BRITAIN & OVERSEAS

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

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PREROGATIVE AND OPPORTUNITY

BY Sir Arthur Bryant C.H., C.B.E.

Some time ago the Chancellor of the Exchequer gave a definition of the national problem, both moral and physical, with which he and the Government have been struggling so hard and so long to solve. "Britain," he wrote, "suffers from a sort of economic arthritis: an instinct to resist change and to try to protect established interests, despite the cost in terms of lost opportunities for development and growth." Nowhere has that instinct been stronger than in the great department of state over which Sir Geoffrey himself so conscientiously presides, the Treasury. For the most striking symptom of this fatal economic arthritis has been its almost total failure, despite every effort, to control the money supply and so reduce inflation after nearly three years under an administration which has been seeking by every means in its power to do both those things, while facing a harrowing increase in unemployment to a figure of over three million and an ever-mounting charge on the taxpayer for maintaining this vast and reluctant multitude in enforced idleness.

Economic Arthritis

For the economic arthritis from which the Chancellor has diagnosed the nation is suffering is no new disease. Nor are our troubles, as he has predicted only the result of a general trade recession. It has not been physical inability to create wealth through our own available labour and machinery which is eroding, and has long eroded, with unemployment and poverty, the life of this country and the world. It is, for governments and peoples alike, an artificially created insufficiency of purchasing power with which to buy into existence the full productive potential of our factories, farms, mines, shipping and transport and their many ancillary industries. That is, of purchasing power or money - what Cecil Rhodes used to call "the needful" - unencumbered by debt and interest-charges or the taxes imposed by Government on the community to meet them. For it is these which, by depreciating the value and, therefore, buying-power of our money-measures or monetary symbols, are causing and have long caused inflation and unemployment. The inflationary fall in the buying-power of money during the present century - set off by the massive borrowings of two world wars - has continued at an accelerating pace in the past 20 and, even more rapidly, the past 10 years, through the resort of the Treasury, under successive governments to finance an ever-growing part of the expenditure of the State by borrowing, and during the past three years at unprecedentedly high interest rates. For the effect of debt-inflation is cumulative.

Real Wealth and Money Tokens

All our economic difficulties, both past and present, I believe, arise primarily from an underlying failure in ourselves and in those who govern us to distinguish clearly between real wealth and the money symbols or tokens which alone in a free society can buy it into being. For money, it has been largely forgotten, has a dual function. It is usually seen only as a measure - in an inflationary age, a fluctuating and usually a declining one - by which we assess the value of such wealth as we possess or need. Far more important, though we overlook it, is money's power to buy real wealth into being and production. Unlike a totalitarian state like hapless communist-dominated Poland, in a free society such as ours in which men are left free to choose their own employment and consumer goods, money is the elastic instrument by which, alone, men and women can translate their needs into the goods they require. And if there is not sufficient money in their pockets, free and unencumbered by debt or taxation to pay the interest on public debt, the goods cannot be made.

What the Treasury has been trying and is still trying to do, and this has been true under Socialist and Conservative governments alike, is to solve the problems caused by cumulative public borrowing by still further and increased public borrowing. The resultant effect, caused by the interest charges on the economy so created, is ever-increased tax demands on the producer of real wealth and a dwindling amount of money available at the Government's disposal to meet all the legitimate and necessary calls on it for the preservation and well-being of the State and the national community. All the Government's heroic attempts to economize and to cut down the very real waste and extravagance in our overgrown administrative services and the public sector of the economy only conceal and fail to affect the real cause of our troubles.

Economic Research Report

The full extent of the disease afflicting us - that economic arthritis caused by perpetual and cumulative borrowing at interest rates now three or more times what they used to be - was shown by the Prime Minister's recent statement in Parliament that we are now paying more in annual interest on the inflated national debt than on either defence, education or health. The Report of the Economic Research Council on the Creation of Government Debt and Credit published in December shows that the annual cost of servicing central government debt has risen since 1955 from £705 million to the staggering total of £8,661 million in 1980. By far the greater part of this increase has occurred during the past 10 years and particularly, owing to the exceptionally high and suicidal rates of interest, during the last three years. It seems bound to go on rising so long as the Treasury continues to borrow at such penal interest rates to meet the Government's share of the Gross Domestic Product, which, under its socialist predecessors, rose from 34 per cent in 1955 to 40 per cent in 1980 and is now even higher.

