BRITAIN & OVERSEAS

A DIGEST OF NEWS AND VIEWS ON BRITAIN'S ECONOMY
AND OUR ROLE IN OVERSEAS TRADE AND PAYMENTS

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ECONOMIC LESSONS OF THE 1930's

In the current debate on Britain's road to hyper-inflation there are some lessons to be learned from the 1930's. Fifty years ago the problem was deflation, not inflation. Following the return to the gold standard in 1925, the amount of money in circulation was reduced. By 1930 there were nearly 3 million employed, there was a steady appreciation in the value of money, prices fell, often below the costs of production bringing bankruptcy and ruin to many producers of wealth. We were told to 'tighten our belts', many had to accept a ten per cent cut in incomes and thus faced a reduction in living standards.

At the same time the country was full of unsaleable goods, foodstuffs rotted in the ground, milk was poured down drains while children were undernourished. Typical headlines in the press of those days were "Enough wheat to last for two years" – "Coffee burned by the ton" – "More tea than we can drink". The Sunday Express commented "The world is full to the overflowing with the greatest surplus of goods in history".

Search for a remedy

In the search for the remedy for this dilemma, rightly described as 'poverty in the midst of plenty', the economists and financial experts of those days (with some notable exceptions) searched in vain for the answer to the problem. As Montagu Norman, Governor of the Bank of England put it when speaking at the Bankers' and Merchants' Dinner at the Mansion House in 1932 – "the difficulties are so vast, the forces so unlimited, so novel, precedents are so lacking that I approach this whole subject not only in ignorance, but in humility. It is too great for me". A year later at the same dinner he made it clear that he was still unable to see where we were going but in reply to the growing criticism of monetary policy he made the famous remark – "the dogs bark but the caravan marches on". One commentator wrote – "in Western countries the dog is the friend of man, and those who ignore its warning bark may later have cause to regret it!"

The experts looked everywhere except in the realm of the deflationary monetary policy where the true reason was to be found. When the experts pressed for a return to the gold standard prior to 1925, Winston Churchill, then Chancellor of the Exchequer, expressed doubts as to the wisdom of this step. Maynard Keynes and Reginald McKenna advocated managed money as an alternative, but the combined influence of Montagu Norman, Otto Niemeyer and others proved too strong. Britain returned to gold at the pre-war parity on April 28, 1925.

Stability an illusion

The "High degree of stability" which the supporters of the gold standard had envisaged proved completely illusory. The deflation which followed proved disastrous, leading to the General Strike of 1926. **The spectre of poverty in the midst of plenty had the effect of poisoning industrial relations which still remains with us even today.**

Winston Churchill, who as Chancellor had allowed the experts to persuade him that a return to gold would bring stability, spoke in the Budget debate in the House of Commons on April 21, 1932, of the arguments and forces which had led to the return to gold. He said in the course of his speech – "Are we really going to accept the position that the whole future development of science, our organization, our increasing cooperation and the fruitful era of peace and good-will among men and nations; are all these developments to be arbitrarily barred by the price of gold? Is the progress of the human race in this age of almost terrifying expansion to be arbitrarily barred and regulated by fortuitous discoveries of gold mines here and there or by the extent to which we can persuade the existing cornerers of gold to put their hoards again into the common stock? Are we to be told that human civilization and society would have been impossible if gold had not happened to be an element in the composition of the globe?"

An outright condemnation

The entire speech, which well repays reading nearly half a century later, was an outright condemnation of the deflationary effects of the gold standard and is a very adequate answer to those who, at the present time, claim that monetary policy was not at the root of the depression of the 20's and 30's. Those who, at the time, advocated that more money should be put into circulation to enable people to buy what was already available were summarily dismissed as 'monetary cranks'.

The outward and visible sign of the deflation which started in 1925 was the appreciation in the purchasing power of the £ sterling, clearly shown in the table below. This was accompanied by wholesale destruction and restriction in the production of food and goods.

