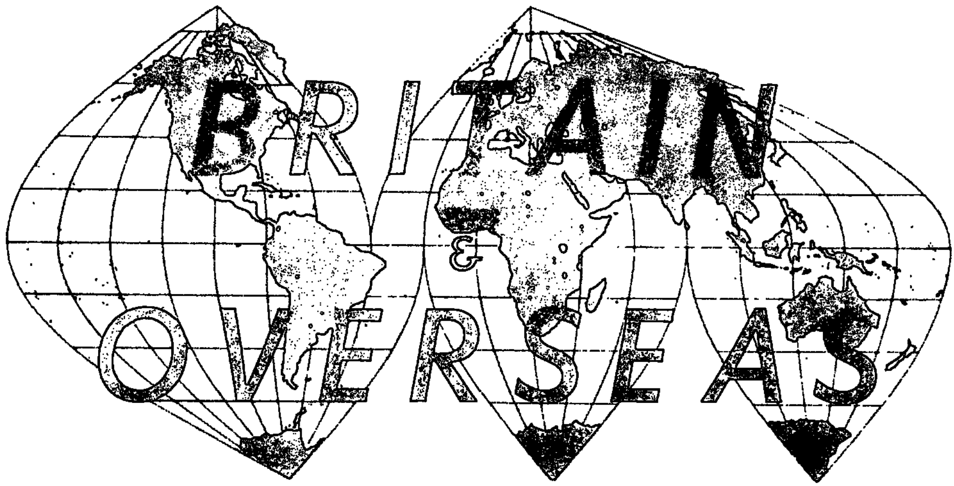

A DIGEST OF NEWS AND VIEWS ON BRITAIN'S ECONOMY AND OUR ROLE IN OVERSEAS TRADE AND PAYMENTS

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PUBLIC SECTOR DEBT

The Prime Minister made an interesting comment in the economics debate on 29th October. She said "Gross interest on public sector debt was estimated at nearly 15 billions this year, more than the Government was spending on defence, education or health." Mrs. Thatcher went on to say - "We can scarcely go on issuing public debt at this rate." It seems somewhat strange that although the Government is seeking every avenue to cut expenditure, they seem to ignore one area in which would be relatively easy to reduce their indebtedness; that is the cost of borrowing from the banking system.

Governments have constantly found themselves with a choice between curtailing expenditure and financing it by the creation of new money. To their credit, the present administration has opted for the former choice. Incredible as it may seem, however, they have allowed others to issue the greater part of the money supply and then have borrowed it from them at interest.

As we have previously attempted to show, if the State had resumed its historic privilege of themselves issuing all forms of money including credit, vast sums in payment of interest could have been saved. Recent research initiated by the Economic Research Council puts the figure as high as £30,000 million since 1945. It is a strange contradiction that we operate a monetary system in which the nation's small change, i.e. notes and coins, are issued free of debt and free of interest. Profits on issue accrue to the National Exchequer. By far the greater proportion of the total money supply, i.e. credit, is created by the banking system. Moreover, it is issued as a debt on which interest has to be paid.

Banks Create Credit

There are some who still hold the view that the banks cannot create credit. For example, a correspondent writes - "By law Banks may not lend more than a certain percentage of their deposits. These deposits are for real: banks may not create a deposit, it is what they owe to someone." But this view is not supported by official pronouncements from leading bankers and official bodies. For example, in the Memoranda of Evidence to the Radcliffe Committee on credit and currency (Vol. 1) under the heading THE CONTROL OF BANK CREDIT IN THE UNITED KINGDOM, the Bank of England stated - "If the Exchequer borrows by issuing Treasury Bills which are taken up by the banks and spends the proceeds (so that the cash borrowed finds its way back to the banks) the liquid assets and deposits of the banks will be increased and they will be put in a position to increase the supply of bank credit. Indeed, because only a proportion of the banks'

deposits requires to be covered by cash and other liquid assets, a given loss or gain of liquid assets by the banks has an effect several times as great on the potential of bank credit." This is no new theory, however, for way back in June 1931 the Macmillan Commission reported "It is not unnatural to think of the deposits of a bank as being created by the public through the deposit of cash representing either savings or amounts which are not for the time being required to meet expenditure. But the bulk of deposits arise out of the actions of the banks themselves, for by granting loans, allowing money to be drawn on an overdraft or purchasing securities a bank creates a credit in its books, which is the equivalent of a deposit."

