BRITAIN & OVERSEAS

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

Autumn 1980 Vol. 10 No. 4

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Published quarterly
Editor: Edward Holloway
Published by Overseas Trade Research Fund
of the Economic Research Council

55 Park Lane, London W1

Subscription rates: U.K. £2 p.a. Australia $5 Canada $6 New Zealand $5 U.S.A. $6.

REGULATING THE MONEY SUPPLY

Myth & Reality

'The Times' Management Correspondent, Patricia Tisdall, reported on 11th September that "Top industralists will stress their disenchantment with the Government's economic policies at meetings with ministers this week. They call for "an early and substantial cut in interest rates", which they suggest would – "not only ease the financial burden on companies who have to fund large borrowings, but also remove a prop to the high sterling exchange rate which is strangling new export orders, and give a much needed fillip to business morale." The President of the CBI said – "Interest rates must come down soon. They have continued at high levels far longer than we or the Government expected."

While current economic trends show that some progress has been made in the reduction in the rate of inflation, other indicators are undoubtedly causing grave concern. Money supply, the key to the Government's economic policies jumped by 5 per cent in July and 3 per cent in August. This can only arouse grave doubts as to the Government's present methods of controlling the flow of money in the economy, which, in turn, has a damaging effect of the image of monetary policy. Unemployment is now over 2 million, production is declining, short-time working increasing and other indicators are equally disturbing. Nevertheless, the Prime Minister maintains that industrial recovery can only be achieved "if we stick firmly to the monetary policy set out at the time of the budget."

Mysticism and Dogma

The question must arise, however, as to whether the monetary policies being carried out by the Government are on the right lines? **Mr. Harold Macmillan once described monetary policy as "that realm where mysticism and dogma are so strangely mixed." He was right, and surely the time has come to delve a little more deeply into the mysticism and dogma to see what is revealed.**

There can be no doubt that a major factor in retarding growth in the economy is the present penal interest rates imposed by the maintenance of a high Minimum Lending Rate. This has the automatic effect of increasing interest rates throughout the financial system. This is not only harmful to the wealth producing sector of the economy, particularly to the smaller business, but it also increases the Government's own costs of borrowing. The harmful effects of this are well brought out in the article by Mr. Adrian Gray on page 4 of this issue.

The main reason why the MLR is maintained at such a high rate is to act as a brake on the banking system in creating too much money. Yet recent money supply figures do not seem to indicate that it is very successful in this

respect. **We are in urgent need of a more efficient method of regulating money supply as an essential part in the fight against inflation.**

War-time Experience

Some will argue that this is not possible, but if we take a look at what happened between 1939 and 1945 we find that during this period, Bank Rate (which preceded MLR) was doubled at the outbreak of war from 2 per cent to 4 per cent. This was the orthodox and automatic reaction to the outbreak of hostilities, but a small and determined group of M.P's of all parties together with economists associated with the Economic Reform Club brought such pressure to bear on both the Bank of England and the Treasury that only three months later it was reduced to 2 per cent.

This figure of 2 per cent was maintained throughout the war years. The effect was to save the Nation a vast sum in interest payments on the huge sums which had to be borrowed to finance the war effort. At the same time, in spite of the fact that most of the work-force was diverted from producing goods and services for consumption into the war effort, the rate of inflation during these war years was mild in comparison with the present.

Of course, in conditions of war it is possible to take action which would be completely unacceptable in peace time conditions. Rationing, high rates of taxation, compulsory savings etc. were introduced and played their part in keeping inflation within bounds. Nevertheless, after the war was over Bank Rate remained at 2 per cent until 1950 and then only varied from between 2 and 4 per cent until 1955, while the rate of inflation remained at a relatively low level over this whole period.

The Creation of Credit

One factor which may have played a part in preventing inflation from becoming a serious problem in the war years was the decision to issue Treasury Deposit Receipts in place of some Treasury Bills, as the former could not be used by the banking system as a basis for creating credit.

It is becoming increasingly clear that the whole question of credit creation needs to be re-examined and a system introduced more in keeping with our current needs. We will return to this important issue in the next number of BRITAIN & OVERSEAS, for as Sir Arthur Bryant, the eminent historian wrote some years ago – "If in a free society something goes wrong with its financial system, everything else will go wrong and freedom itself will be brought into disrepute and endangered."

