BRITAIN & OVERSEAS

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THE EXCHANGE PATTERN – PART II
by SIR GEORGE BOLTON, KCMG.

This part of the commentary on the behaviour of exchange markets unavoidably becomes more personal because of involvement in central banking activities between 1933 and 1956. Bank of England responsibilities had included, inter alia, the development of Exchange Control for defence purposes from 1936 onwards; international financial organisation, e.g. Bretton Woods and Savannah conferences; the choice of a Director of and liaison with the International Monetary Fund, Washington; the Bank for International Settlements, Basle; European Payments Union, Paris; and similar activities. In many of these situations I, at a modest level, represented H.M.G. and followed a Treasury/Bank of England brief, but I gradually developed a critical attitude towards most forms of centralised governmental controls and became convinced that Exchange Control, except to deal with a military crisis, was an unmitigated evil. Experience showed that the original purpose of protecting the currency gradually disappeared and that it was ultimately used for political purposes such as restricting individual freedom of choices which in themselves were legal and in many cases of national merit.

I bore (and still bear) a feeling of personal guilt at having helped introduce the system, and used any opportunity to reduce its severity and to promote the cause of individual freedom. **When a final attempt to restore a market economy failed in 1952/3, official life because claustrophobic and one foresaw a total lack of inspiration and enterprise in a country enveloped in a cocoon of official consents and guidances operated by an ignorant and largely prejudiced expanding Civil Service.** The national and international consequences seemed clear: the sterling system would atrophy and eventually disappear: the Commonwealth for this and other reasons would decline into obscurity, causing great damage to British trade and industry: and individual initiative and the development of new industries would stop, and individual initiative would not be able to play a decisive part in our affairs. In the middle fifties I had become an anachronism and eventually in 1956 resigned from full-time duties in the Bank but remained on the Court, and transferred to a moribund remnant of the 19th century enterprise – the Bank of London and South America.

Active Policies for BOLSA

The fresh air of private enterprise and the City atmosphere provided a stimulant and in six months more active policies for BOLSA had been worked out, including :–

(a) a recruiting and training campaign to bring fresh blood into the branch system and Head Office;

(b) to make the Head Office the centre of decision and new business, including medium-term foreign exchange loans;

(c) to make the Bank an active foreign exchange bank and to move the Bank out of a dying sterling system, with the assistance of dollar capital provided by a Canadian and an American bank;

(d) to start to arrange a campaign to help restore the image of the Bank and of Britain in Iberia and Latin America.

None of these policies could succeed without new business, fresh capital and the prospects of increasing profits. The new management agreed that BOLSA should not only make two-way prices in all traded spot foreign exchanges – an essential in arbitrage – but also take positions in forward foreign exchange. The most important introduction, however, was the decision to make two-way prices in foreign exchange deposits in about a dozen currencies, the main one being the U.S. dollar. At all times the Department was to keep the Bank of England informed of the state of the market and their own activities. The policies proved successful and attracted the attention of many banks, including a volume of critical correspondence with a number of internationally known bankers.

From these small beginnings a transition from established orthodox banking techniques started and was stimulated in 1957 when the decline of the sterling system became more clearly visible as the British authorities decided to impose restrictions on foreign investment and trade financing together with a credit squeeze. Eurodollar transactions in London and Switzerland began to assume significant porportions. The liberalisation in 1958 of exchange controls by a number of central bank authorities gave commercial banks more freedom to accept foreign currency deposits at more favourable rates of interest than were obtainable in New York. This was followed by measures taken by the American monetary authorities to limit access by foreigners to the New York market. In the early days the main activity between banks was in comparatively short-term fixed deposits and over-night money.

The market now provides medium-term facilities to industry, term deposits, has moved into the medium-term capital market and has developed a comprehensive foreign bond market. A situation has now been reached where hundreds of the commercial banks of the world are engaged in depositing money with each other, without security, at rates of interest affected but not determined by the margins of the official money rates prevalent in the New York and London markets. This has been accomplished entirely as a result of international needs, the enterprise of the banks, the confidence they have in each other and the fact that the older domestic money markets have become too subject to domestic requirements and political direction.