The Chairman of the Midland Bank, who was also a former Chancellor of the Exchequer, the Rt. Hon. Reginald McKenna told a shareholders meeting "I am afraid that the ordinary citizen will not like to be told that the banks can, and do, create and destroy money. The amount of money in existence varies only with the action of the banks in increasing or decreasing deposits and bank purchases. Every loan, overdraft or bank purchase creates a deposit, and every repayment on bank sale destroys a deposit." The Encyclopeaedia Britannica, Vol. 15 under "Money" is very explicit - "Banks lend by creating credit, they create the means of payment out of nothing."

The late Vincent Vickers, a former director of the Bank of England wrote in 1936 in a booklet entitled "Finance in the Melting Pot' - "In the first place we have to remember that under the present system money comes into circulation through the banking system only as a "debt" on which "interest" has been or must be paid. This seems to me of fundamental importance, and if examined in relation to the whole community or nation, its effects are clearly more than adequate to explain the situation to which our economic system has bought us..."

..."Further when we realise, on top of all this, that the "credit" thus lent at interest by the banking system is not money which is the property of the banks, but is created by them on the strength of the industry and prosperity of the entire community, one cannot help wondering whether the system is not capable of improvement so as to be somewhat less one-sided and dictatorial, and to afford more genuine service to productive industry, and the community at large."

There are many other authorities who can be quoted in support of the fact that, in its normal day to day business, the banking system is responsible for creating money in the form of credit. For example, in his book on 'Economics' Professor Paul Samuelson explains in detail how "the banking system as a whole can do what the small bank cannot do; it can expand its loans and investments many times the new reserves of cash created for it." So there is no longer room for doubt that the banking system can 'create credit' so long as there are credit-worthy borrowers requiring loans.

Question which arises

The question which then arises, why does the Government continue to borrow credit from the banking system instead of exercising its privilege of issuing all forms of money, including credit? The strange contradiction in our present monetary system is that notes and coins, which provide the nations' small change are issued free of debt and free of interest. Moreover, the profits on issue of this form of money accrues to the National Exchequer. But by far the greater proportion of the total money supply, i.e. credit is created by the banking system, and is issued as a debt bearing the appropriate rate of interest.

The effect of this is clearly shown in the new publication *issued by the Economic Research Council. This study provides the facts and figures about the creation of credit and shows that the cost of servicing the National Debt has risen from £705 million per annum in 1955 to £8,661 million in 1980. No wonder the Prime Minister said - "We can scarcely go on issuing public debt at this rate."

This publication examines the way in which money, in all its forms, comes into circulation. Having studied the evidence it comes to the following main conclusions:-

(1) that the State should create all the currency and credit needed to satisfy the spending power of the Government and the buying power of consumers.

(2) the power of the banks to increase the amount of credit money in circulation should revert to the State. Had this been done since 1945 some £30,000 million could have been saved by the Government if they had maintained their historic privilege of themselves issuing all forms of money including credit.

The study gives full recognition of the value of the service that the banks provide for the community, but suggests that an examination of these services shows them to be essentially book-keeping. The report says "It is misleading to describe the banks services in financing Government expenditure out of newly created credit money as "lending". The word should not be used in this connection as it creates a false picture of what really happens. The result is that we have allowed private institutions to usurp the right to issue our money and to make very handsome profits thereby."

