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PLANS FOR THE WELFARE OF THE WORLD

It is fair to say that the Brandt Commission on North-South relations does not completely face the problem that massive transfers of resources to the South would inevitably mean massive financing of deficits in those areas.

There is no doubt that this is one of the major factors inhibiting the solution of the problems of the have-not nations. **It is being increasingly recognised that some way of dealing with the imbalances arising from the disparity in wealth and natural resources between the developing and developed world is an urgent necessity.**

This problem was recognised as urgent in the 1940's, when post-war plans for international trade were under consideration. In 1942, Lord Keynes put forward a scheme which made the point that equal pressure should be brought to bear, not only on the debtor nation to pay its debts, but also on the creditor to accept payment.

A Clearing Union

Keynes envisaged the setting up of a clearing union where payments between nations could be swopped and the means established to iron out the debtor-creditor relationships. This plan was turned down at Bretton Woods in 1944; it was found unacceptable by the United States Congress of those days.

In 1941 a publication entitled **"A Twentieth Century Economic System"** was published by the Economic Reform Club and Institute. Written by A de V Leigh, secretary of the London Chamber of Commerce, it envisaged a system of multi-lateral contra-account, whereby nations would acquire credits in an international clearing union when they exported. It could only clear those credits when it imported, so creating a contra-account. It would not have to import from the country to which it sold but, if it wished to take payment, it could do so only by importing from some other nation to the value of its exports (visible and invisible).

Failure to import would result in a credit held by the international clearing union; credits so created would have an agreed life and would then be cancelled.

Significant Support

This plan, very briefly summarised, achieved significant support at a subsequent conference of Commonwealth Chambers of Commerce. As a result of a broadcast on the subject in 1947 (subsequently published in **The Listener**) letters in support came from all parts of the world.

A similar scheme was put forward by Dr. Herbert Feis, at that time an official of the American Treasury. He advocated setting up an international clearing house where claims between the various countries could be swopped

and, if claims remained outstanding over an agreed period of years, they would be cancelled.

Breakdown of Bretton Woods

With the breakdown of the Bretton Woods system, the need for a better system of international payments is being increasingly recognised. A system under which nations in credit should accept the obligation, which is now crucial in the case of the developing countries, to increase the volume of their imports would give the debtors the opportunity of meeting their indebtedness. Such a system would provide the machinery whereby export surplus and deficit balances were held in an agreed clearing union.

We should learn from our experiences in the past. There was the war-time experiment of Lease-lend later known as Mutual Aid. When President Rosevelt introduced it to the U.S. Congress, he said that "it cut out the dollar sign and removed the financial nonsense from international trade". Under Mutual Aid, the nations concerned virtually pooled their resources so as to fight the war without a load of debt hanging round the neck of the debtor countries. Unfortunately President Truman signed the instrument ending that statesman-like experiment as soon as hostilities in Europe ceased.

European Experiment

Perhaps the best sample of co-operation in a payments mechanism was the operation of the European Payments Union. This was established in 1950 to deal with the payment problems of European countries whose trade was being disrupted by constant balance-of-payments difficulties. In the words of the original objectives of the Union, it set out to provide "some cushion to play the part which European gold and foreign exchange reserves, many of which are now depleted, cannot be expected to play. It will also be necessary to make it possible for countries which improve their position to strengthen their reserves and to encourage them to do so."

The Payments Union provided this cushion by taking some part of the debit and credit arising from trade between members, and freezing it so that trade could continue to flow, even if trade between the nations was unbalanced.

In present circumstances it is clear that the high-income industrialised countries need an expansion of world markets. The low-income countries would provide the capacity for that expansion if means were found to enable them to meet their obligations without being saddled with unpayable debt.

Aid and loans cannot by themselves do more than tinker with this problem. We need to re-examine the ideas put forward in the 1940's as a matter of great urgency.