An international money market has been created which is more efficient in terms of the speed and the sophistication of its transactions than were the classic money markets. It has shown its strength by withstanding, without apparent ill effect, a series of crises. By tapping previously unused liquid reserves of various sorts and origins the market has made a contribution to the financing of international trade as well as to the financing of domestic operations. Despite the dangerous meddling and interference of governments in the workings of a highly sophisticated mechanism (which they may seek to curb to satisfy their desire for overriding control of all economic activity), the ceaseless ingenuity of the financial world will continue to provide essential facilities even under the most *unfavourable circumstances*. The so-called recycling of the excessive dollar resources of the OPEC countries has been an example of the value of the market. As the Gulf price of crude oil rose from $ 2.10 a barrel in January, 1973, to $ 9.60 in January, 1974, money was drained out of the importer of crude into the dollar accounts of the OPEC countries. The consequences were universally calamitous; a dangerous imbalance in international accounts; a volatile foreign exchange market as countries, especially the Third World, felt the consequences of a savage rise in costs; a further impetus towards uncontrollable inflation; and rising unemployment. The position was dangerous enough by 1977 but the doubling of the OPEC price of crude in 1978/9 to $ 18 a barrel created a crisis which is beyond the capabilities of the markets and requires diplomatic action to deal with international tensions that cannot be handled solely by monetary authorities. A majority of the newly-organised African and other States are now in serious financial difficulties, and as the price of oil rises further and world trade declines defaults will increase and industrial bankruptcies will tend to cause growing unemployment and stimulate social tensions. **In these conditions Russian inspired revolutionary movements find fertile ground and other countries may follow the example of Angola, Mozambique and Ethiopia where Western influence has suffered grievous defeats.**

Gap between Rich & Poor

The Middle East, in spite of its immense wealth in foreign exchange and oil albeit maldistributed, is equally unstable as ruling families, in maintaining personal control over their growing wealth, have neglected to provide for any form of participation among tribesmen. They have relied upon potentially disloyal expatriate labour, especially Palestinian and Egyptian, to provide labour for industry and Government service. The gap between rich and poor, between ruler and ruled, is now unbridgeable, and we have seen some of the consequences in Iran which is now descending into anarchy. It would seem unlikely that in these conditions the Gulf States have any real chance of survival against either internal disruption or foreign attack. The distrust of

paper currencies is now reaching dangerous proportions and is reflected in prices of precious metals, objets d'art and land and buildings.

Part I of this Note tried to demonstrate that the tragic loss of authority by the American Government at a time of economic decline precludes an American-led solution. Organisations based upon associations between paper currencies seem unlikely to delude a sceptical public into believing that stability has been achieved. In any event, Exchange Markets are likely to be increasingly disturbed by events in the Middle East where Israel may decide on a pre-emptive strike against Syria: a major disturbance may occur in Saudi Arabia as problems of succession disrupt the country: and the weakness of the Gulf States tempts predators. All these possibilities will affect the supply of oil quite apart from the price of the available oil. The combination of Middle East convulsions, existing inflation, energy shortage, etc., may wreck the present use of paper currency for international purposes and inspire the creation of a currency that has an intrinsic value.

THE EXCHANGE PATTERN: FURTHER THOUGHTS
by Sir George Bolton, KCMG.

The last commentary on monetary affairs referred to trends rather than current anxieties, e.g. the long-term situation of the U.S. dollar and growing problems facing the Euro Bond Market. But the pace is quickening and recent events will foreshorten changes that might have been expected to develop over a longer period. Some of the most significant are the failure of the U.S.A. to impose its will on the mobocracy which misgovern Iran: the unexpected but partial success in producing an appearance of legality in Rhodesia: the British problems arising out of membership of the E.E.C.: and the international monetary problems exacerbated by rising costs of energy.