THE BURDEN OF THE NATIONAL DEBT
by Adrian Gray

According to a written reply, reported on 11th June to a question raised in the House of Commons, the National Debt in 1970/71 was £33.4bn and the annual interest charge was £1.4bn. By 1979/80 the debt had risen to £95.5bn., an increase of just under 3 times (but still less than the rate of inflation) whereas the interest charge had expanded 7fold to £9.9bn. net.

Coincidentally the Public Sector Borrowing Requirement in 1979/80 turned out to be £10.3bn. while at the beginning of the 1970's the Government's finances had actually achieved an all too brief state of balance. Thus, in a decade, from being in a position of relative strength with all current liabilities adequately met by current revenue, the National Budget has been plunged into a situation of endemic weakness where the total servicing costs of the outstanding debt have to be borrowed. In effect the annual interest charges are being "rolled-up" into capital rather like some fifth rate property company that is by any prudent accounting standard, insolvent.

Where is Honour?

Indeed no commercial organisation or individual would be able to conduct his affairs for long, with financing problems of this proportion. Yet where are the howls of "scandal", "monstrous" or "outrage" to be heard? What has happened to this Nation that we can allow such blatant abrogation of responsibility? Where is honour? Is it not the British Nation that gave the world "my word is my bond"?

No doubt many have been fooled by the seemingly innocuous size of the PSBR in relation to the Gross Domestic Product, say 4¾ per cent – but this is rather like saying one's mortgage repayments are small in relation to the combined incomes of one's father, two brothers and sister, as well as one's own! More pertinent would be the comparison of the annual interest charges to total budget income – 11.8 per cent for 1979/80 – and more startling, the reference between debt service costs combined with annual redemptions falling due and that same income – 15.8 per cent.

However, normal practice always understates the true size of the PSBR on the assumption that the maturing debts will be renewed with more or less the same group of lenders for another 10, 20 or even 35 years – safely shunting the problem on to the shoulders of our children. And we call them our loved ones!

A Trick of Irresponsibility

Strangely enough this trick of irresponsibility seems to work without too many ill effects, so why not carry on? What if Public Borrowing does cause inflation?

– it brings its own solution by ensuring that the value of the liability is eroded. Nice trick eh? No, it is a very dirty trick.

But this is where we came in, for the aspect of the problem which is discernably deteriorating and with increasing rapidity, is the cost of borrowing. 5 per cent in 1970/71, 10 per cent in 1979/80 and in 1980/81 renewals of debt and new loans are being financed at around an average of 13 per cent. Only hyper-inflation will be able to devalue long term interest charges which are expanding at that sort of rate! Indeed, once the realm of capitalised double figure interest charges are reached the end multiples become staggeringly gigantic within only a few years.

Admittedly the present Administration has set its policies in the way of reducing the PSBR but unfortunately the economic background does not favour a policy of public expenditure restrictions. Arguably such a major policy move can only, at best, be achieved when trading is naturally buoyant and people have plenty of disposable income, thereby allowing them to feel less threatened and insecure about the gradual withdrawal of the biggest spender in the National market place.

Hope Deferred

During a recession most small businesses depend upon the presence of their larger more securely based clients to keep turnover idling along until activity generally increases again. When the big clients start cancelling orders, business failures, redundancies and increased unemployment follow on very quickly, causing loss of tax revenue for the Government and increased involuntary expenditure on social security – and PSBR reduction becomes a hope deferred. Perhaps indefinitely.

Nevertheless there is no hope of the debt servicing problem being deferred. It will continue as long as the debt remains and will become all the more of a problem the higher that interest rates remain.

There is an old saying that borrowed money is twice spent and as soon as an attempt is made to repay any loan it really does feel true, which is probably why Government's from both the main political parties have preferred to pretend that the Exchequer has two sources of funds, tax revenue and borrowing, instead of accepting that the former exists in splendid isolation.

