
UK	3.2	3.6	3.5	3.6	52	237

* Foreign-born only
† 1996
Source: World Bank, *World Development Indicators 1999* and *2000*, Table 6.13

CHAPTER TWENTY
WHERE IS ECONOMIC FREEDOM BETTER SAFEGUARDED?

Underlying the differences in performance identified in previous chapters are significant differences in the degree of economic freedom extended to people and enterprises. A *Wall Street Journal*/Heritage Foundation study ranks countries on the basis of ten indicators. These include the extent of government intervention in the economy, wage/price controls, property rights, regulation, trade, and level of taxation. The US was ranked 5th overall, Britain 7th and Canada 15th out of 153 countries covered in 1997. The average score for Euroland members put them in the 23rd slot. But 44 countries were found to have less government intervention than France and Germany.

Among Eastern European countries, the Czech Republic was found to allow greater economic freedom, with an overall ranking of 11th. But Hungary was only on a par with Uganda and Peru at 64th. Poland was ranked 85th, and Russia 115th. Greater exposure to North American policies through trade and other contacts should help Mexico to move up the scale from its 94th ranking in 1997.

An annual study by the Geneva-based World Economic Forum also measures various forms of economic freedom and evaluates their impact on countries' competitiveness. Its *Global Competitiveness Report 1999* ranks France 57th and Germany 53rd (out of 59 countries covered) in the extent and rigidity of their labour regulations. They also come close to the bottom of the league in the extent of administrative regulations and taxes on labour. The overall competitiveness rankings of France (23rd) and Germany (25th)) are well below the US's 2nd, Canada's 5th and the UK's 8th.

CHAPTER TWENTY ONE
CONCLUSIONS

On this evidence, a bureaucratic, over-centralised Euroland has performed less well and delivered fewer benefits than a more flexible NAFTA. Free trade promotes economic integration more effectively than regulation. Competition should be seen as an instrument to enhance welfare, not as a means of establishing control by one bloc over another. Harmonisation may sound attractive, but if enforced by directives rather than induced by markets, it can prevent countries from realising their potential, and exclude too many people from the fruits of their labour.

If Euroland's political leaders insist on deepening central institutions at the expense of entrepreneurship, individual liberties and local autonomy, Britain could seriously consider joining NAFTA. With an independent voice in the WTO restored, the UK could join forces with other like-minded countries (such as the Cairns Group) to further a free trade agenda. And with membership of the UN Security Council and the Group of Seven (G7) industrial powers secure, combined with its leadership of the Commonwealth, Britain could continue to play a central role on the world stage as an advocate of freedom, democracy and healthy competition.

Participation in flexible trading agreements like NAFTA would not preclude continued co-operation with its continental European neighbours in many areas of mutual interest. And they, in turn, have no good reasons to cut themselves off from lucrative UK markets.

Short of a radical change of heart and direction by Euroland leaders, Eastern European countries should also forge alliances with other trading partners before their competitive advantages become too eroded.

This paper began with a quotation from J S Mill. Another great liberal philosopher and economist, Adam Smith, also has sound advice for present-day protectionists:

> To give the monopoly of the home market to the produce of domestic industry... is in some measure to direct private people in what manner they ought to employ their capitals, and must, in almost all cases, be either a useless or a hurtful regulation. If the produce of domestic industry can be brought there as cheap as that of foreign industry, the regulation is evidently useless. If it cannot, it must generally be hurtful. It is the maxim of every prudent master of a family never to attempt to make at home what it will cost him more to make than to buy.
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> Adam Smith, *The Wealth of Nations*, Book 4 Chapter 2, 1776.

"It might dispose them not only to respect, for whole centuries together, that treaty of commerce which they had concluded with us at parting, but to favour us in war as well as in trade, and instead of turbulent and factious subjects to become our most faithful, affectionate and generous allies" – Adam Smith, The Wealth of Nations, 1776.

He was also far ahead of his time in supporting the voluntary separation of Britain from its American colonies and in advocating a free trade treaty between Britain and America:

> Great Britain would not only be immediately freed from the whole annual expense of the peace establishment of the colonies, but might settle with them such a treaty of commerce as would effectively secure to her a free trade, more advantageous to the great body of the people, though less so the merchants, than the monopoly which she at present enjoys. By thus parting good friends, the natural affection of the colonies to the mother country which, perhaps, our late dissentions have well nigh extinguished, would quickly revive. It might dispose them not only to respect, for whole centuries together, that treaty of commerce which they had concluded with us at parting, but to favour us in war as well as in trade, and instead of turbulent and factious subjects to become our most faithful, affectionate and generous allies.
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> Adam Smith, *The Wealth of Nations*, 1776.

Over the last century, Canada and the US have certainly proved to be Britain's most generous allies. Might not the time have come to conclude a free trade agreement with NAFTA along the lines first imagined by Adam Smith two and a quarter centuries ago?