The American dilemma in Iran has perhaps the most immediate effect on the Western world's relations with Africa and Asia where American influence already under pressure is now in danger of collapsing. While President Carter's policy of "exhausting all peaceful methods" may appear to be civilised and well-balanced, in reality, however, it is based on a fallacy: a mob sustained by religious fervour and political hatred will not listen to reason. Civilised rational proposals will be regarded as examples of weakness and the longer they have possession of the hostages the more reluctant the mob will become to give them up, thereby losing their power base.

The greatest danger the hostages face is long-term imprisonment not sudden death. Any American long-delayed reaction such as blockade, bombing of oil installations or naval operations, will appear, as time passes, to be nothing but revenge and will have little positive effect on American influence. The consequential and growing instability in the whole of the Middle East seems likely to damage the Gulf oil States, none of whom have any possibility of defending themselves, and the Moslem-Jewish war hardly needs a pretext to be resumed. In such circumstances OPEC is losing control over oil prices as the availability of crude becomes more spasmodic, leaving prices subject only to rumours and supply and demand. Iran having lost any national cohesion could easily break up into quarrelling tribal areas, each one subject to external influences.

Rhodesian Independence

In this desolation of the collapse of Western ideas, philosophy and policies, the apparent success of the Conference on Rhodesian independence shines like a lighted candle in a dark place. The reality behind scene has been whether Russian-controlled socialist ideas should prevail in Africa or whether Western liberal ideas should predominate. The Russian drive organised through Julius Nyerere in Tanzania, Samores Machel in Mozambique and Augustus Neto (now deceased) in Angola seemed at one point near success, the only resistance coming from Kenneth Kaunda in Zambia and stubborn South African refusal to accept world pressure to impose "democracy" on the country. Although it will be a close run thing, the key to all communication and movement in Southern Africa – namely Rhodesia – is now in Western hands and Zambia will probably be re-victualled and financed by South Africa. The future of Mozambique now rapidly returning to the Bush and Angola still in Cuban control north of the Beneguelan railway, will probably be determined by the South African forces according to whatever tactical policy is decided upon by the Pretoria Government. One of the most noteworthy consequences of the waning Western influence in Africa is the rise of the reputation of and respect for South Africa and in the southern part of the Continent their decisions are likely to prevail as they are credited by the Africans as having the means and the will.

It should not be forgotten that S. Africa as a matter of long-term policy has developed her enormous coal resources as the main provider of energy for rail, by steam locomotion, and road and industry by oil manufactured by the liquefaction of coal. The British Government will be worried by the likelihood of friction between Pretoria and Washington but as it seems possible that Britain will be involved in Rhodesian affairs for a long time to come (they obviously cannot retire from Rhodesia if civil war continues to rage after the proposed *General Election*) H.M.G. may have to re-assess its general African policy. Among the problems that may arise is the consequences of many African countries defaulting on debts as the price of oil rises. However, South Africa seems destined to be the dominant power and it is not out of the question that they may decide to restore communications in Mozambique and through their position in Namibia to provide Savimbi in Angola with the

means of consolidating his control over the area south of the Benguelan railway. On the whole, the result of the Lancaster House Conference offers the southern half of Africa some possibility of the restoration of prosperity and employment provided that trade is supported by South African finance and industry. Nigeria may be a source of danger from its hostility to White influence and its support for Nkomo. But apart from nationalising Shell their capacity for harm is probably limited by the widespread corruption and incompetence.