Thus as successive Administrations since the second World War have inherited the debts of the past they have seen no political gain in levying higher taxes to enable the fulfilment of those obligations, but rather instead it has been all too easy to find every commanding short-term political expedient to support a policy of at least maintaining, if not increasing, the level of public borrowing.

Something for Nothing

Perhaps in due course the truth will become evident that debt does have to be repaid, actually and not simply re-financed. Therefore it will help to be ready for that day by looking now to note where extra revenue raising capacity exists and preparing arrangements, should new ones be necessary, to ensure efficient collection.

If we do not begin to lighten the burden of the National Debt, by financing both the interest and loan repayments from tax revenue, it should not cause a surprise to see inflation continuing more or less unabated. For what is inflation except the reflection in money and price terms of a mass social movement within any economy to get something for nothing?

COULD FOOD PRICES BE LOWER IN THE EUROPEAN COMMUNITY?

by Stafan Tängermann

(Professor of Economics and Agricultural Policy at the University of Frankfurt)

Food Prices in the European Community are among the highest in the world.

Is this because food is scarce in Europe?

No. It is, to a greater extent, because the European Community produces so much food.

Does the Community produce so much food because its farmers are so competitive?

No. Rather because they are so poor.

There seems to be little logic in these statements, and it would be difficult to convince somebody who has learned his economics from textbooks they are still true. However, they contain the convincing truth of political reality. But even if one looks at the Common Agricultural Policy from a purely political point of view, there remains a certain degree of absurdity.

Food is the most important single factor in the cost of living. So, why are food prices boosted by government measures to a degree unknown for any other major group of goods and services? Let us see whether we can explain this state of affairs – understand its consequences for the economy, and single groups of people in the Community – detect pressures for change – and work out alternatives.

High food prices – a premium for safe supplies?

Whenever a Minister of Agriculture of a Community member state delivers a public speech these days, he seldom misses the opportunity to hint at the worldwide political and economic instability with which we have all had to live

since the oil price boom, and particularly since the crisis over Iran. Implicitly, and very often explicitly, it is suggested that safe supplies of food have become increasingly vital these days, that the Common Agricultural Policy (CAP) has brought about some degree of security and that high food prices and mounting government expenditure on agriculture are a small price to pay for this security. It is little surprise that farmers' unions argue on the same lines, while it is somewhat irritating that members of the Commission, who by their function are not necessarily to be held politically responsible for the CAP, has also tended to justify this policy on these grounds.

Obviously no country can do without a minimum of security of food supplies, if the CAP were oriented mainly towards that goal, one could wind up any discussions on its merits and costs. There is no alternative to a policy of safe food supplies, and hence the costs of such a policy are irrelevant.

Food Mountains

In actual fact, however, only to a very limited extend has the need to guarantee food security been a driving force of the CAP. No matter whether the European Community has actually reached a reasonable level of food security or not, a surplus of current production is certainly not necessary to secure safe supplies for emergency cases. This is particularly true for commodities such as butter, sugar and wine. A so called 'food mountain', i.e., stocks of food commodities, may well be a necessary component of a strategy for safe food supplies. But it is by no means necessary to produce, year after year, a current surplus to facilitate stock piling.

Moreover, 'food mountains' have been piling up in the Community not according to a well defined security policy but because under the CAP the Community has promised to buy unlimited quantities of certain farm products at given minimum prices. Of course, these 'food mountains' cannot be increased indefinitely or kept for ever. Hence, at some stage a surplus has to be converted into an export, usually by the aid of massive export subsidies. 'Food mountains' under the CAP are, therefore, to a fair degree nothing more than an indication of the Commission's temporary helplessness in looking for a suitable export outlet.

To argue that the CAP should not be primarily based on food security considerations is compatible with the view that minimum prices should be set for farm products in order to protect both the farmers' interest and to avoid disruption in domestic supplies. But CAP prices for a considerable range of commodities are obviously far above the minimum level. The burden of high food prices, which is borne by consumers in the Community and by taxpayers who finance the surplus disposal, has little to do with food security. One should not, therefore, try to justify the CAP on these grounds.