*** Government Debt and Credit Creation Research Report No.9 published by Economic Research Council 55 Park Lane W.1. £1 (15p post)**

Payments of Interest

The report estimates that in 1980, the Government borrowed £11,154 million and spent £8,661 million paying interest on previous debts. The interest payments represented 10.6% of Central Government current expenditure. In the light of this it is interesting to recall that as long ago as September 1943, the 'Economist', in an article entitled "The Future of Banking" made this statement - "The only justification that can be advanced for charging anything like commercial rates on created credit lent to the Government is that the banks incur costs in handling the deposits to which their loans give rise. But if depositors bore the cost of handling, this argument would disappear."

It is strange that the present Government in its anxiety to cut public sector borrowing apparently ignores the benefits which would flow from discontinuing the present system of borrowing newly created credit from the banking system and continues to allow others to issue the greater part of the money supply and then borrows it from them at high rates of interest.

Over the years there have been many attempts to bring this issue before successive administrations. So far they have either been ignored or have met with misleading replies.

As will be seen from the review on page 7 of this issue, the question of the issue of money and credit is very much alive in the United States, where the Reagan administration is confronted with problems similar to those of the United Kingdom. It is to be hoped that the publication of the Economic Research Council's new booklet will stimulate questions and discussion on both sides of the Atlantic on a subject of great importance to our future welfare.

INDUSTRY AND ECONOMICS

by Sir John Greenborough K.B.E.
(Immediate Past President of the Confederation of British Industry)

Management should strive constantly to involve their whole work force in the main objective of industry - the creation of wealth. To make this effective, management has to get the real facts of their company over to the work force, to create understanding between labour and management, from whom has to come the initiative. This means adequate communication, being careful not to by-pass middle management, supervisors, foremen and shopstewards, in getting through to the shop floor. This is difficult, but absolutely essential.

High inflation has been central to many of our other problems. It has eaten away at our ability to compete, weakened our incentives and eroded our sense of realism. It has been unfair and has made sensible forward planning difficult, if not impossible.

High pay and poor productivity

Inseparable from inflation - feeding it and feeding upon it - has been our record of high wage settlements and slow improvements in productivity. Between 1970 and 1980, U.K. pay went up by 346 per cent, productivity by a mere 26 per cent. For our main rivals, the figures were 190 per cent for pay and 52 per cent for productivity. In short, we have paid just under twice their wage increase for just half their extra productivity.

Until 1976, the resultant worsening in our relative unit labour costs was offset by devaluation and successive depreciations of sterling. But since then, this worsening has been compounded by a rise in our average exchange rate and our cost competitiveness has deteriorated dramatically.

We have seen some important achievements this year in getting inflation down, in lower pay settlements and in productivity, but the gap that has arisen between ourselves and our main competitors is still so wide that a great deal remains to be done.

Our loss of competitiveness has seriously cut back our profitability. The real rate of return on money invested by industrial and commercial companies (excluding North Sea activities, but before interest and tax) has fallen from 14 per cent in 1960 to under 3 per cent in 1980 and 2 per cent in 1981. After interest and tax, profits in 1981 are negative. This has led in turn to a serious cutback in investment, resulting in out-of-date equipment and limited investment in new technology, thus widening the gap between us and our competitors overseas.

This climate has contributed to other defects in overall competitiveness - too often in design, quality, marketing and after-sales service as well as cost and price. In too many cases the result is a declining market for British products at home and abroad.

Government spending

More and more of our national income has gone into the government purse at central and local level to finance government spending. At the same time government spending on capital projects has been steadily cut. The country, unlike most, would be self-sufficient in energy, including oil, for at least a generation, Coal supplies would last much longer. Potential creativity is there if backed by the understanding of reality. We have a moderate work force, but the main evil was inflation which is beginning to come down. A reduction of £3 billion is needed in public expenditure, to give wealth creating private enterprise a chance.

Management needs dedication to the growth required to support high wages with high productivity, not the kind of manager who refused a meeting on a Wednesday because it cut into two 'weekends'. Better understanding between labour and management is essential, but the initiative must come from management. The key word is 'involvement' which must be based on adequate communication, which has too often been lacking in the past. (Summary of a talk given to members of the Economic Research Council in London on 12th November 1981).