Movement from Paper Money to Gold

The Euro Bond and Currency Market represented the mobilisation of the world's surplus cash and capital resources, operating through an international electronic system of telephones and telex and dependent upon implicit trust between the participants. President Carter's decision to impose a freeze on official Iranian dollar assets has had the effect of gravely disturbing confidence and of introducing legal problems between interested parties. It is obvious that there are growing difficulties between American banks and the banks of all other countries. In addition, waves of anxiety and speculation pass through foreign exchange markets as holders of dollars question the wisdom of holding a currency subject to unforeseen political hazards. The longer these conditions continue the more certain it becomes that international lending will be restricted as distrust spreads and loan syndicates disintegrate. This cannot help the dollar which has not yet begun to recover its equilibrium nor all those currencies which depend upon the dollar for international liquidity. **The expected substantial rise in oil prices will probably accelerate the movement out of paper money into gold and other favourite assets believed to protect the holder against the consequences of inflation. In these confused circumstances normal business will suffer and rising prices will have political and social consequences in all industrialised countries.**

Problem of the EEC

The general economic structure throws some light on the E.E.C. and the problems of the participants, especially England. Agricultural policy from the beginning concentrated on maximising farming production whatever the cost and excluding cheaper food imports from the outside world, a policy which further divided the U.K. from the British Commonwealth whose traditional exports to the U.K. are now subject to quotas or tariffs or both. The twenty year effort to produce a self-supporting Western Europe which has made it into a high cost area is now demonstrably failing as the policy depends upon mutually exclusive elements remaining in illusory harmony during abnormal periods certain to disappear. European industry depends on imports of energy and raw materials at costs that Europe can afford in terms of internal costs. OPEC, using its virtual oil monopoly, has blown this situation sky high. European food prices are nearly double compared with prices in North America and other areas of mass food production. European food and industrial production requires subsidies to enable them to continue, throwing great burdens on taxpayers, increasing Government debt and stoking the fires of inflation. **If, as is now being demonstrated, the attempt to isolate Western Europe from the outside world is failing, the U.K. has a potential alternative in the Commonwealth which could be partially restored, together with the Sterling System in the unique circumstances which now protect this country.**

MINIMUM LENDING RATE

A Review of Monetary And Economic Policies by W.L.B. Fairweather

During the economic depression of the late nineteen twenties and early nineteen thirties responsible governments everywhere bent all their efforts towards securing the reliability of their currencies and towards this end were insistent that their budgets should be balanced. It was to balance the budget that the National Government of 1931 was formed. This was considered necessary to the maintenance of the Gold Standard which guaranteed the gold value of the pound. In the event, the newly formed government found itself unable to hold this value and placed an embargo on the export of gold. The pound fell. What had been dreaded as a disaster of the first magnitude soon turned out to be a blessing. The pound had been made reliable by the balancing of the budget, while its stabilisation at a new and lower level in terms of the leading currencies of the world, by the setting up of an Exchange Equalisation Fund, endowed it with a competitive power which it had not enjoyed for many years. Thanks to this, trade both at home and abroad began to pick up and there was a comparable improvement in employment generally which until then had been one of the country's most intractable problems.

The easing of the pressure on the pound which the lower external value secured, converted it into a wanted currency internationally and made it possible for the Bank of England to pursue a policy of trade expansion, as foreign funds were attracted into the country. The credit base was expanded and interest rates were substantially reduced. As the result, during the following eight years until the outbreak of war in 1939, it was possible to reduce the total of unemployment from nearly three million to approximately one million; finance a considerable amount of factory development all over the country and begin a housing programme, which apart from the war years, has continued ever since.

The coming of war made it convenient to make no change in a monetary policy that was operating so smoothly. As much borrowing would be entailed, it would help to keep down costs. The waging of war involved other measures, including rationing, price controls and deficit financing which the Labour Government took over after the war and sought to make permanent features of the economy. This caused a great deal of friction, especially when coupled with aggressive attempts to keep down the rate of interest. The low rate of interest had come about originally through the natural forces of supply and demand. The attempt to make them permanent was condemned by the Government's opponents as an exercise in "monetising the national debt" for which there was no mandate. There was some truth in this criticism, sufficient to make it an important electoral issue. In the General Election of 1951 Mr. Attlee's Government was defeated.