Pre-war policy reversed

It may be asked, what is the relevance of all this to the present situation? The answer is to be found in the fact that since 1945 successive governments have reversed pre-war deflationary policies by introducing inflationary policies, pumping more money into circulation without regard to the fact that the volume of goods and services produced and available to be consumed did not grow at a comparable rate. Pre-war experience had led to the belief that the solution to our problems was to increase purchasing power, ignoring the fundamental fact that an increase in the supply of money unrelated to the production of real wealth i.e. goods and services, simply results in inflation.

The absurdity of the present situation is that while the main aim of the trade union movement is to enhance the living standards of its members, its actions often result in the lowering of living standards of the entire community, including their own members. The result of a strike to get more money is inevitably a diminution in the amount of real wealth available. **An urgent priority is to set about the task of making it clear that it is the reverse of common sense to demand more money and at the same time resist by every means the increased production of real wealth.**

As in a deflationary monetary policy the value of the monetary unit appreciates, so, with an inflationary monetary policy the value of the monetary unit depreciates. This is demonstrated also in the table below.

Importance of Money Supply

To refuse to admit the importance of the supply of money in the inflationary situation of today is equally as foolish as the refusal to recognise that the pre-war depression was a direct result of deflation and was therefore a monetary phenomenon. Since 1945 there has been a steady erosion in the purchasing power of the £ sterling, the outward and visible sign of inflation. The rate of inflation has worsened considerably since 1970. The value of the £ in 1980 had dropped from 100 pence in 1970 to 29:4 pence in February of this year.

There are those who argue that, if we are to restore a much needed discipline over the issue of money and credit, we should use gold once again as a base of money supply. But the question is – need we have recourse to such an arbitrary discipline which has already proved itself as being unrelated to the needs of the economy? **Instead of going back to a gold standard, we should be moving forward to a commodity standard, with money and credit based on the goods and services which alone give money its value.**

A Commodity Standard

Reality and stability demand that money should not be based on one commodity – gold – but to a wide range of commodities. Over the years many economists have proposed the adoption of a commodity standard. In a book published in 1935, Professor Irving Fisher wrote of the establishment of a "commodity dollar", tied to no specific commodity like gold or silver, but one that measured the composite of domestic commodity price movements and therefore of business activity and liquidity requirements." To operate this he proposed the establishment of a Currency Commission which "should have no other function than the regulation of the value of the dollar."

More recently, Mr. Peter Jay, in an important article published in The Times in April 1976, advocated "the creation by law of a Currency Commission". He wrote – "Let it provide for the appointment by the Crown

of, say, seven Commissioners for periods of 10 years, terminable only on death, resignation or impeachment by Parliament itself. Let men and women of character, independence and reputation be duly appointed." This Commission, proposed by Mr. Jay, should be required by statute to regulate the growth of the money supply so that in no 12-month period does it depart by more than two percentage points from the long-term growth in the productive potential of the economy as estimated from time to time. In a leading article which followed the publication of this article, The Times wrote – "were such a policy to be introduced and followed, serious inflation would literally be impossible. . . . As a Nation, stable money would make us richer than inflation can ever do. . ."

The aim of monetary policy should be to maintain the liquidity of the monetary system at such a volume that the general price level is held constant. The table below shows how we have failed to achieve this over the past half century. The appointment of a monetary authority, free from party political and other pressures, to regulate the growth of money supply to ensure the continued stability of the monetary unit would seem to be a step in the right direction. If the authority regulated the flow of new money in accordance with the volume of real wealth, the sign of their success would be the maintenance of the stability of the internal price level. The price index would be the most important guide, indicating the need for alteration in the money supply.

If such a monetary authority or Currency Commission had been in existence of the past 50 years, it would have played a significant part in preventing pre-war deflation and post-war inflation and stop-go policies by ensuring that the money supply was closely related to the output of goods and services.

Inflation is a disease: it creates a condition of mind which causes otherwise rational people to behave irrationally. This will continue until the basic facts about money and inflation are made clear and the myth destroyed that money is itself wealth.