THE TRUTH IN MONEY BOOK

by Theodore R. Thorenson and Richard F. Warner

Reviewed by M.A. Cameron

In studying the cause of monetary instability, the authors found that conventional economic thought has to be over turned to allow simple truths to operate, by applying honesty and common sense.

Inflation is caused by gross errors in the design of the American monetary system. The Federal Reserve System set up by the Federal Reserve Act by Congress in 1913 provides that most of American money and credit comes into existence as debt, which has ultimately to be repaid to the private Federal Reserve and commercial banks. Thomas Jefferson is quoted:-

> 'The issuing power of money should be taken from the banks and restored to Congress and the people to whom it belongs. I sincerely believe that banking institutions having the issuing power of money are more dangerous to liberty than standing armies.'

Then, Abraham Lincoln:-

> 'The Government should create, issue and circulate all the currency and credit needed to satisfy the spending power of the Government and the buying power of consumers. The privilege of creating and issuing money is not only the supreme prerogative of Government, but it is the Government's greatest creative opportunity. By the adoption of these principles, the long felt want for a uniform medium will be satisfied. The taxpayers will be saved immense sums of interest. The financing of all public enterprises, the maintenance of stable government and ordered progress, and the conduct of the Treasury will become matters of practical administration. Money will cease to be the master and become the servant of humanity.'

The FED

But in 1913, Congress handed over the creation of credit to the privately owned Federal Reserve System, with the result that the Federal Debt in 1979 was $834 Billion and the annual interest on that debt was $48 Billion. Roughly 25% of the U.S. money supply is in cash, 75% in bank deposit credits, entries in depositors' pass books and bank records, and created by the Federal Reserve System. This System has (1) a Board of seven Governors appointed by the U.S. President for a 14 year term and confirmed by the Senate; (2) twelve Federal Reserve Banks spread around the U.S. These Banks are private corporations, not Government agencies. They create money out of thin air by writing cheques against no funds to meet their expenses (e.g. employees' salaries and real estate taxes) thus spending money into circulation; also to buy Government Bonds from the U.S. Treasury - lending money into circulation, at interest, making book entries of cheque book credit to the U.S. Treasury.

As the Treasury never collects enough in taxes to cover all the debts that Congress contracts for, the difference is made up by borrowing at interest from the money creator - the Federal Reserve Banks. There is a Federal Debt limit, but Congress has raised this again and again, e.g. from $350 billion in 1967 to $836 billion in 1979. The Treasury writes up an interest bearing bond for the money it needs, say $1 Billion. The Fed. buys this Bond and in exchange gives the Treasury a Bank Deposit Credit for that billion; so the Fed. has created out of nothing $1 billion of debt against the American people, who then have to repay the loan at interest or redeem the Bond. A Congress Committee in their publication 'Money Facts' (1964) when asked where the Fed. got the money to create bank reserves, answered plainly 'It doesn't get the money; it creates it. Whenever the Fed. Reserve writes a cheque, it is creating money.'

Creation of Money

This power to create money, given by the Constitution to Congress, has been delegated in creating the Federal Reserve System, an Agency Congress authorised to create money.

The authors then show in detail how a Treasury cheque for $1,000 to a contractor, if the Federal Reserve requirement for Banks is 15%, is the basis for a credit expansion to $6,667. This is Fractional Reserve Banking which allows a vast expansion of credit - and of the interest burden, because banks have to keep as 'required reserves' only a fraction of the amount needed to meet all the claims against them.

The Federal Banks are bankers' banks; and when a commercial bank sends a U.S. Treasury cheque to the Fed. to cancel, the Fed. then increases the Reserve Account of that bank by the amount of the cheque. The commercial bank can then create more deposit credits as loans to other borrowers. 'Reserves' are deposits in the form of book entries at the Fed. Reserve Banks to the credit of the commercial banks, and cash currency obtained on request from the Fed. is part of the commercial banks' reserves. Reserves are the monetary base for the system, and their only source is Fed. Bank cheques - which are written against no funds.