Pursuit of Full Employment

R.A. Butler, the new Chancellor, ended the connection with 2% bank rate which had lasted since 1931 but did not otherwise place monetary policy on a firm basis. He, but especially the Government, pressed on with the pursuit of full employment, without the restraints which in war-time had kept the natural urge for wage and price rises under firm control. The rules of supply and demand which had hitherto operated to keep interest rates down were now operating in the opposite direction to keep wages and prices up. The result was that we began increasingly to run into balance of payments difficulties which required correction if they were not to get out of hand. We entered the "Stop-go" period of economic control.

Mr. Thorneycroft Mr. Butler's successor, made an attempt in a later year to apply a firm stop only to find that he must cease or go. He went, together with his junior assistants, one of whom was Mr. Enoch Powell. At a still later stage but within the same administration, two other Chancellors had a "go", first Mr. Selwyn Lloyd and then Mr. Maudling, who between them reduced taxation on higher incomes and on profits but did nothing to restrain public spending, which alone would have made it safe to do these things. The aim of the Government was to maintain full employment in the belief that this was the only safe way forward. "We are all Keynsians now" was the cry of Mr. Maudling as he defended his liberal spending and taxation policies. Because of the repercussions of these policies on prices and through them on wages and the balance of payments, harsh measures were forced on the Government under a new Prime Minister and it was defeated at a further General Election in 1964. Labour after thirteen years in opposition returned to power.

Serious Problem of Inflation

Unwilling to recognise at first that a serious problem of inflation was on its hands, the new Government gave most of its attention to taxation reform, extending the recently enacted tax on short-term capital gains to long-term capital gains and introducing an entirely new corporation tax to deal with matters which were already being competently dealt with under the old income tax laws. A crisis followed for which the Government was not held fully responsible. A second election in 1966 gave the Government a slightly increased majority which it began at last to put to good use. The budget was brought under much firmer control by the new Chancellor which made it easier to keep a strict check on the supply of money, hitherto at the root of most of the country's financial difficulties. Unfortunately the measures which Mr. Jenkins, the new Chancellor was taking (highish interest rates, although still well below the levels now accepted as tolerable and tough budgeting) were not popular in a community which had become accustomed to have most things the easy way. Whether important members of the Government shared this feeling, the election due in 1971 was held a year earlier and when it was held, the good that was being achieved had not yet become apparent for all the doubters to see. The Government lost the election which it had expected to win and the Conservatives returned to undo nearly all the things that Mr. Jenkins had achieved. The budget surplus which had been built up was quickly dispersed in popular tax reductions, within eighteen months an entirely new system of monetary management was introduced based on what "truly" constituted monetising the national deficit, while the improving balance of payments position which was now becoming evident was used to justify further tax concessions.

Control Over Wages Undermined

Rising prices and the fringe bank spree (most of the fringe banks had given banking status by the banking changes of 1971) finally undermined the control over wages which the Government had hoped to exercise and a new election became necessary early in 1974. The Government lost it and it was a very different situation which the new Government inherited compared with that which it had vacated some four years earlier. Prices were now shooting ahead. Its immediate task was however to avoid a first class banking collapse and bring the workers back to work. It achieved both but at a price. The workers were given outrageous wage increases which bore no relation either to profits or the cost of living and with no regard to the interests of those living on fixed incomes. And nothing was done to bring to an end the monetary system which together with lavish budgeting had caused the "spree".

This, the new Government will have to tackle if it is to survive. How will it do so? It has not made its task easier by greatly enlarging, through tax cuts, the likely level of its new borrowing requirements. Sales of public assets such as Corporation houses and Government owned shares will not solve the problem. They will merely help to cancel some of the excess money which the banks under a properly ordered banking system would not have been able to lend. What is needed is the cutting back of consumption demand on a considerable scale to release resources for home investment and for export. This will require time and a preparedness to face hardship but above all clear headedness if the system of private enterprise is to be left mainly to do the job. While borrowing requirements remain as high as they are at present there will be no shortage of money to finance them for the spendings which originate the requirements also provide the reserves for loan to the public to finance what the Government has to borrow. This will have to be greatly reduced. To do so under existing conditions will entail increasing the reserves which the banks must hold against the loans they grant, or raising interest rates still further in order to discourage borrowing. Both ways interest rates will rise and in both cases the end result will be trade recession.