Deflation and Inflation in Britain 1914–70

	s	d		s	d	
1914	20	0	1950	6	3	1914–20 Wartime inflation
1920	8	0	1955	5	0	1925–35
1925	11	5	1960	4	6	Deflation (gold standard)
1930	12	8	1965	3	11	
1935	14	0	1970	2	6	1935–40 Reflation
1940	10	3				1940–45 Wartime inflation
1945	7	10				1950–70 Postwar inflation

FROM RHODESIA TO ZIMBABWE
by John Biggs-Davison, M.P.

The imperturbable British "bobbies" and the coolly courageous soldiers of the Commonwealth Monitoring Force were a credit to their Service. They would however be the first to acknowledge that they could have done nothing without the Rhodesian Civil Service and the British South Africa Police of whose exertions the media of the world had little to say.

Among those who emerge with dignity from the sorry years of Anglo-Rhodesian estrangement, international blockade and guerrilla war are the murdered and martyred missionaries, black and white, the soldiers of all races who fought and bled, the farmers and their loyal workers who defended the soil they had enriched with their sweat in the land they had made.

They believed in a country and a cause in the face of the sneers of those who believe nothing and the venom of moralistic arm-chair revolutionaries with their masochistic admiration of black power bully boys.

Theirs was the cause of the Christian West, as it had been the cause of the Rhodesians who fought for King and Empire in the Battle of Britain or took their measure of Communism in Malaya. For them cease-fire or last post has sounded. Their honour shines.

Spare also a kind thought for the Muzorewa men, and Sithole's, and the Chiefs who, with statemanship and forgiveness, clasped the hand of the Rhodesian Front, and were let down by Britain.

Referendum of 1923

In vain did Rhodesians put their trust in English gentlemen and British Governments. Are there those who now regret that in the referendum of 1923 Southern Rhodesians preferred responsible self-government to the incorporation in the Union of South Africa urged by Churchill as well as Smuts? There were certainly those who would have preferred Dominion Status to the Central African Federation which Britain designed and Britain abandoned.

Independence was conferred on the Federation's two Northern Territories but not on Southern Rhodesia which, prior to Federation, was practically no less sovereign than was, say, New Zealand prior to the Statute of Westminster. Southern Rhodesia had never known Whitehall rule, never received an Imperial garrison. She appointed High Commissioners, provided her own armed forces, attended Commonwealth Conferences.

Southern Rhodesians were led to believe that the Sandys Constitution of 1961 would be the final formula to come out of Lancaster House. Sir Edgar Whitehead thus obtained white endorsement in the referendum. The leaders of African nationalism, Mr. Nkomo and the Reverend Sithole, accepted the constitution too. It could have led, progressively and peacefully, to African majority rule. But the Reverend Sithole and Mr. Nkomo reneged.

The UDI of 1965 may have been a blunder. Such however was Rhodesia exasperation with British Ministers that it is understandable.

A Virtual Veto

In 1976 Dr. Kissinger agreed with Ian Smith that sanctions would be lifted once a white-black Interim Government was installed in Salisbury. Then, despite Dr. David Owen's protestations to the contrary, a virtual veto on any settlement was conceded to the Patriotic Front. An Internal Settlement was reached in 1979.

Elections, open to all, were held. Respected Conservative statesmen, including Lord Home and Lord Boyd, found them to be fair. In Britain the hoped-for change of government came about. Sanctions were not lifted. At the inevitable Lancaster House, the Prime Minister, Bishop Abel Muzorewa, stripped himself of authority in the hope that one more election would gain the Zimbabwean moderates the international recognition they had already earned.

The rest we know. We must now look forward.

What hope is there now for peaceful progress? What manner of man is Robert Mugabe? Jesuit-Educated, he is a socialist, even a Marxist. He is not, it seems, a Moscow Marxist. His Patriotic Front rival, Joshua Nkomo, was backed by the Russians. He was made an honorary general in the Soviet Army. True, he was taken up by Lonrho; but Lenin noticed capitalists' weakness for making ropes for their own hanging. Mugabe's Communist aid and arms came from China and Romania.