Reasons for high food prices

It is not difficult to see, nor is it politically unfair to state, that the level of farm prices in the Community has been fixed broadly in accordance with what Ministers of Agriculture in the Council felt were the income needs of farmers. As the average farm in the Community is relatively small and over-manned, it is deemed necessary to grant Community farmers prices which are well above farm-gate prices in countries such as New Zealand with a competitive agriculture, in order to establish these high price levels which are far above world market prices, a number of measures were devised in the respective product market regimes which have an effect both on domestic markets (intervention buying) and on trade with third countries (import levies and export restrictions). In any case their main effect is to increase the price on the domestic market. The prices paid by consumers are thus raised along with the prices received by farmers.

If food prices in the Community, like those in most other countries which pursue agricultural price support, are high it is not because policy makers aim at certain food-related objectives, in other words they are not high because food is scarce. The contrary is true, it is because it is felt necessary to grant agricultural labour a reasonable income that prices are supported. High food prices are a by-product or a vehicle of an incomes policy for farmers and bear little relation to the nature of food as a commodity.

Thus food consumers are forced to pay for something which they do not really want to buy. They may well be prepared to pay a premium for safe future supplies, but producers' incomes are hardly a concern of theirs. This is not to say that there are no good reasons for a society to strive for an acceptable distribution of income between individuals and groups of people. Certainly one would not find it acceptable to exert undue income pressure on farmers, so there is little disagreement on the need for income support for farmers. However, there is no clear-cut reason why food consumers more than any other group should effect income transfers to farmers via high food prices.

Negative side effects

It is accepted that farmers deserve income support, why then should consumers not pay for it on the market place? As everybody willy-nilly is a food consumer, does it really make that much difference whether he pays as a food consumer or in some other way? The answer is definitely in the affirmative – there are considerable differences.

Firstly, there is what economists would regard as the distortion of resource allocation. High farm prices do not only fulfil the purpose of transferring income to farmers, in a market economy they also act as signals to farmers, conveying the message that agricultural production should be increased. In this way

agriculture attracts resources which could have been put to better use in other sectors of the economy. At the same time, these high prices which do not reflect the forces of supply and demand leave the consumer with a wrong impression of the scarcity of goods. Consumers are thereby prevented from adjusting their consumption pattern adequately to the degree to which various goods can be made available.

These distortions in production and consumption imply a deadweight loss for the economy caused by agricultural price support. In practical terms this means that consumers, taken as a group, have to forego more than the simple sum of money, in the form of high food prices, which is transferred from them to farmers.

High Food Prices Policy

From a slightly different point of view, it follows that high farm prices encourage European farmers to produce commodities which could have been produced more cheaply in other parts of the world, such as New Zealand. It is undeniable that Europe does not exactly have a comparative advantage in producing food in general, although some specific types of food (eg, fluid milk) are obviously best produced close to the place of consumption. Hence, in addition to the loss which the Community's economy has to bear as a consequence of its high food prices policy, other parts of the world suffer because they are prevented from making the best use of their productive capacity in agriculture. This applies particularly to regions like North America (in grains and oilseeds), Latin America (in beef and grains), Oceania (in beef, dairy products and grains) and several developing countries (in sugar, fruit and vegetables).

A more immediately visible side effect of agricultural price support is its influence on the overall price level. If it were possible to freeze, or even to lower, CAP prices gradually over a number of years inflation could be somewhat overcome. For the purposes of quick calculation, one can assume that a one percent increase in farm-gate prices leads to an increase of retail food prices by about 0.4 percent, as food constitutes roughly one-fourth of the basket of goods represented in the price index of the cost of living. A cut in farm support prices by 20 percent would therefore lower the overall price level by about 2 percent. As food prices have a certain indicator effect, for example in wage negotiations, and as major changes in prices for individual commodities are reflected in other goods' prices, the total effect may be well above this order of magnitude.

However, a cut of some 20 percent in support prices would be politically hard to implement within a short period. On the other hand under a reformed CAP one could imagine something like a five-year period, during which the annual effects on the overall price level would be rather small. In other words a lowering of agricultural price protection in the Community would be beneficial, although one should not expect dramatic results.