To change this, the expenditure cuts contemplated by the Government will have to be very large to achieve any effect, as the rise in interest rates may also have to be very large to prevent money which has already been created, from being used. The simplest way out will be to restore the old arrangements for creating credit, by Government fiat, through the note issue, by open market action on the part of the Bank of England and by general agreement on the Government and on the Bank's part as to what part is in future to be given to the Government through taxation and to the Bank by way of interest rates, to control the economy for the twin purposes of assuring a stable currency and an expanding economy.

The Way of Chaos

The reason for the change in 1971 to the new method of controlling money was that it removed the element of Government judgement, which was suspect. This element can never be safely removed. The Government must at all times be responsible for the soundness of the currency in which the Nation transacts its business just as it must always hold itself responsible for the general state of trade. The only stipulation should be that it does so with the utmost concern for efficiency and also with the utmost impartiality. These are standards below which all Governments since the war have fallen, mainly because of their insistence that whichever party should win the minority of votes which settle the results of elections should have the right to introduce measures in total disregard of the wishes and opinions of the other parties. This is the way of chaos.

THE STATE OF SOCIETY AND THE BETTER USE OF MONEY
by Gordon Baxter

Prior's Law: *"Our principle is to ensure that the rights of the individual are respected and upheld at the place of work as in every other facet of our lives." Mr. James Prior, Employment Secretary in the House of Commons, 17 Dec/79.*

Economic woods or trees? With the plethora of economic expressions : Balancing Budgets, Reducing Taxation, Increasing Cuts in Public Spending, Export Drives, Tightening of Belts, The Scourge of Inflation and Bleak Economic Futures, etc., is it to be wondered at that chancellors of the exchequer, politicians, economists, industrialists and private entrepreneurs have lost awareness of what economics is all about, and that the man in the street senses intuitively (Vox populi vox dei) that there is something 'wrong in the state of Denmark'? Can he really believe that Mr. Prior means what he says?

Let us begin with the basic indubitable principle: an effective economy is simply this – if there are genuine wants and if there are men, machines, raw materials, power and know-how, then nothing should stop their supply. After a long period of barter, the introduction of money provided a medium to make this principle work more smoothly. This was its main purpose, but it did also help to withhold claims for a later date. At that time there was an intimate exchange of goods and services between individuals.

Later, with the industrial revolution and the introduction of banking on a large scale, money lost more and more of this function as a **medium** to the degree that intimate transactions between individuals were quickly reduced. Today, only a few people actually produce goods for exchange directly with other people: most productive workers are employees of large industries; other workers, the unemployed and pensioners are non-productive. Consequently, most of what is produced goes, as it were, into a Central Supply Pool. There the stock of goods belongs in reality to nobody for they have no real value until they reach the consumer. If goods, for any reason, remain unsold – not wanted or too dear – the manufacturer's capital has little or no value, production machines have to be scrapped and workmen laid off.

Consumer Satisfaction

This conception of value confirms the saying that 'the customer is always right'. He is, or should be the ultimate and prime recipient of all industrial effort; its products being concerned with his well-being. He is also the determining factor in the use of money. If he refuses to accept a currency it can

lose all value for it has no longer his **credo** or credit. The collapses of the Rentenmark and the Reichmark are outstanding examples of this. Man's ability to choose or refuse is the real and only criterion of the value of goods and whether money is acceptable. The moment of money rejection may well be near.