He has his head screwed on. In Mozambique he could see ruination by revolution. Mugabe depends on white agriculture, finance and skill. His political and physical safety he owes to the white-commanded Security Forces. He acknowledges the reality of South African power.

Zimbabwe then is a land of hopes and fears. The war is over but not the killing. The suburbs of Salisbury are no longer safe. Many guerrilla fighters have been neither disarmed nor found military or civil employment. To many among the black masses revolution, liberation, independence spell land, jobs and cash for the boys. Blacks must reap where whites have sown.

A Tightrope

Mugabe has a tightrope to walk between extremist expectations and the need to reassure settlers who feed and investors who finance his people.

General Walls, while he is there, gives confidence. Likewise the advice and assistance from the British Army, with whom Peter Walls fought with distinction.

The question mark over Zimbabwe extends to all Southern Africa — the "Saudi Arabia of minerals" and guardian of the Cape route.

We could be conquered (or driven to nuclear holocaust) without a single shot being fired in Europe. Soviet sea power, Admiral Gorshkov's declared instrument for the "Communization of the world", threatens our indispensable imports. Soviet imperialism commands the entrance to the Red Sea. Soviet-occupied Afghanistan is 300 from the Straits of Hormuz.

British and other European navies are present in the oceans of danger, alongside American fleets. Regional maritime arrangements could add South American, Asian, Japanese and Australasian contingents. Using NATO's world-wide communications network, and supported by US and European intervention forces, a counter-poise to the Red Bear can and must be built.

South Africa too has a vital part to play. Pretoria underpins Maputo and discreetly aids many an African State besides Mozambique. The minerals, the strategic situation, the military power and economic influence of South Africa are of sub-continental and world importance.

Britain and her allies should therefore oppose UN attempts to instal a SWAPO dictatorship in South-West Africa/Namibia and to suppress into the bargain the UNITA resistance led by Jonas Savimbi to Soviet-Cuban imperialism in Angola.

Britain needs to fortify her links with South Africa and, if required, supply her with defence equipment.

We should revive the spirit of Simonstown.

SHOULD BRITAIN JOIN THE EMS?
by Professor Patrick Minford
(University of Liverpool)

The government has, with its latest Budget, finally committed itself to a programme of declining money supply growth and consistent, parallel, declines in public sector borrowing relative to national income. If this programme is carried out then the firm prospect is that by the end of this Parliament in 1984 inflation will be effectively eliminated. One has to say 'if' because all the way to 1984 there will be pressures from a wide variety of lobbies and opinion groups to loosen the commitment, to spend more without corresponding taxation and to lower interest rates by 'printing' more money.

These pressures can take more subtle forms than merely pressing for more spending or money growth. One widely encountered form is the demand for an incomes policy to 'control inflation' so that the government can be 'freed' to 'reflate' the economy. I need hardly comment on what both theory and evidence says about the futility of incomes policies to make a lasting contribution to the reduction of inflation.

Unemployment

Another form is the view that something must be 'done' about unemployment and our declining industries, with the inference that these industries must be subsidised and that money must be pumped into areas of high unemployment to subsidise jobs. This would quickly raise public sector borrowing and money supply growth, since the same lobby would deplore any attempt to finance such 'pump-priming' expenditures by savings elsewhere. This view neglects the evidence that rising unemployment is very largely related to supply factors (or to put it another way that demand policies are powerless to reduce it); a variety of measures of the 'natural' rate of unemployment now put it close to 6%. Theory suggests that the only way to get unemployment down is to induce people to take lower-paid jobs and that the one major obstruction to this is that the level of social security benefits make it not worth while to take such jobs; and there is increasing evidence of this role of social security benefits. As for our declining industries, it should not be necessary to point out that their decline is related to world wide shifts in patterns of production and demand and that it is folly not to adjust to the inexorable forces of comparative international advantage.

Most subtle form of pressure

But this brings me to the most subtle form of all that this pressure can take, which says that we should join the EMS in order to show that we are 'communautaire'. This is, so the propaganda runs, a minor 'monetary concession' we could make to President Giscard d'Estaing. This is a clever cloaking of economic proposals with political motives, appealing to that most British of instincts, to despise mere economic considerations (particularly 'technical' monetary ones) when grand political issues are at stake.