The authors point out how the Consumer Price Index has risen year by year in line with the money created by the Fed. Reserve privately owned system, and how the purchasing power of each dollar has therefore gradually collapsed, so that a 1914 dollar is now worth 13 cents, while the total debt (in 1979 $830 billion federal debt plus $4,000 billion private debt) has soared. The annual interest on this debt in 1979 was $300 billion, and is increasing exponentially. As interest cost is regarded by the Internal Revenue Service as a legitimate business expense, it is passed on by borrowers to their customers, inflating the price level. The Government keeps pumping bank created money into the system, while interest and principal repayments to the banks are syphoning it off at an ever increasing rate.

Debt Free Money

Congress could create debt free money, as has been done in the Channel Islands, to pay Government bills, and to lend at interest to credit-worthy borrowers. As these paid interest, and part of the money paid out to Government servants and contractors returned in taxes to the Government, it would be cancelled, to maintain a balance between national revenue and national spending. But the Treasury must be the one and only source of the money in the economy. Income tax could disappear. Interest rates charged on Government loans to industry and individuals would be regulated mathematically to withdraw money from circulation at the same rate as money was being spent out interest free in Treasury expenditures.

This small (173pp) book in dialogue form is liberally illustrated by diagrams and backed by many footnotes quoting the authorities for the statements made, so that it can claim it is based on facts, and that it is the most important book on money we shall ever read.

[Published by Truth in Money, Inc. P.O. Box 30, Chagrin Falls Ohio 44022 Price 5.95 U.S. dollars postage 83 cents.]

CANADIAN CONSTITUTION PROBLEM SOLVED

A Consensus Reached

When Prime Minister Trudeau comes to London to present his request re: "Patriation of The Canadian Constitution", he will now be able to present to the British Parliament the important and significant information that he now has 90 per cent of the country's Provincial Governments with him. Up until that "all night meeting" last week he only had two Provincial Governments with him and he had eight Provincial Governments disagreeing with his proposed procedure. Now, it's all changed and the Parliamentarians at Westminster can breathe a sigh of relief, because, according to the Canadian Supreme Court's decision on the matter, a "consensus" has now been reached as nine out of the ten Provincial Governments have agreed on how to patriate the constitution, this is more than enough to allow the rubber stamping of the "bill" when it is presented.

The Agents General in London (who are the Provinces official representatives in the U.K.) have played a significant role in the "constitutional discussions". Several of them have already indicated their sincere appreciation for the tremendous support the Provinces have received from so many Members in the House of Commons and the House of Lords. The feeling is, in many circles, that it was this support from these two bodies at Westminster that helped bring the whole constitutional debate to a successful conclusion. This along with the undying efforts of the top Canadian politicians who were determined that a consensus must be reached - and it was reached Thursday night (November 5). Now after all these years it would appear that it is just a matter of weeks before Canada will take home their beloved constitution.

The Province of Quebec is the only Province that has decided not to go along with its sister Provinces nor the Federal Government in the proposed agreement package deal.

(from British Columbia Newsletter November 1981)

THE TREND OF THE FUTURE

by Ken Tod

The Observer commented recently on the answers of a number of Europeans to the question: "What do you think of the British now?". Among all the expected criticism came the answer of a single Dutchman: "The British? Years ahead of the rest of us - as usual".

He was not referring to Mrs. Thatcher's bold attempt to restore honest money nor to efforts to halt industrial decline. He saw the people as a whole, rather than their governments, turning away from preoccupation with industrial production and looking towards a fuller life devoted to less dreary activities.

If that Dutchman is right it is not the first time in history that those with the right answer have been in a minority of one. The British are quite used to being sneered at for bucking the fashionable trend and turning with some mysterious unconscious instinct to the trend of the future. When Napoleon, blinkered by age-old obsessions with power through European conquest, dismissed the British as a nation of shopkeepers, he was quite right.. British attention was concentrated (whatever the history books say) on production and trade. That was the trend of the future and

the result was that great burst of international trade in which Britain was unchallenged for a century.