It is, therefore, from this area of consumer satisfaction and the general belief in society's capacity to produce that those in charge of the economy should begin to 'think again' and get rid of so much dead wood of thought-negating cliches. They must first wake up to the realisation that money is no longer entirely a **medium of exchange** but must fulfil efficiently its mainly modern function as a **means of distribution.** It must therefore obey the basic economic principle by facilitating the distribution of those products pouring into the Central Supply Pool with the aid of a few workers and ever-improving technology in such a manner that it is regular, smooth, fair and dignified. (Prior's Law). Industry can meet any demand for quality goods if people have the means to pay.

In western countries, as distinct from communist and third world states, people in general are well supplied with many durables, televisions, washing machines, household equipments of all sorts, linen and similar necessities, but of course there is the constant need for many replacements, clothes, footwear, and food, the use of public services, water and electricity, and there are still many pockets of real poverty.

However, the truly disturbing factor today both for 'rich' and 'poor' is not so much the lack of things but the irregular, uncertain, unfair and undignified manner of their acquisition. Amidst the confusion of ideas in circulation, there is one thing which is certain, one thing which cannot be avoided, which cannot be done without although men can and often must do without many things and that is the **use of money.** Almost every hour of the day one has to put one's hands in one's pocket and one is obliged to spend excessive time thinking about the use of money and even more so about its acquisition.

Worship of Mammon

Money concerns, indeed almost every facet of our lives (Prior's Law). But in spite of this almost **forced worship of Mammon,** the majority struggles to maintain decent moral standards, yet the uneconomic system keeps them excessively concerned with material matters and rational calculations in order to deal with the day-to-day welfare of themselves and their families. They worry about many things, the unsettled state of the world, about constantly increasing prices, the fluctuating burden of mortgages, rising household bills, unsatisfactory housing, school fees, taxes, industrial unrest, threats of unemployment or possible bankruptcy, insurances, pensions funds, latch-key children, skimping and saving for holidays or to give children better opportunities. In this way, living for many is an enormous struggle, for some a nightmare, full of fears and forebodings. To a greater or lesser degree, all these anxieties cause stress and tension. These are states of mind which, according to medical experts, are the chief causes of disease today. The consequent rise in alcohol consumption, the astronomical sales of tranquillisers and drugs, the report that one in ten will enter mental homes, and that at present three-quarters of a million are unable to find beds in hospitals, reflects beyond all doubt the degenerate state of mind and body of so many. Is it not surprising that there is a general apathy? Do we not hear on all sides such expressions as 'I couldn't care less,' 'Let's have a good time while we can'. 'We'll never get out of the woods.' and 'It's all a big swizz.'? While millions hope for a win on the pools.

Consequently, the first step of our leaders, if they are genuine and willing to acknowledge the truth, is to become fully aware of this degenerate situation and to realise how it is largely bound up with the mismanagement of the economy. Their first duty is to see that the life-blood of the economic system, the **medium of distribution**, operates efficiently to take up **current production** instead of their telling people to produce more and work harder as the equally unhappy and bewildered Germans are supposed to do.

It must be quite clear that the medium of distribution passing as money from one bank account to another via the Clearing Houses never sees the light of day, that is, never appears on shop counters, but has mainly to do with the settlement of accounts between industrial suppliers and manufacturers in the various states of production, to cover costings and also to pay for taxes on industry etc. On the other hand, claims on goods and services are made only by means of wages, salaries, dividends, unemployment pay, pensions etc. (less tax) are temporarily visible coins, paper money or cheques on shop counters.

If prices rise because of the above industrial payments and purchasing power is allowed to rise in consequence, then there is no increase of goods leaving the Central Supply Pool. This is INFLATION – more money but no better distribution. The basic principle of economics is not being satisfied.

Clearly, therefore, to get more goods to move out of the Central Supply Pool, one or other of the following steps must be taken :–

(a) Purchasing power must **rise** while prices remain stable; or

(b) Prices must **fall** while purchasing power remains stable, such that in either case distribution is increased without causing inflation.