It is instructive to consider the experience of Germany with the EMS. A year or so ago Mr Schmidt was eager to rejuvenate the EMS in order to please Mr Giscard d'Estaing. His eagerness ran counter to the advice of the Bundesbank but this was ignored. The result can be seen in the money supply and inflation figures. In 1977, German money supply (M2) grew by 8½%, the culmination of a long period of monetary restraint from 1974; inflation in 1978 accordingly was well down at 2.7%. In 1978, money supply grew by 11.7% and in 1979 by 10.8% as the Bundesbank was forced to intervene to hold the Deutschemark down with the EMS 'snake', ie. to sell Deutschemarks for French francs etc. so increasing the supply of Dms. in circulation. Now inflation in Germany is beginning to rise again (5.4% at end – 1979) even though the Bundesbank has been attempting to reverse monetary engines (and to down grade the EMS obligation) since the middle of 1979. One year of monetary idiocy put at risk the fruits of 5 years of restraint.

Loss of control of money supply

So it would be here at this juncture. The £ is strong and likely to remain strong with the government's present policies. This external strength is a major channel through which monetary restraint manifests itself and holds down domestic inflation. Longer term, the policies being followed will put the £ up further against most continental currencies, and even against the Dm. there may be some upward pressure, depending on how German monetary policies develop. The result of joining the EMS would be that the Bank of England would be forced to intervene to hold the £ down, ie. would sell £s for French francs, Italian Lire, Dms. etc. and so increase the money supply. It would lose the control of the money supply that is so vital to getting our inflation rate down.

The subtlety of this ploy is enormous. Once control of the money supply was lost in this way, the Government's policies would start to lose their credibility and counter-proposals could be more easily floated to a Parliament full of politicians who feel they must sport a fig-leaf of economics because it is central to our problems but who in only very few cases have any proper education in economic matters.

Let me end by emphasising that the goal of Monetary Union in Europe is one that I support fully. There are useful economies to be made by having one European money in place of several. But such a union presupposes a unity of monetary policies, or to be precise a willingness of governments to vest its monetary authority in one central authority. That willingness does not exist; nor it is likely to be created by the EMS, since as we have seen the EMS operates powerfully at present against the interests of countries pursuing tighter monetary policies. The right route is to work first for convergence of monetary policies towards money supply growth rates consistent with stable prices, and then to consolidate this stability by uniting currencies. That day is not so far off as it may seem, but it is certainly not here yet.

ITALIAN DOUBTS ON EMS

Doubts about Italy's prospects in the European Monetary System were voiced by Signor Guido Carli in his last speech as present of Confindustria, the confederation of private industry, before handing over to Signor Vittorio Merloni, his successor.

Signor Carli, for many years governor of the Bank of Italy, said the Italian economy was increasingly dependent on the international market, yet its room for manoeuvre had been narrowed by membership of the EMS. "Doubts are beginning to arise about the wisdom of accepting the links imposed by EMS membership", he stated.

Extract from The Times Business News. May 7 1980.

THE COMMON MARKET : AN ISSUE ONCE MORE
by Sir Robin Williams Bt.

Once again the Common Market has become an issue in British politics. This has come as a surprise to those who have asserted on two separate occasions in recent years that our future as members of the E.E.C. had been finally settled. The first occasion was when the European Communities Bill 1972 was agreed by Parliament and the second was after the Referendum of 1975. The view that the issue had been decided was widely accepted on both occasions. Yet here we are in 1980 with the Common Market again an issue of debate. Why is this?

Surely the answer must be that the arrangements Mr. Heath agreed in the *Treaty of Accession* are bad for Britain and this fact has become increasingly apparent now that the transitional period to full membership is over.