ECONOMIC DEPRESSION AND INTERNATIONAL POLITICS
by Sir George Bolton, KCMG

It is difficult indeed to accept changes on the scale that are occurring in the Western World and there is a marked tendency to deny that the political and economic attitudes which tended to determine post-war policies in 1945 have become a part of history and have little relevance to current problems. For example, the International Monetary Fund and the World Bank were created to rebuild the international monetary system and help restore collapsed economies, not to maintain bankrupt states which are incapable of taking any economic/social decision which might ensure their own survival. A glance at Jamaica, Cuba, Uganda, Tanzania, Poland, Zaire and the area once known as Indo-China throws some light on the problem. America has, since 1945, without thought for herself, accepted the burden of policing the world and, since 1970, has been learning that the American economy is no longer capable of financing the strain (see Note 'Exchange Pattern Part I') expressed, for example, in the price of oil, a consequence of supporting Israel against Islam. If, as I believe we must, we agree that the post-second-war policies have become of historical interest only and have little or no relevance to the emergent problems of the 21st century, then new associations, ideas and political strategies must and will be devised.

Weakness of the Dollar

The first appraisal of future problems reveals that America can no longer be regarded as the benevolent paymaster not only of its allies but also the Third World. Continuing weakness of the dollar, likely to remain for years a fact of economic life, requires the abandonment of long-cherished policies of raising standards of life among the under-privileged countries by industralisation. The developed world is likely to be hard put to maintain its current standard of living and it is naive to assume that the OPEC countries are politically able or willing to take over what have been regarded as the responsibilities of the Western World. The simple consequence will be growing centripetal tendencies in the United Nations and its cluster of agencies as they fall under the control of debtors anxious to increase their indebtedness, including the Communist bloc, while American and Western influence and financial capacity decays.

In the international financial field, power and influence is a direct result of ability to pay, and unfortunately this is now, in reality, a financial responsibility of the OPEC countries especially Kuwait and Saudi Arabia. It is difficult to think of two countries less competent to organise such large-scale international financial operations. The idea that Western banking systems should continue 'recycling' Arab surplus financial resources should be treated with great caution as doubts grow about the capacity of commercial banks to increase

their existing foreign commercial risks in the light of the potential or actual bankruptcy of the debtors. The Middle East turmoil is unfortunately certain to continue, fuelled by the Arab/Jewish quarrel and the Arab use of the crude oil weapon and the fear of forcible Russian intervention in the Middle East founded on their strategic victories in the Horn of Africa and Arabia.

Famine Conditions

A more practical problem is the spreading chaos in Africa at a time when famine is beginning to overwhelm very large areas. Starvation already exists in the Sahelian countries and the Horn of Africa. But famine conditions are likely to develop in most of Central and Southern Africa where guerilla warfare and civil commotion have conspired with drought conditions to produce current food shortages in every country with the exception of South Africa. Zimbabwe had enjoyed an efficient modern agricultural economy until, say, 1978, and provided a food availability to all surrounding countries; this favourable situation no longer exists as a result of lawlessness on a large scale, and in many areas farming has become impossible. In consequence, the only possible sources of the staple food – maize – in the quantities required are America and South Africa, with the emphasis on South Africa. The political and moral issues will be very interesting.

The Western World is now visibly suffering from the decline in the fortunes of America, the military weakness of Western Europe and the consequences of domestic policies of buying popularity by promising ever-rising standards of living paid for by debasing the currency. There are so many strong tendencies striving for supremacy that it is probably worthless and certainly foolish to attempt to forecast even a tentative sequence of future events. However, it now appears certain that America cannot escape a major recession which will stimulate a Government now facing an election to spend money in any attempt to reduce inevitable unemployment. In the short run the dollar exchange will suffer and this will have its own effect on American financial foreign policy.

A High Cost Area

Western Europe, as a consequence of the Treaty of Rome obligations, is a high cost area and the consequential erection of import barriers will be difficult for the various Governments to resist. In such circumstances the anti-European sentiment in America, which has been growing, may well combine with budget problems and other domestic reactions that influence Congressional tactics to insist on the recall of American troops from Europe. It is probably of importance in this context to realise that American defence costs, now at an all-time peacetime high, are identified in many quarters as the reflection of the cost to America of defending Western Europe: and that as far as the American public is concerned Western European countries luxuriate in no-cost defence.

The other immediate crisis situation is the Middle East where the Camp David Agreement is visibly breaking down. Palestine remains an insoluble problem; Iran and Afghanistan have reduced American foreign policy to a black farce. The oil problem and its exchange consequentials prevents any positive action because of the potential economic consequences. An Election Year in America with a lame duck President fighting for re-election may bring about the necessity to choose between alternatives such as short-term policies designed to assist in the re-election of President Carter or decisions more consistent with the long-term interests of the country.