High food prices redistribute income in the wrong direction

Apart from the overall burden on the economy, there is one consequence of a high farm and food price policy which should have long since attracted bitter political criticism. As is argued above, agricultural price support under the CAP is mainly a policy of redistributing income, ie, a social policy. Who would expect a social policy to have highly unsocial effects? Yet this is precisely the case with price support for agriculture.

One of the few pseudo laws in economics, the well-known Engel law, says that the share of total expenditure that a family spends on food is the lower as the income of the family rises. This applies to the European Community too. A policy of high food prices means that the burden placed on poor families is proportionately higher than that on rich families. The money collected in this regressive way among consumers is redistributed progressively within agriculture. Of course farmers with large properties benefit more in absolute terms than small farmers with less revenues. But it has also been shown that, in relative terms too, large farmers gain more from price support than small farmers. In short, a policy of high farm and food prices means that the wrong consumers *pay too much to the wrong farmers.*

Are there pressures for change?

In the light of these facts one might well ask why consumers in the European Community have not yet gone to the barricades. In fact, consumers' associations in the Community have become increasingly aggressive over the CAP in recent years, but their political leverage is still extremely weak compared with that of the farmers' unions. This is to a large extent due to the fact that producers' lobbies have always been more effective than those of consumers. What it also reflects is the history of agricultural protectionism in many European countries. Farmers have become accustomed to view price support as their natural right. There is a marked tendency these days to argue for support price fixing very much in the same way as trade unions demand wage negotiations.

The average consumer, on the other hand, equally accustomed to high food prices, knows little about the actual functioning of the CAP and sees it as an incomprehensible and highly complicated machinery against which it would, anyhow, be senseless to fight. He is critical about 'food mountains' and butter sales to the Soviet Union, but is rarely aware of the fact that he has to pay much higher prices than those at which food commodities are traded internationally.

Of course one would also expect third countries which are hurt by the Community's agricultural protectionism to press for a change.

To a certain degree this is actually what they do in international forums such as the Multilateral Trade Negotiations under the auspices of GATT or in bilateral talks. The effectiveness of this influence, however, is often limited, as

the Community, like all other negotiating partners, claims that its agricultural policy is directed to domestic problems which cannot be made subject to international scrutiny.

In this scheme of things pressure for change in the CAP does not originate from abroad or from the general public, but from the policy makers themselves. Moreover, it does not stem from a realisation that the current mode of operation of the CAP has major economic drawbacks and undesirable consequences as regards the distribution of the Community's financial resources. It overlooks the point that those resources, the EC budget, are not unlimited – and that it is public money.

What are the alternatives?

Under these circumstances something has to happen very soon. If one disregards the possibility of increasing the budget, three basic options are open:

1 Support prices could be frozen or decreased without complementary measures. This would bring pressure to bear on farmers' incomes which is why the Ministers of Agriculture will probably not countenance this policy, at least not for any length of time.

2 Future growth of supply could be restricted by way of quotas. This policy would take agriculture increasingly out of the market economy and reduce it to an inefficient machinery for executing bureaucratic orders.

3 Support prices could be gradually lowered in real terms in order to bring Community prices for agricultural products more in line with what market forces would demand, while at the same time direct payments to farmers could be introduced to alleviate cases of hardship. This option would gradually eliminate the negative side effects of the current policy while retaining the original objective of income support to deserving farmers.

The Commission has in the past proposed a combination of options one and two. In other words, a quota system for milk plus some cuts in real guaranteed levels for other products. But the proposal was not acceptable. In any case, it amounts to a temporary lifesaving operation and does not provide the necessary basic reform of the CAP.

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A STIMULANT FOR BRITISH INDUSTRY
by D.A. Cable

There can be no doubt that the Government is right in making the reduction of our inflation its prime economic policy target. As inflation diminishes, the currently high interest rates should also begin to come down and, when this has also happened, the conditions are said to exist in which British manufacturing industry will be in a position to set right its besetting weakness, its uncompetitiveness. Certain politicans and economists have expressed the opinion that some special stimulant would additionally be needed, if the hoped-for revival of our industries shall indeed materialise, but they have not indicated what form the stimulant should take. Mainly Trade Unionists have been specific on this point when asking for the imposition of various trade restrictions, but one can only assume that this request has been prompted by a sense of desperation, since the proposers will be well aware that damaging retaliation could follow from the side of nations adversely affected by our measures.