Mr. Heath accepted Monsieur Pompidou's requirement that Britain adopt the fundamental principle of Community Preference. This meant that Britain would apply the E.E.C.'s variable import levies (import duties) on foodstuffs from suppliers outside the EEC to give E.E.C. farmers preference in the British market. So, for example, dairy products from Australia are kept out of Britain by levies and instead we import from the E.E.C. at prices which are a good deal higher than those Australia and others would charge if their produce were allowed in. The adoption of the principle of Community preference has meant that Britain has switched from low-cost suppliers of foodstuffs to higher-cost suppliers. This has raised retail prices in Britain: these in turn influence wage bargaining and adversely affect our industrial costs. This cost is additional to the burden of our net contribution to the E.E.C. budget as Sir Geoffrey Howe, M.P recognised in his Budget Speech to the House of Commons on 26th March when he said "We also transfer substantial resources to our E.E.C. partners outside the budget through the artificially high prices imposed by the Community's agricultural policy".

EEC Budget

Mrs. Thatcher has focused attention on our high net payment to the E.E.C. budget. Funds for the budget are found in three ways. Firstly, the levies on food imports go straight into the central fund. Secondly, the customs duties on industrial goods also go to the E.E.C. Both are regarded as the E.E.C.'s own resources and no longer as belonging to the member states on whose imports they are charged. Thirdly, member countries contribute an amount equivalent to up to 1% V.A.T. on total consumer expenditure. This is not 1% of the V.A.T. actually collected: it is a good deal more than that because it applies to all consumer expenditure irrespective of whether it is V.A.T. rated or not.

All three ways work to Britain's disadvantage. Britain is a large food importer so a large part of the food levies are collected on imports into Britain, for example, on hard wheat from North America. Britain is a substantial importer of industrial products and so a large share of the E.E.C. revenue from customs duties are collected here. And as consumer expenditure constitutes a big share of our gross national product, the levying for E.E.C. taxation of a notional V.A.T. on total consumers' expenditure bears heavily on us. In all three ways we pay a larger than average share.

Yet we receive comparatively little back from the E.E.C. budget because over 70% of it is spent on agricultural support of various kinds and Britain has proportionately the fewest farmers of any member country. Hence our contribution to the E.E.C. budget is some £1,100 millions more than our receipts from it.

Arguments brushed aside

These disadvantages were pointed out by anti-Marketeers before we joined but our arguments were brushed aside with the assertion that the dynamic benefits of membership would be much more important. For example, Mr. Heath's White Paper in 1971 speaking of the effect which joining would have on the balance of trade said "the Government is confident that the balance will be positive and substantial". This sanguine hope has not been fulfilled. Indeed just the opposite has happened for a surplus in trade with the Six in manufactures in 1970 has deteriorated to a deficit in 1979 of over £4,000 millions.

Other things can also be mentioned such as the loss to Britain of a fishing zone of her own, whereas countries outside the E.E.C. such as Iceland and Norway now have 200-mile fishing zones round their coasts.

Membership a disadvantage

So the high hopes of the pro-Marketeers have not been realised. Market membership is working to our disadvantage. Indeed the cost will get worse. Our net contribution to the budget will continue to rise, for example, as Sir Geoffrey Howe pointed out in the same speech, to more than £2,000 millions at to-day's prices by 1983–84 unless changes are made.

Surely, therefore, we should now say to the other E.E.C. countries that the system they have devised to suit their circumstances does not suit ours. Accordingly we should withdraw from it and thus avoid the constant friction with France and the others that our membership has been found to entail. We should express our willingness to agree a wide-ranging association agreement involving trade in industrial goods and other matters of genuinely mutual advantage. In fact this would improve our friendship with the E.E.C. countries and so strengthen the Western World. It would also free us to devise food and other policies suitable to our needs to the great advantage of our own people and to many of our friends around the world.

WITHDRAWAL FROM EEC MEMBERSHIP

When the possibility of our accession to the EEC was being debated, those who opposed it and many who were sceptical about it were fearful that it might later be said that, once members, we could not legally withdraw. To quiet their misgivings, it was said, loudly and clearly, by those negotiating the accession, that of course we would be able to leave the EEC: in that respect sovereignty would remain with us. The Government of the day, in providing that reassurance, cannot have thought that this option would involve any breach of law; and those with whom they negotiated (as I thought then and think now, foolishly and very unsuccessfully) cannot have thought so.