It is hard to remember that not long ago all the world scoffed at the British for their love of games: "Grown men kicking a ball about like children". Now all the world is kicking it about.

Rejection of Opportunities

Today it seems that the British people are turning away from the desire for riches and power. They seem to reject opportunities to earn money (though not to getting it for nothing). They have allowed their merchant navy to be decimated in spite of their dependence on world trade and the many ferry services to and from our coasts to be owned and managed by others - an unprecedented position for a country with a coastline like ours. All this with scarcely a whimper.

A British visitor to Jerusalem found that no British firm had tendered for rebuilding the dome of the Church of the Holy Sepulchre. On return he mentioned this to a contractor who then tendered, was accepted and made a good job of it. And this was no peanuts; the job was worth £700,000. So the restraint is not always incompetence. It is lack of interest. In our daily lives too we have all been irritated by the apparent lack of any wish by shop assistants to make a sale. It is difficult to get a builder or plumber to take on a job despite millions of unemployed. Even bicycle clips: my suppliers could not get any in Britain and had to get them in Germany. The simplest child's wooden toy has to come from Sweden. We seem to be resigning from the economic league competition.

So what is now the trend of the future and is that mysterious instinct at work again? If that Dutchman is right these things may be the signal that the struggle for economic dominance (or domination) may be on the way out, following the eras of military conquest and colonialism. All are aspects of the urge for one people to dominate others. Can we detect from the British posture what aims will come next?

What Comes Next?

One can detect a rejection of the tyranny of the conveyor belt and submergence in some gigantic corporation; a more relaxed attitude so that a manager is not necessarily failing at his job if he does not get stomach ulcers; a striving for improved quality of life - not to be confused with standard of living which is too often measured by the number of cars or television sets per family; rejection of a stupid economic system which piles up surplus food mountains while half the world is undernourished.

Not surprisingly people prefer to do what they like doing even if the money is not so good. The conventional wisdom that money compensates for anything is being questioned. In any case dreary factory and office work is being increasingly taken over by robots, computers and mechanical contrivances. A major part of quality of life is to enjoy one's occupation. Most people prefer working for a small, or preferably a very small, firm. One gets more willing, cheerful service from such a concern, particularly one with a good profit-sharing scheme, even if the money is not so good as from a great corporation. Hand craftsmanship is growing in popularity both with the operator and the buyer. Ryecotewood College reports no unemployment among their graduates trained in design and production of fine hand-made furniture. Perhaps hand craftsmanship will come to fill much of the gap in employment created by robots and computers, leaving ample room for active leisure supported by suitable education and provisioned by a sensible system of money distribution to absorb the robots' production.

Whether or not you like the look of such a future is irrelevant. To be years ahead of the rest may mean years ahead in the rush to disaster. Probably one Gaderene swine was yards ahead of the rest in the stampede. The question is, is a major change from the present system through its own contradictions. Technical developments in automatic production have reached a stage where Full Employment in the accepted sense is a nonsense, however handy a stick it is to beat the government with. Some new pattern of living must be in the making somewhere.

Perhaps that lonely Dutchman is right.

MOSCOW'S BLUEPRINT FOR A COMMUNIST WORLD

Evidence that the West is living in a world of self-delusion about Soviet intentions is given in a study published in August entitled They Mean What They Say.[1]

The author, Mr. IAN GREIG is the Deputy Director of the London-based Foreign Affairs Research Institute and he has compiled a 118 page report on Soviet policy statements on ideology, foreign policy and the use of military force.

In exactly the same way that few in the Democracies took any notice of what Hitler wrote of his intentions in Mein Kampf, so today few in the West appear to be taking seriously the policy statements made by Soviet leaders on how they intend to Communize the world by means of a world revolutionary process.