Problem of Israel/Egypt

It is impossible to avoid the Israel/Egypt situation and the problems which would flow, say, from a White House decision to abandon Egypt and the Arab cause in favour of Israel combined with a massive re-armament of the Jewish forces in an endeavour to rally the Jewish vote in America in favour of the re-election of President Carter. But short-term political tactics of this nature could have long-term consequences of a most damaging kind. The Arab oil weapon would undoubtedly be used, greatly aggravating inflationary tendencies everywhere, increasing unemployment and further exposing the weakness of the fragile Western exchange system which supports foreign trade worldwide.

Yet it would be most imprudent to neglect this possibility, however presented, in a situation where a President may regard his personal survival as more important than the future of the Western World. In an extraordinarily complicated situation made all the more difficult by impenetrable Muscovite secrecy, it seems probable that the Afghanistan move is consistent with the Russian aggressive activities in Africa and the Middle East where Russia has gained strategic victories to the detriment of the Western World's capacity to resist further territorial adventures. It is arguable that we may be nearer the end of Russian military expansion, which must be absorbing an increasing proportion of national résources, and it seems probable that the Kremlin is now facing the cost of maintenance and the general economic burden of this enormous machine. In addition, there is the cost of financing their surrogates – Cuba, Angola, Mozambique, Ethiopia the Yemen and now Afghanistan. They also have to consider the creditability of their European satellites: all over-borrowed and one, at least – Poland – could fall into default.

It is not generally realised that the Soviet Group is dependent for the finance of foreign trade, the expansion of economic activity and their external price system on the capitalist world, and the default of an important partner could cast doubt on the whole. This situation may play some part in Russian foreign policy as a possible limiting factor in their plan of world territorial expansion and the control of raw material resources. We shall receive an inkling of changing tactics if the Kremlin appears to suggest proposals or even ideas in an international arena apparently designed to promote neutrality in Europe.

A Major European Diversion

We should therefore not neglect the possibility that the Kremlin may conclude that the time has come to commence a major European diversion while the last of the Bolsheviks are still alive and in power and while the Western Alliance is suffering from indifferent leadership, economic stresses and consequential economic and political problems. The post-war comfort of the American shield is diminishing, leaving a ghostly presence behind called NATO. Western Europe still pursues the mirage of economic unity – the E.E.C. – which has the effect of exacerbating relations between the members and magnifying current trading frictions. The consequences of the high cost and availability of petroleum products increases the suspicions that are latent in the international world and without doubt stimulates the known dangers of inflation and the unknown dangers of the breakdown of the fragile discipline of the international banking system. We live, therefore, amidst the debris of the post-1946 treaties and settlements. In such circumstances fears of war and the use of nuclear weapons become widespread, but as the immediate result of war would be famine and starvation on a huge scale there is, I believe, little incentive, even for the most aggressive nations, to use force on any scale.

Violent Changes

The time is ripe for the Kremlin to add to the current confusion in the Western World and the distraction caused by important elections, to suggest, for example, the unification of East and West Germany on the condition that a united Germany should become a permanent neutral with no foreign forces on her soil. The consequences of a Russian policy of German neutrality would produce a revolution in international politics as all sides could claim advantages and disadvantages, and in Europe the fear of a massive united Germany might be matched by the "Peace in our time" feelings of ordinary men and women. The Chinese would probably regard such a move as a betrayal, their strategic position being weakened by the protection afforded to Russia's Western flank. But whether we like it or not, the present stalemate and growing international paralysis can not continue unresolved, and violent changes can safely be predicted.

Commonwealth Voluntary Organisations Examine Long Term Effects of Cuts

Convinced of the long-term value to Britain of its network of Commonwealth relationships, a group of voluntary organisations, headed by the Royal Commonwealth Society, has been anxiously watching and studying the effect on these relationships of some of the Government's public expenditure cuts.

The Society has been in touch since the beginning of the year with Ministers and with members of both Houses of Parliament. In collaboration with four other organisations it has now produced a briefing paper on the risks being run in four main directions – higher education for Commonwealth students, the overseas aid programme, Commonwealth youth exchange and development education.