Of course, we are able to leave the EEC without any breach of the law. Our membership is now shown to be economically unwise, because our interests cannot be reconciled with those of our partners, and politically foolish, because it creates quarrelsome argument with some of our friends, diverting their energies and ours from the real problems which face us; and the constitutional arrangements involved in our membership were always, in my view, unacceptable. To withdraw is more sensible, and much better for our real friendship with France and our other partners than to continue arguing about the absurd and shameful shambles of the CAP or about our inequitable contribution to the EEC budget.

Extract from a letter by Leolin Price, Q.C. published in "The Times" on 3.4.80.

BENEFITS OF WITHDRAWAL

Mr. Douglas Jay, M.P. has enumerated the benefits he sees as a result of withdrawal from membership of the EEC as follows–

- A burden that can conservatively be estimated at £3½ billions will be removed from our balance of payments.
- Our food prices will fall because Australia, New Zealand, Canada and the United States are all waiting to sell us food at about half the EEC price – and we could, outside, buy the subsidised EEC food if we wished even more cheaply as the Russians do.
- We will obtain a 200-mile exclusive fishing zone automatically upon withdrawal.
- Withdrawal would enable us to place some reasonable restraint on imports of cars, steel and other manufactured goods from the continent and thus save British industry. We cannot do that as members. Outside we could either, if we wished, rejoin the EFTA industrial free trade area, or, for a time reimpose our ordinary GATT tariffs on all manufactured imports. The essential point is that withdrawal would give us the choice to do whatever is in the interests of the people of this country.

BUTTER FROM NEW ZEALAND

New Zealand is now the only outside supplier sending butter into Europe. The traditional 180,000 tonnes sent annually to the U.K. has been whittled down to 120,000 tonnes this year, 115,000 tonnes in 1980 – and with no guaranteed access after that.

At present the British housewife is paying between 36p and 40p for a packet of butter. New Zealanders say that they could put their Anchor brand into the shops for 25p without reducing the return to their farmers – if it wasn't for the EEC import tax. On the other hand Community butters, far from paying tax actually get a subsidy – which the consumer pays for in the end – without the prices would rise by 7p a packet.

FOOTNOTE.
According to the Gallup Poll published in the Sunday Telegraph on April 20, in reply to the question – "If you could vote on whether we stayed in the Common Market or left it, how would you vote?" the majority (57 per cent) of the general public think Britain's membership of the Community is a bad thing for the country, while 22 per cent think it is good for Britain.
51 per cent would be relieved to be told that the Common Market had been scrapped and 14 per cent would be very sorry, with the remainder indifferent or undecided.

ERA OF EAST AND SOUTHEAST ASIA

The next 20 years "are likely to be the era of East and Southeast Asia" as a result of China's new economic and foreign policies, said Hong Kong's Governor, Sir Murray MacLehose, when he addressed the Intertanko shipping organisation general meeting in Manila. He said China's new relationship with the United States, Japan and Europe, and also with the countries of Southeast Asia, lifted "a cloud of uncertainty which had hung over East Asia for so long."

Sir Murray said: "Moreover, the statemanship of its government's new economic and commercial policies have aroused interest among all trading nations, and their implementation will steadily increase economic activity." He said that for these and other reasons, including the potential of continued faster growth, industrial investment and the expansion of the tertiary sector in the area would continue.

On Hong Kong's economy, Sir Murray said the rapid growth achieved since the early 1950's was based on the determination of its people to survive against all odds, assisted by Government policies which were suited to Hong Kong's circumstances. The Governor pointed out that shipowners with Hong Kong connections owned or controlled as much tonnage as the United Kingdom, about 45 million tons dead weight. Sir Murray was guest of the Philippines Government during his three day stay in Manila.

THE CASE FOR MONETARISM

Professor Milton Friedman and his wife Rose have produced an outstanding book entitled "Free to Choose" in which they give a popular account of the dangers of government intervention and the economic gains to be made from releasing Market Forces.