What action should be taken to achieve this result could without doubt be left to the Treasury, the think-tank, statisticians helped with computers. Compared with sending men to the moon, this is an easy fourth-form problem.

As an example of a statistical solution – but by no means a complete one – the price index figures for 1979 show an increase of 17.2% whereas average earnings show an increase of only 14.4% indicating a shortage of purchasing power that is, either a decrease in prices of 3% or an increase in earnings of 3% is needed to establish a balance. However, these figures do not take into account the volume (total of all prices) passing through the Central Supply Pool but merely the average of prices. Full statistics are thus required to show what figure adjustments are needed to balance total prices and purchasing power over a given period, for when applied and maintained INFLATION would be conquered.

Three Examples

Here are three examples of how the means of distribution can be used to conform to the basic economic principle.

Using unemployment money to enable people to find work

The German State of Hesse pays employers £350 per annum if they agree to employ one person for part-time work for one year. Instead of encouraging the No-work syndrome, this system could be used here to reduce unemployment to a large degree.

Ensuring greater personal choice in the use of tax money.

The use of the Education Voucher System by which parents would have some control of income tax. This system would allow them to receive tax vouchers so that they could apply the money to make personal choices in respect of their children's education. A proposal now being considered by the government.

Home-buying.

There is still a great shortage of housing, yet there are plenty of unemployed builders, ample raw material and sufficient know-how. Inadequate housing is well-known to be the cause of much stress. The following proposal has already been submitted to the Department of the Environment for consideration. "The government to instruct the Treasury to open a special HOUSE CONSTRUCTION CREDIT ACCOUNT with the Bank of England with a credit of, say, £1,000m. Initially, of course, this credit would be merely a costless book-keeping entry and remain so until taken up. Against this credit, Building Societies making loans to private purchasers (young married couples etc.) would be able to take up for each house, say, £10,000 free of interest charges and allocate this amount to their clients; the balance of the purchasing price to be met in the usual way by Building Society loans. Repayment of the House Construction Account credit (say, over 20 years) would take priority over the repayment of the Building Society's loan and interest, but all repayments could no doubt be arranged on a 50/50 basis in monthly paments by house purchasers.

This House Construction Credit would stimulate the building of about 100,000 houses so badly needed and would cut down the total interest charges to be paid by home buyers by about half as well as eliminate the need for an initial deposit. The true collateral for credit would be the houses built, for, once constructed, one could not ask for a better one and credits would be released as a matter of course at the same time as the houses were constructed.

Interest-free Credits

The concept of interest-free credits is not new. They are frequently given by the government to foreign and Commonwealth countries, many of whom find later that they cannot repay. A Housing Construction Credit as proposed here could not have a better guarantee of repayment or a better collateral. Moreover, it would, at least for once, be a boon to British citizens."

These are but three suggestions for the better use of money, not for the sake of the economy but primarily for the benefit of individuals. Just as the body is made up of atoms, molecules, cells and organs, each with an individual purpose but working in harmony with the consciousness of man, so the economy is made up of parts which must combine for the good of the individual. Those who are in charge of the economy in their anxiety to get 'it right' must not sacrifice the freedom and uniqueness of each individual. Otherwise they will fall into the error of the Communists who force people to surrender their individual self-interest to the state.

Of course, money and material wealth by themselves will not stop the present degeneration of society entirely, but the provision of more favourable economic conditions, obviously **intended for man** will at least offer him **some** peace of mind so that he can make choices entirely on his own responsibility and draw more fully on spiritual resources. (Prior's Law).

The present situation is not irreversible for just as people who have suffered long privation soon recover with adequate nourishment, so society will flourish and bloom once it gets rid of all the present largely unnecessary stresses and tensions and is able to see a glimmer of hope. This will be assisted if the rights of the individual are respected by which each person is able, without the impediments of obsolescent monetary practices, to select his share from the ownerless abundance flowing so easily into the Central Supply Pool.