THE ECONOMIC IMPLICATIONS OF A HIGH EXCHANGE RATE
by Jonathan Shack

Every day we read the latest findings of a highly programmed computer informing us of the rapidly deteriorating infrastructure of the British economy as well as the differing policy conclusions and panaceas of the programmers. Allied to these projections for the major macroeconomic variables are the contemporary and current statistics which emphasise the increasing underlying trend of inflation and unemployment, combined with the low or non-existent growth of the economy. Thus, despite the lucrative benefits of North Sea Oil the entire economic and financial framework of the U.K. seems to be characterised by inherent weaknesses; the trade deficit on the manufacturers and semi-manufacturers is widening rapidly, whilst wage rises in the public and private sector have been distinctly outstripping the real growth in productivity.

Indeed, the juxtaposition of high inflation and low growth has now become very familiar in this country, but what seems out of context is the relatively high rate of exchange of sterling, a state of affairs usually associated with large foreign trade surpluses. Economic theorists in favour of the floating exchange rate scheme in the early 1970's epoused the view that a country with an external sector deficit would experience a fall in its rate of exchange; this would result in a larger demand for exports and a reduced demand for imports after a time lag. The operation of market forces in the foreign exchange sector would consequently ensure equilibrium on the balance of payments as well as avoiding the STOP-GO cycles of the fixed exchange rate system, so common in the post-war period.

Propensity to Import

However, the U.K. has experienced an underlying deficit on the current account of the balance of payments for many years and this represents the high propensity to import foods, raw materials and manufactured goods. So, according to certain floating exchange rate theorists, the U.K. should be experiencing a downward float rather than the upward float of the last year which has been associated with the accruing of North Sea Oil revenues. Newspapers and journals tell us that the upward float has had immediate and somewhat detrimental effects on British economy; the high rate of exchange means that the prices of U.K. exports are relatively higher in world markets, thus reducing the demand for, and profitability of, U.K. products whilst the relatively low prices of imported manufactures have stimulated demand for foreign goods. The advantageous spin-off from the high rate of exchange is that the cost of food and raw materials in Britain is correspondingly lower.

It is somewhat ambiguous, however, to look at the effects of the exchange rate on U.K. exports purely within the framework of a relationship between relative prices and relative demands. The rather weak nature and structure of the U.K. external sector has been evident since the end of the second world war and to attach great importance to the exchange rate as a factor engendering weakness is too glib. In order to comprehend the implications of the high exchange rate, it is imperative to analyse the economic and financial thinking of the Conservative government, whilst discussing the factors that contribute to a healthy foreign trade sector on the scale of West Germany or Japan.

Over the last few years, the Keynesian conventional wisdom of fostering high growth, high employment and stable prices through the operation of demand management has become moribund: the 1944 White Paper on Employment which stated that the government should secure a "high and stable" level of employment seems anachronistic in an industrialised world faced with the problems of recession and stagnation. Keynesian orthodoxy has now been replaced by monetarist "wisdom", as propounded by Milton Friedman of the University of Chicago. The theoretical underpinnings of the monetarist philosophy centre on the quantity theory of money which stretches back to Hume's essay "Of Money" published in 1752; the modern quantity theorists state that there is a direct link between increases in the rate of growth of the money supply and increases in the general price level after a long and variable time lag. These lags imply that the reduction in the rate of inflation through purely monetary measures cannot be achieved overnight.

High Interest Rates

At present, the Conservative government is wholly dedicated to Friedmanite orthodoxy and its objectives of reducing the rate of growth of the money supply. With the complete breakdown of quantitative controls on increases in bank credit (the "corset" was rendered useless with the abolition of exchange controls), the government has now based its monetary policy on a regime of high interest rates. High interest rates should dissuade both consumers and companies from borrowing funds and it appears that this policy is succeeding in limiting monetary growth. However, with interest rates at record levels the inflow of foreign money into the U.K. has been dramatic and this has contributed to the high rate of exchange of sterling. The influence of the high rate of exchange in keeping down the cost of imported food and the internal cost of living has indeed been underestimated; consequently, it can be seen that the government is committed to an anti-inflationary package based on a tight monetary policy and a high rate of exchange.

It is important to note that the funds flowing into the U.K. have largely been blocks of "hot" money i.e. OPEC surpluses that can be transferred from the U.K. very rapidly. It is possible that a rising pound could be quickly replaced by a downward floating currency. If, in the future, money wages continue to rise rapidly, the government's ability to curb monetary growth will be severely affected and if this is accompanied by trade union industrial action to secure wage increases, foreign investors may be tempted to move their funds abroad. The consequences of this would be to depress the pound significantly, raise the domestic cost of living almost immediately and spark off further wage claims by unions trying to maintain the level of their real wages. The whole economic and financial situation will then be characterised by accelerating inflation and unemployment, whilst the ensuing instability would make monetary restraint much more difficult to achieve.