In the not so distant past we did actually have the conditions of a modest inflation and low interest rates now being aimed for, in addition to which the Sterling rate of exchange then was no hindrance to exporting. Yet, it was whilst such conditions obtained that the last acute phase of our industrial decline set in and developed. There is now no evidence to prove that we would do better when we have again reverted to a more favourable monetary climate. On the contrary, adverse factors of crucial influence not previously experienced will also have to be reckoned with.

By now British industry has in large measure come to lag behind its competitors in general efficiency, a fact not present before. Our labour force has been educated to demand wages quite unrelated to productivity, uniquely amongst Western nations. It would also be surprising indeed if our spirit of industrial enterprise had not come to suffer from all the difficulties it has encountered for so long.

Need for a Powerful Stimulant

Finally, the Sterling rate of exchange is today in many instances a serious hindrance to our exports. Even when the cost of money to industry has become more bearable, we shall consequently from our behindhand position have to contend with competitors who are not saddled with our serious handicaps, and who have a natural interest in maintaining their lead. In the light of these depressing facts it would be totally unrealistic to expect to see British industry all along the line developing the degree of competitiveness necessary in the world of today, unless through the introduction of a powerful stimulant to its performance an entirely new climate is created for it. If this does not happen soon, the decline may prove irreversible.

The normal precondition to general industrial competitiveness is that a country's economy shows a healthy growth. Economic growth means that

more orders than before are flowing to industry, and the resulting larger production volumes is then the key to such higher productivity which permits sales at competitive prices whilst satisfactory wages are paid. Only the relative certainty of larger order volumes in any manufacturing undertaken will give our sorely tried industries the courage to embark effectively on the task of their own salvation. The stimulant industry requires must obviously be one that in a direct and severely practical manner will provide order volumes larger than before. Accordingly, we should at the earliest practical moment announce to the world that, as from a specific date and initially for a period of ten years, all imports of physical goods into Britain (with possible specified exceptions) will be paid for in Sterling that can only be used for the purchase of British physical goods that are exported.

This rule shall apply to the relevant foreign imports whether arriving under effected deals, for assembly purposes or for consignment stocks here. The Sterling proceeds will for the foreign beneficiaries be held by British banks in a special account which, in view of the origin of the monies, can suitably be called Sterling Goods Account. It will be mandatory on all importers in Britain to mark their instruments of payment and instruct their banks so as to direct the payment to the Goods Account. Money held in the account shall not be eligible for interest payment, but may be used by the owners for payment to third countries anywhere else in the world. Goods Sterling thus transferred to third countries shall retain its special character of use and not earn interest. Correspondingly, Britain should in its announcement declare itself prepared to accept that the proceeds of British exports initiated from here are subjected to similar regulations in the countries of their destination as Goods Sterling is here, which may in some cases imply that export invoicing must be made in the currencies of the countries of their destination. In respect of British Sterling payments on invisibles, services and capital movements, no change from the present need occur.

A Sterling Goods Account

The effect of these currency regulations would be that anyone selling foreign physical goods to Britain will thereby have created a direct or indirect demand for British physical goods of equal value. To the extent that foreign imports may fall, British domestic production will score. The only British administrative measure required for bringing the plan into operation – apart from the actual announcement – is for our banks to establish a Sterling Goods Account. For the effect the measure would be likely to have, it is probably the simplest conceivable. In the period during which the plan would operate British Industry must go all out to lift itself to a competitive quality which will endure. As there should be no restrictions on foreign imports to Britain, and as our markets have an immense importance to our present competitors, there will be the strongest possible inducement on both sides to adapt their industries mutually so as to suit the payment arrangement. Equally, since British industry must still potentially reckon with competition in every field, there is little likelihood of such industrial feather-bedding to develop as could be the consequence of direct import restrictions.