While the West puts its faith in detente, arms control, reason, restraint and negotiation, Moscow is in reality living in a different world of total political aggression against all non-Communist (and some Communist) states and peoples.

In chapters concerning the general principles of Soviet foreign policy, the Soviet interpretation of detente, the class war, Soviet military doctrine and the attitude to nuclear war, the statements reveal that Moscow has a strategy for the conversion of our democratic plural system into a one-party Communist system. This is to be done by building up the military might of the Warsaw Pact so as to be able to dictate to the West; by undermining the capitalist system from within and by the use of indirect aggression through supporting wars of "national liberation" in the Third World. This three-pronged world revolutionary process specifically rejects compromise, restraint or convergence. Moscow declared war on every non-Communist state in 1919 through the Comintern, and today it is politically committed to bringing this 60 year-old compaign to a victorious conclusion.

The whole thrust of Soviet ideology, foreign policy and military strategy is offensive. Its aim is to foment an implaccable international class war leading to revolution in the target countries.

Furthermore the Soviets are not only in a state of permanent conflict with the non-Communist world but with the people whom they hold sway - Poles, Czechs etc., hence the Brezhnev doctrine which justifies the use of force to prevent any democrat in the Communist system from trying to convert it into a free democracy.

To the Soviets, peace will only be achieved when the whole world is Communist and subservient to Moscow.

The study ends with Soviet statements during the last two years on trouble spots throughout the world.

1 They Mean What They Say: A Compilation of Soviet Statements on Ideology, Foreign Policy and the Use of Military Force. By Ian Greig, Foreign Affairs Research Institute, 27-31 Whitehall, SW1A 2BX. £5 or $10.

THE EUROPEAN MONETARY SYSTEM (II)

by Sir George Bolton, KCMG

The European Monetary System has been the subject of considerable recent comment due to a peculiar combination of circumstances which have elevated membership of the EMS by Britain as a stabilising element in the operation of the European Economic Community. At a time when Europeans are huddling togeth like sheep in the face of an unknown enemy, it is perhaps understandable by those who believe in the inherent power of Europe to support this recommendation. I believe it to be a mistake to assume that Europe's position in the world has improved or that its influence world-wide has increased.

If one looks at the Europe of today uninfluenced by the past it is difficult to believe that Western Europe is likely to improve its economic or political performance. The German political situation has been dominated by Helmut Schmidt who is now an ill man. France is moving along the Socialist road and will undoubtedly suffer, from an economic point of view, as a bourgeois Frenchman decides to protect, by whatever methods possible, his property. Holland and Belgium are basically without a Government and Italy survives, in spite of Government, because of the extremely well-knit family arrangements which replace Government.

In spite of the U.K's internal political embarrassments it still represents a people with a Parliamentary history of hundreds of years and a Royal Family which has been the keystone of the organisation of the country. Above all, we are self-sufficient in energy, which is not true of any other member of the EEC. NATO, with the full support of America, has been the shield of Western Europe for 35 years but is now rent with disturbances arising from the disposition of nuclear weapons and the share which each country should take in the overall costs of the Organisation.

HIGH COST ENERGY

The tensions in the western world arise substantially from the imbalance created by the OPEC countries' possession of vast amounts of foreign exchange, much of which they can only invest and cannot spend. The impact of the high cost of energy has yet to be felt by the western economies and, in addition, its industries have been further damaged by the effect of Eastern (notably Japanese) competition which is wrecking all the mass-production industries. Amid the many difficulties which Europe is facing one should not overlook the fact that it is a high-cost food area which adds to the problems of foreign trade.