In a still semi-socialized economy, where nearly half the nation's expenditure has to be found, directly or indirectly, by the State, the question therefore arises, why should Government pay such self-defeating interest rates merely in order to meet its public responsibilities? Why, as though it were a private borrower competing with other private borrowers, should it have to raise by borrowing such a huge proportion of the cash needed to perform its essential governmental duties so, adding both to the taxpayers' burden and to the charge the consumer for his goods and services? Would it not be better, as in a more stable monetary past, to create a much larger and more balanced proportion of the finance needed to operate the economy without attaching to it this millstone of unproductive debt?

In the Government's need for a sufficiency of money which neither stimulates inflation or plunges the country into ever-increasing debt, a wiser course would be for the Treasury to use Government's sovereign right to create money by issuing a strictly limited and carefully calculated amount of new money free of interest, using it solely for specific purposes of urgent national need, and simultaneously to balance its creation by an exactly corresponding reduction in the taxation which would otherwise be needed to meet the interest charges payable to those from whom the State is at present driven to borrow. For the increase in the one and the reduction in the other would cancel each other out. This would be no irresponsible resort to printing unlimited paper money unbalanced by real productive capacity. It would be in the first place a small and deliberate experimental exercise in applying government's exercise in applying applying government's inherent right to create and issue purchasing-power for the use of itself and the community.

Abraham Lincoln, after saving the Union, faced by meeting the costs of the victory, defined the means of doing so. Government, he said, possessing the power to create and issue currency and credit as money, and enjoying the right to withdraw both currency and credit from circulation by taxation and otherwise, need not, and should not, borrow capital at interest as a means of financing governmental work and public enterprise. The Government should create, issue and circulate all the currency and credit needed to satisfy the spending power of the consumers. "Money," he wrote, "is the creature of law, and the creation of the original issue of money should be maintained as an exclusive monopoly of the National Government. The monetary needs of increasing numbers of people advancing towards higher standards of living can and should be met by the circulation of a medium of exchange issued and backed by the Government, which can be properly regulated and redundancy of issue avoided by withdrawing from circulation such amounts as may be necessary by taxation, redeposit and otherwise. The privilege of creating and issuing money is not only the supreme prerogative of the Government, but it is the Government's greatest opportunity."

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THE EEC SILVER JUBILEE

The European Communities were created with the signing of the Rome Treaty on 25 March 1957 and now celebrates its 25th anniversary. Britain joined the Community ten years ago. Writing from Brussels, Ian Murray's article in 'The Times' on 21 March 1982 said that the anniversary was being met with "about as much enthusiasm as a beefeater in a vegetarian restaurant". That about sums it up. In an article in 'Britain & Overseas' in July 1971 we asked the question "Is this the biggest 'Con' in history?" With Europe in crisis, of which Britain is the centre, history may well record that it was and is!

Latest Opinion Polls show that opposition to Britain's membership has grown. In 1975 when the referendum was held, those in favour of continued membership were in the proportion of two to one. The latest Mori poll dated 25 March showed that 60% of those interviewed were for Britain pulling out of the Market with 48% for staying in. In reply to the very interesting question as to how people would vote in the next General Election if the Labour Party was committed to leaving the Market 7% of Conservatives said they would change to Labour while 25% of SDP voters would change to Labour. This is a significant figure for Roy Jenkins who has just been returned to Parliament as M.P. for Hillhead. Both the SDP and Liberal leadership are strongly pro-market.