U.K. Share of World Trade

Many economic commentators as well as entrepreneurs have blamed the high rate of exchange as a major factor in holding back export growth. However, the U.K.'s share of world trade has been declining for the last twenty years and so it is erroneous to attach too much importance to the high rate of exchange as a factor dramatically restricting the volume of exports.

Many academic studies have concluded that U.K. exports suffer from low quality and performance, relatively late delivery and inferior after sales service. Indeed, many of these deficiencies stem from a relatively low investment in new technology and efficient techniques allied to trade union restrictive practices which have made for a non-optimum utilisation of investment resources. It is clear that certain export industries have been detrimentally affected by the high rate of sterling (e.g. British Steel), but on the whole any competitive advantage gained from a devaluation would be offset by the increase in inflation emanating from higher wage claims being passed onto the consumer.

Using New Technology

In the past, countries such as West Germany and Japan have managed to run large foreign surpluses with high rates of exchange; this has occurred because their exports have been produced using new technology and work techniques characterised by high productivities. In the U.K. export and import substitute industries have been highlighted by relatively low worker productivities as well as poor worker/management relations.

Not enough attention is placed on improving the structure of work organisation through high investment and technological innovation, all factors making for a younger and more efficient capital stock.

For the future, it is fundamental that the government succeeds in curbing both monetary growth and the high level of wage claims. If, at the end of the year wage increases continue to rise above 20% per annum the government's ability to achieve its monetary targets and it's projected P.S.B.R. (Public Sector Borrowing Requirement) will be severely weakened. If this is followed by a run on the pound, sterling will depreciate rapidly and new inflationary pressures will be introduced into the system, making for greater instability. Assuming that the reduction of inflation is the government's foremost economic objective in the short run, the maintenance of a high exchange rate to keep inflation down seems reasonable, although potentially destabilising if money wages continue to rise at suicidal levels.

THE EEC AND THE COMING CONFLICT
by John Coleman

With the impending clouds of vast unemployment looming over us and an understandable pressure for import controls growing in the TUC and an equally adamant opposition to them by the present Government, it does not take a very discerning political observer to see a clash ahead of even greater magnitude than that which brought down the Heath Government in 1974. The TUC day of demonstration against the Government on 14th May was only the smallest tip of a vast iceberg and one fears a gigantic collision in which the main victim will be the nation.

We must therefore look closely at every possible course of action that can be taken to avoid this impending national disaster. It is not enough to shout for or against import controls, for or against monetarism. It is necessary to analyse the situation carefully and focus closely on the real areas of trouble. The root of the problem seems to be centered around the growing flood of manufactured imports from other European countries. Our trading deficit with the other members of the EEC is massive – around 4,000m pounds a year – whereas with the rest of the world we are comfortably in surplus. It is therefore plainly in this areas that the root of the problem lies.

Before we entered the EEC we were on the other side of the tariff barrier raised by the EEC itself against the rest of the industrialized world and of course we raised a similar barrier against their industrial products. We obviously need to get back to that situation. We don't need to raise import barriers against the Commonwealth or against Third World countries from which we get so much of the food and raw materials that keep our economy going and our people in work and which is beneficial to **all** the parties concerned.

A Better Relationship

Clearly this would mean withdrawal from the EEC but paradoxically it could mean a better relationship to Europe as a whole. Our major partners in the

Community have recently had the greatest doubts about our membership. The EEC maintained a delicate and essential balance between French and German interests – a crucial factor in maintaining peace in the post-war era – and they now fear, not without good reason, that Britain will upset this balance. Now is probably a very appropriate time to carry out a properly negotiated withdrawal in order to restore our former trading position. This would have the additional advantages of avoiding our high budgetary contribution to the EEC and enabling us to buy basic foods again on world markets at roughly half the price we have to pay in the EEC. Our domestic situation could be radically altered at a stroke.