William Simon, a former U.S. Treasury Secretary described the book as "A lucid exposition of the inextricable connection between economic, personal and political freedom. When the Friedmans write of the ills of inflation and recession, they are not writing of narrow economic matters, but fundamental issues of equity and social stability. History shows that whenever the state dominates the economic affairs of its citizens, a free society is eroded, then destroyed, and a minority government ensues. Nowhere have I seen the crucial link between the free enterprise system and free society more brilliantly illustrated than in the Friedmans' extraordinary book."

A Nation's Real Wealth

Writing on the subject of money, the authors say – "Though the value of money rests on a fiction, money serves an extraordinarily useful function. Yet it is also a veil. The "real" forces that determine the wealth of a nation are the capacities of its citizens, their industry and ingenuity, the resources at their command, their mode of economic and political organization, and the like. As John Stuart Mill wrote more than a century ago: 'There cannot, in short, be intrinsically a more insignificant thing, in the economy of a society, than money; except in the character of a contrivance for sparing time and labour. It is a machine for doing quickly and commodiously, what would be done, though less quickly and commodiously, without it; and like many other kinds of machinery, it only exerts a distinct and independent influence of its own when it gets out of order'.

"Perfectly true, as a description of the role of money, provided we recognise that society possesses hardly any other contrivance that can do more damage when it gets out of order."

A Sound Money System

Referring to the need for a sound money system the authors comment – "It is neither feasible nor desirable to restore a gold or silver-coin standard, but we do need a commitment to sound money. The best arrangement currently would be to require the monetary authorities to keep the percentage rate of growth of the monetary base within a fixed range".

Milton Friedman is Professor of Economics at the University of Chicago and winner of the Nobel Prize for Economics in 1976. His wife Rose is also a distinguished economist. The book is written in colloquial style and draws its examples from the real world rather than the rarefied air of the economic theorists. Milton Friedman now refers to his earlier work on the market economy, "Capitalism and Freedom", as the Old Testament. The current book "Free to Choose" is his New Testament.

"Free to Choose" may be obtained from the Economic Research Council, 55 Park Lane, London W.1. Price £7.95 hard back – £4.95 paper back plus 75p postage and packing.

CAN UNEMPLOYMENT BE ABOLISHED?

The monthly unemployment figures continue to show their customary dismal revelation of under-utilised resources. Many people are asking – how much longer do we have to accept this as inevitable? A new publication entitled "Abolishing Unemployment" has been published by the Economic Research Council. The author, Ralph Musgrave, who has given many years of study to this problem, puts forward a prescription for dealing with this urgent question. The ideas in this work are certainly novel, but not, the author claims; at the expense of realism. His arguments are backed by over sixty references to recent labour market research.

Mr. Musgrave claims that there are no insuperable economic problems in running a developed mixed economy with a low unemployment level – less than one per cent of the work force. By making Government employer in the last resort and reducing the right of the unemployed to receive benefit while refusing jobs of which they are capable, it would be possible to provide nearly all the unemployed with some sort of job. He suggests the idea that unemployment facilitated job search is not valid.

The author says "last resort employment combined with the condition that people take any job of which they are capable would get rid of the temptation to be voluntarily unemployed and this in turn makes paying socially acceptable wages to the entire workforce much easier."

Abolishing Unemployment, by Ralph Musgrave, published by the Economic Research Council – Research Study No. 7
55 Park Lane, W1Y 3DH. Price £1.50 post free.

WHAT HAPPENED AT THE ECONOMISTS' BOOKSHOP
by Gerald Bartlett

Gerald Bartlett who had 24 years service with the bookshop and was General Manager from 1968–79 has been forced to leave the company together with other members of the staff as a result of a dispute over union recognition. His booklet gives the story in some detail and shows the "unacceptable face of trade unionism" when its members descend to abusive picketing and hooliganism as a means of obtaining their way. It demonstrates how trades unions can abuse the powers conferred on them.

Obtainable from The Alternative Bookshop, 40 Floral Street, Covent Gardens, London, W.C.2. Price £1.60.