Farm Prices

Most people held the view that food prices were higher as a result of our membership and equally the majority felt that Britain's contribution to the EEC budget was not fair. With the 700,000 strong French National Farmers' Union pressing the French Government to hold out in Brussels for a substantial increase in farm prices by 16.5% it is small wonder that President Mitterand stated that the interests of French farmers would be defended resolutely. Members of the European Parliament meeting in Strasbourg on 26 March recommended a 14 per cent increase farm prices in 1982-83 by 135 votes to 107, in spite of warnings from some MEP's that this would only fuel inflation through higher prices to consumers. It was also pointed out that it would lead to larger surpluses, to be financed by European taxpayers, which would be sold off at cut prices to the USSR.

The long-standing debate over the size of Britain's contribution seems hardly likely to be solved satisfactorily in the near future and presents a continuing source of argument and ill-will among the participants as is illustrated by the heading of a 'Times' article on 12 March - "Britain's budget dispute casts EEC into gloom".

It is interesting to note that Greenland has now decided to leave the Common Market and this seems to indicate that this is not impossible if we decide to do the same. However if Britain does decide to follow suit, it would be a major operation. In his speech in London Mr. Enoch Powell, M.P. made this point: "Here is a Britain with a hugh balance of payments surplus with the rest of the world, and a Europe with a large balance of payments surplus with Britain, and they have the cheek to try to frighten us with the threat that Europeans will keep us out of their market. The Europeans would go down on their bended knees to keep up the trade between themselves and us and to beg us not to exclude them from the profitable markets, agricultural and industrial, in Britain. What is this incantation about 40% of our trade being with the rest of the Common Market? No wonder, seeing that the Common Market system our opportunities for trade with the rest of the world. I suppose, if the Common Market forbade us to trade outside the Community altogether, 100% of our trade would be with Europe."

Conservative European Reform Group

It is worth noting that not all the Conservative M.P's are in favour of our membership of the EEC as at present organised as the following quotations from 'Eurofact', published by the Conservative European Reform Group clearly shows.

"WHAT HAVE WE PAID IN TO THE EEC AND HOW MUCH HAS BRITAIN RECEIVED IN RETURN? About £3,000,000 net since 1973. The amounts increased steadily after 1974, when the net figure was £31,000,000 and in 1979 the net total was £948,000,000. In consequence of the refunds negotiated by the Premier, the Treasury estimates (Blue Paper ... Cmnd. 8175) that the net payment in 1981/82 will be about £530,000,000.Since 1973 our nation has, on average, paid in almost £2 for every £1 received in grants and subsidies.

HAS OUR TRADE IMPROVED? The latest Government figures (White Paper of March 1981 ... Cmnd. 8195) show that the U.K. trade with the EEC in manufactured goods has deteriorated sharply since Britain joined. In 1970, we sold £400 million more to the EEC than we bought from them. Since then, our exports to Europe have increased but manufactured imports have soared more. In 1978, 1979 and 1980 respectively, our deficit in manufactures with the EEC was £1,600 millions, £2,700 millions and £1,700 millions. By comparison, our trade in manufactures with the rest of the world has improved steadily and rather dramatically. In 1970, the U.K. had a profit in trade with the rest of the world in manufactures of £1,772 millions. In 1978, 1979 and 1980, the profit was £5,664 millions, £4,262 millions and £5,341 millions respectively.

BUT DON'T WE READ THAT OUR TRADE WITH THE EEC HAS IMPROVED? Our total trade has improved. In 1972, we had a deficit of £600 millions in total trade and in 1980 a profit of £700 millions, but this was achieved only by including OIL. Exports of fuels to the EEC which were about nothing in 1970 have soared to £4,300 millions in 1980 (White Paper figures again). We could sell our oil anywhere, but the Government directs the North Sea oil producers that they can only

sell their oil to the EEC and to members of the International Energy Agency. The oil companies are not, for example, permitted to sell oil to Israel and many other nations not falling within the approved categories. In short we've been pouring oil into the EEC and they've been pouring in manufactured goods in return with serious consequences for jobs.