Quite apart from Britain's need to resort to economic measures of the aforesaid nature for its commercial salvation, the measures as such could gradually come to find a more universal application around the world. Whatever the cause may be of marked disparities in industrial productivity between nations, it cannot in the world of today be right to allow such differences to lead to a total elimination of industries in the less efficient countries, without some countervailing compensation being organised simultaneously to sustain them. The fundamental humane justification for this is that the possibility of wholesale emigration of redundant labour forces no longer exists. Alternative employment in their own countries must be found for them, and it is most natural that help should be coming from such countries whose success in some particular field largely lies behind a redundancy problem elsewhere. The efficient must not by their very efficiency indirectly kill their customers, as this would prove self-defeating.

Sell Less or Purchase More

To countries who have a more or less balanced reciprocal trade with us, the introduction of the Sterling Goods Account will not mean a great change. Countries who in their trade with us normally have accumulated a large Sterling surplus will either have to sell us less, or purchase more from us, or when themselves importing from third countries make it a condition that payment is made in Goods Sterling. Considering that Sterling is likely to remain a stable currency and that a world-wide recession prevails, the last mentioned disposal method of Goods Sterling should not prove very difficult to apply, with the prospect of a pattern developing. A possible tendency in holders of Goods Sterling to dispose thereof to third countries at a discount would to Britain be almost an advantage, since it would be tantamount to a subsidy being provided at the holder country's expense on the British physical goods the Sterling would pay for next. The present tendency of some countries to grant subsidies on exports to Britain would probably be progressively resisted by their central banks.

The economic measures suggested here may, all according to the products involved, either lead to reduced sales to us, or larger purchases from us, from abroad, but they will for a long and dependable time give British Industry the chance of having such larger volumes in any manufacturing undertaken, upon which higher productivity and greater competitiveness largely depend. This is a possibility we are no longer in a position to turn aside. The objections others may raise against our action could only be described as formalistic when set against the calamity to us that could result from inaction.

NEW ZEALAND'S BUTTER EXPORTS TO U.K.

New Zealand is dependent on its dairy and meat export industries for its economic survival. The country has already suffered from a serious decline in its overall terms of trade with the rest of the world. Without adequate access for butter to the EEC, the New Zealand dairy industry could face virtual collapse, and the New Zealand economy would be seriously damaged.

Dairying provides around twenty per cent of New Zealand's total export income. The UK butter market accounts for thirty per cent of the value of dairy exports and even more importantly is by far the largest market for milk fat products without which sales of casein and skim milk powder to other parts of the world would not be economic.

During Britain's negotiations for entry to the EEC it was accepted by the member states that because of the overwhelming dependence of New Zealand dairy exports on the UK trade, special provisions were required to prevent the collapse of the N.Z. dairy industry. Thus, in 1973, the Treaty of Accession embodied special provisions set out in Protocol 18, providing for the continuation of N.Z. exports to the UK at the following levels:

	Butter (Tonnes)	Cheese (Tonnes)
1973	165,811	68,580
1974	158,902	60,960
1975	151,994	45,720
1976	145,085	30,840
1977	138,176	15,240

At their meeting in Dublin in March 1975 the Community heads of Government underlined the importance attached to Protocol 18. The 'Dublin Declaration' recorded the wish for even closer co-operation with N.Z. in providing for the orderly development of international dairy markets. In June 1976 it was agreed that access to the UK for N.Z. butter should be fixed at 125,000 tonnes for 1978, reducing to 115,000 tonnes for 1980. After 1977 access for N.Z. cheese was denied but the 1979 GATT multilateral trade negotiations provided entry to the Community for 9500 tonnes of N.Z. cheese annually commencing in 1980.

	Butter (Tonnes)	Cheese (Tonnes)
1978	125,000	–
1979	120,000	–
1980	115,000	9,500

New Zealand exports to the UK prior to 1970 totalled around 170,000 tonnes of butter and 75,000 tonnes of cheese annually. These have now been cut to 115,000 tonnes of butter and 9,500 tonnes of cheese. New Zealand has had to find new markets or alternative uses of milk for the equivalent of 55,000 tonnes of butter and 65,000 tonnes of cheese annually. Markets to accommodate a further sizeable cut in the current N.Z. butter quota simply do not exist, and access at around current levels is essential if the New Zealand dairy industry is to survive.