A Solvent Britain

In this situation the Government could make an entirely new approach to the TUC. It could say: 'Look, we have brought about a drastic reduction in food prices for the ordinary working family, we have stimulated the competitiveness of British industry where it is successful and protected it from somewhat unfair competition in areas where the EEC itself protects itself! We have held back the threat of unemployment and saved the jobs of your members. We have used some of the money we used to pour into the EEC to save essential public services. Now you must help us in our task of making Britain solvent again – which is what monetarist policy is really about – you must assist us in achieving real wage restraint. We will work together towards a solvent Britain that is able to make its own decisions and not have them dictated by outside financial powers.'

Vast Power Blocs

In the long run I believe our partners would welcome a strong independent Britain in Europe. I believe that the main force behind our entry and continued membership of the EEC was the Americans. They seem to believe that the best way to organize the world is in vast power blocs. I believe they are wrong and wrong in a way that they themselves, more than anyone else, will come to regret because the manner in which such power blocs are run is contrary to the spirit in which the American nation was originally conceived and brought forth.

Our truest friends are our truest critics and I believe that Britain is the one country who, if true to herself, would put the right kind of influence on America. Our influence in world affairs is not dependent on being part of a sycophantic power bloc but on speaking the truth in an extremely wicked world. A leader in **The Times** of 19th April entitled 'Down the wrong road' showed the desperate need for constructive opposition to American policies. It will not be done by the EEC imagining it is wielding a big stick against America. History has shown us that truth is often most authoritative when spoken from weakness out in the wilderness rather than from the official seats of power.

HERE'S TO VARIETY

As elbows are bent and glasses raised throughout Europe, the toast will be "to the Court!".

Very rarely do people feel affected by legal decisions, but a series of recent judgments by the European Court of Justice in Luxembourg – the Community's highest legal body – is expected to mean a reduction in the price of spirits in general in France, Italy and Denmark.

Over a year ago the European Commission started legal proceedings against these three countries because, in its view, they discriminated against imported beverages and protected their own domestic tipple.

Both the French and Italians had different systems of taxation, which meant that spirits produced from grapes or fruit – brandy, armagnac, poire williams or grappa, for example, paid less tax than grain – based beverages such as whisky.

Denmark had similar arrangements whereby the duty on a bottle of the country's world-famous aquavit was considerably less than on imported drinks like brandy and whisky.

In the Commission's view – and it was supported by the Court of Justice – whisky and brandy compete for people's palates with aquavit and grappa and so the various practices were illegal under the Community's rules, which prevent discrimination between similar products and aim to give consumers a wider choice.

But the Court has still to give its final verdict on a case against the UK, which is being eagerly awaited by the country's wine drinkers.

The Commission reasons that, on average, wine is three times more potent than beer and so it should not have to pay tax higher than three times that on beer. In the UK this ratio is greater. The conclusion drawn by the Commission, and by certain wine-producing countries, is that the British government is protecting beer and penalizing wine.

But to prove their case to get a reduction in the price of wine, it must first prove that beer and wine are competing drinks and that you are just as likely to go into a pub and ask for a glass of wine as for a pint of beer. The British ridicule this approach, but others take this argument seriously.

The Court is still mulling over the evidence – some would say it is savouring it like a good malt whisky – and its final word on the matter is not expected for another 12 months.

From "The Courier" May/June 1980.

THE UNITED STATES IN THE 1980's

This comprehensive study, edited by Peter Duignan and Alvin Rabushka, takes a careful look at the major problems, both foreign and domestic, that face the United States at the beginning of the decade. The U.S. entered the 1980's in a mood of pessimism. Is this inevitable or inescapable? Must the U.S. perpetually swing between the buoyant optimism of the 1960's and the disillusionment of the 1970's? According to the thirty-two distinguished authors of this thought-provoking volume the answer is "no". The authors argue forcefully and persuasively that the U.S. has an alternative:

"confidence can be restored"

"a consensus in Congress can and must be rebuilt"

"a rediscovery of a sense of purpose can be achieved"

"there is the national will required to deal effectively with the problems that confront the country domestically and internationally"

The United States in the 1980's will not provide comfort or reassurance for pessimists or optimists. On the contrary, by stressing that there are realistic limits to America's ability to solve all problems – domestic and international – the essays offer guidance for sensible solutions.

In the Introduction to the volume the coeditors write –

"We have learned by now that we cannot solve social problems by throwing money at them. Too, we have reaped a harvest of rising inflation, waste, and inefficiency in government, and of declining productivity among workers. All this is vividly reflected in ever-increasing disenchantment with and distrust of government. Special interests have come to prevail at the expense of the general interest."