We are all, in the western world, subject to economic storms which appear to grow rather than diminish. America, about which everyone had hoped there would be a major economic improvement during 1982, appears to be a rather worse muddle than was anticipated, and nothing can be expected from an administration which is more determined to protect the dollar and fight unemployment than worry about the anxieties of the world, including her allies. In these circumstances, for the U.K. to join a monetary system which purports to provide stability of the exchanges is imprudent. There is no inherent stability in the world; the Agreements which have kept the western world together since 1945 have greatly weakened and there is the possibility of America being tempted to leave Europe to defend itself. It was probably not realised at the time, but the United States may regard the EMS as a rival - in particular a rival to the IMF which is still functioning in Washington as a short-term credit operator - and it would seem prudent, from a British point of view, for us to remain in our present position - supporting but not becoming a part of a disunited Continent.

Russia - past its peak?

We should not entirely leave out of account the possibility that Russia

has now passed its peak and apart from multiplying its store of arms is less and less capable of maintaining the whole Communist machine in working order. Poland is a good example of this, where the Russians have, from time to time over the past months, considered the occupation of that country but have clearly been worried by the consequences. The recent action by the Polish Government to rejoin the IMF is important for the future and may be the beginning of a movement by all the Eastern countries towards freedom from Communist domination.

Although everything is against the IMF at the moment, there is probably more to be gained by inviting America to consider the formation of a Standing Committee to bring the articles of the IMF up-to-date instead of trying to create a feeble European Monetary System. The IMF is a truly international Organisation with an experienced staff, and most countries are members and have accepted the rules and regulations. It would be, in my opionion, impossible to organise another international Organisation to replace the IMF if for no other reason than the conflict between the Communist countries and the western world.

THE EUROPEAN SUMMIT

Public opinion, already increasingly hostile to our continued membership of the European Community, will not have received much reassurance from the failure of the 10 member states to reach agreement at the European Council meeting held recently at Lancaster House, London. After two days of concentrated talks and an all-night session by officials, the most that was achieved was agreement to arrange another special meeting, this time of foreign ministers. This meeting will also take place in Britain and it is intended to restrict it to as few officials as possible.

It is now clear that the original plan to obtain agreement by the end of 1981 is not likely to be feasible. The foreign ministers when they meet will be faced with a mass of technical detail which they will have to plough through in the hope that they might find a way to reach some kind of agreement

According to 'The Times' "The British Government is out of step with almost all its Community partners in opposing exemption of small producers from the milk co-responsibility levy." According to other reports Mr. Pierre Werner, the Luxembourg Prime Minister pressured Mrs. Thatcher to agree to take sterling into the European Monetary System. This met with a very cautious response. The British Prime Minister avoided any commitment about this. She simply noted that the future of the EMS would be reviewed at the next European Summit meeting in March. The official view is that Britain will join the EMS only when the time is ripe.

Mrs. Thatcher took the chair at the summit meeting; she said at the conclusion at a subsequent press conference - "We had two very, very useful days. I would not account it a failure at all. On the contrary, we had more detailed discussions than I have ever known in any European Council meeting before." In spite of her brave words, however, there is no doubt that the outcome is a severe blow to her hopes that the British presidency would result in bringing a successful conclusion to the arguments which have certainly undermined the European Community for a long period of time.

The basic issues which doomed the summit to failure were, according to Mrs. Thatcher: community policies on milk production, spending on agriculture, relationships with the Meditteranean, contributions to the EEC budget. These issues are likely to become even more complicated by the forthcoming admission of Portugal and Spain to the Community.

Speaking to members of the Safeguard Britain Campaign in London recently, Mr. Peter Shore, the British Labour Party's front-bench spokesman on economic affairs, described the European summit meeting as a useless exercise. For all the use it had been, it might just as well never have taken place and the heads of government might as well have stayed at home.

Mr. Shore claimed that the cost to the British consumer of "imprisonment" within the CAP and the denial to Britain of other low-cost imported foodstuffs in an average year, is no less than £3,000 million. The budget arrangements, in spite of the temporary reduction which Mrs. Thatcher obtained, cost at least another £1,000 million a year.

Mr. Shore went on to refer to a dangerous proposal that had now been produced for extending the range and competence of "this moribund organisation". The new European Act, formulated by Germany and France, would take a long stride down the road to unwanted European union.