They draw the conclusion –

"The climate of American politics is changing ... The New Frontier and the Great Society are receding; to the majority of Americans, the orthodoxies of the 1960's and the 1970's seem questionable. If we are to eschew our country's long-term decline, we must come to understand the proper limits of public action ... Individual initiative and responsibility must replace government controls and direction. We need more competition and less regulation. The price mechanism, not bureaucracies, must allocate our scarce economic resources ... We must replace rhetoric with resolve ... and with dynamic defense ... The choice is ours.

The volume is published by the Hoover Institution Press of the Hoover Institution, Stanford University.
916 pages $ 20.00 cloth.

WHAT POLICY FOR STERLING
by Professor Patrick Minford

The level of real wages governs the levels 'competitiveness', sometimes called the 'real exchange rate'. If the labour market was left to itself, real wages would rise or fall to an equilibrium level at which unemployment would be a minimum consistent with any temporary shocks. However there is state intervention in the labour market through minimum wage and social security payments which have the effect of putting a floor beneath real wages since no-one will work at rates below these.

The higher this floor the higher the average real wage and the greater the unemployment that is created. For the UK over the last decade there has been a shift of demand away from our industries and towards those especially of the Far Eastern developing bloc; but our real benefits have risen rapidly nevertheless, when they should probably have fallen. Unemployment has consequently grown.

North Sea Oil has raised the real exchange rate somewhat, but probably only by a maximum of about 6%. The further appreciation we have seen has been due to the tightening of monetary and fiscal policy since last October. Once inflation and interest rates have come down into line with the tighter policy, this effect should gradually disappear. But it is the short term price that must be paid for the control of inflation.

Joining the EMS at this stage would be a mistake because we would have to intervene to hold the £ down, so printing more money and damaging the control of the money supply. Patience is required while the policies, which are the only available ones, work; no-one can really know whether they will work fast or slowly, since the relationships for the past will no longer apply under the new policy regime.

Summary of a speech to members of the Economic Research Council.

DECLINE IN BRITISH ENTHUSIASM FOR EEC

According to a report in **The Times** on 3 July, the latest opinion poll published in **Euro-Barometre** confirms "the relentless decline in British enthusiasm since the 1975 referendum ..." only 23 per cent of Britons now regard EEC membership as a good thing.

AUSTRALIAN THREAT ON EEC TRADE

The Australian Government has threatened to divert trade worth up to A$ 1bn (489m) away from the European Economic Community in retaliation for the Community's agricultural policies. Financial Times 16.7.80.

N.Z. EXPORTS TO EEC

New Zealand will take a hard line over its future butter and lamb exports to the UK and other EEC countries in talks with Finn Gundelach EEC Commissioner for Agriculture in Wellington this week.

New Zealand will particularly resist a low quota on lamb exports and will not agree lightly to any deals to trade off butter exports in return for more favourable agreements on lamb. Financial Times 16.7.80.

TOWARDS MORE BALANCED GROWTH

Once again the short-term prospects for the OECD area are dominated by a massive oil shock. A price rise of over 130 per cent since the end of 1978 has increased the net oil import bill by an amount equivalent to about 2 per cent of GNP, increased prices by several percentage points, and may – by end 1981 – have reduced OECD real GNP by some 5 per cent compared with what it would otherwise have been. In most OECD countries, the latest wave of inflation has probably passed its peak and, unless there is a further rise in oil prices, there should be a steady improvement over the next twelve months. Meanwhile, the United States economy has entered recession, and some European economies are showing increasing signs of weakness.

The immediate priority in all OECD countries is to continue tight fiscal and monetary policies, in order to contain the inflationary impact of the oil shock. Although essential for creating the conditions necessary for a restoration of balanced growth, this is only a first step on the long road to more satisfactory growth and high employment. The underlying rate of inflation is still far too high in much of the OECD area and represents a serious constraint on growth. Impediments to the operation of the market mechanism and to international trade still create undesirable distortions and rigidities, imposing a cost in terms of lost productivity and reduced adaptiveness to change. Moreover, OECD economies are vulnerable to further disruptive external shocks originating in world oil markets. What is needed is a combination of policies directed at reducing underlying inflation, enhancing productive potential and reducing energy dependence.

(Extract from OECD Outlook No. 27)