BUT ISN'T JAPAN THE MAIN THREAT TO JOBS? It's certainly a problem. In 1980 Britain had a deficit in manufactured trade with Japan amounting to £1,187 millions (P.Q. 5th May ... col. 17). But in the same year, 1980, Britain had a deficit in manufactured trade with Germany of £2,007 millions (P.Q. 5th May ... col. 39).

WHAT ABOUT FOOD PRICES? A recent Parliamentary answer estimated that the extra cost of the CAP to the British consumer was about £3,000 millions per year - which works out at £5 per week per average family. The higher prices stem from EEC food levies on imported food. Current levies (P.Q. 14th April) are 60.49p per pound on butter, 61.14p per pound on cheese, 67.03p per pound on boneless frozen beef and 27.24p per pound on frozen lamb.

In addition, the EEC exports massive surpluses to the Soviets and elsewhere at highly subsidised prices. In 1980, despite a so-called embargo, our exports broke all records and in addition to food, we sent the Soviets 149,026,300 litres of surplus wine and a subsidy of £9,000,000 was paid on top of low prices (P.Q. 11th Dec.). The CAP also involves the destruction of foodstuffs. In the year ended 30th September 1980, Britain destroyed 715 tons of cauliflowers, 4,895 tons of apples, 1,620 tons of pears and 211 tones of fish (P.Q. 30th October).

BUT HOW ARE THE EURO STATES WHO DIDN'T JOIN THE EEC COPING? Rather well. Austria which had 1.9% unemployed in 1973 had a rate of 1.9 in 1980. Norway which had 0.8% unemployed in 1973 had a rate of 1.2% in 1980 (P.Q. 9th March). Their growth rates have also greatly exceeded that of the U.K.

BUT DON'T WE GET ADVANTAGES FOR OUR OWN PEOPLE IN FREEDOM TO WORK IN THE EEC AND TO OBTAIN BENEFITS? Yes. But the trade is rather one-sided. In May 1979 (the latest figure) there were 620,000 EEC nationals over 16 years of age living in the U.K. and 410,000 were at work. By comparison, about 80,000 U.K. citizens were living in the EEC (P.Q. 30th April, 1981).

SO ISN'T THERE A CASE FOR DEMANDING MAJOR REFORMS? Our answer is 'Yes'.

KINDLING A PURPOSE

"Economics : Brake or Throttle?" by M.A. Cameron.
Reviewed by Jim Bourlet

When Adam Smith set aside his great concern with political, moral and spiritual concept to focus his attention exclusively on writing a book about economics a precedent was set which was dangerous indeed. Legitimate momentary abstraction has been used to justify disregard and selfishness. The narrow vision of economics, seeing a world only of selfish, profit maximising, materialist men now needs to be challenged. One such challenge has been made by M.A. Cameron's "Kindling a Purpose".

From the isolated atomistic individualism of current thinking a sense of 'National Purpose' within which individuals can know new worth and pride should be conceived. This purpose must be seen in abstract and moral but nevertheless real terms and must lead to some specific policy changes - we must 'free ourselve from conventional ideas about money'; 'restore technology to its true role of serving people' and 'enable people to fulfil the role intended by their creator'.

The thesis is developed by linking (amongst others) four major contributions of the past decade. Firstly E.F. Schumacher's 'Small is Beautiful' and the Intermediate Technology group which with moral and human aspirations calls for a taming of technology. Secondly, the Brandt report on third world poverty which justifies from a moral (as well as self-interested) point of view a more generous attitude towards the less well off. Thirdly, a remarkable, if little known book by Stephen Roman and Eugen Loebl called "The Responsible Society" which explores a refreshing (if highly controversial) set of ideas for taxation, motivation and the issue of money. Lastly but by no means least as an inspiration for this work is the thinking and experience of the Moral Rearmament movement - a set of achievements it would be foolish to ignore.

The cheapest critisism of the approach Cameron takes would be to sweep aside his call for united caring action and his search for a national purpose as dangerous and the antipathy of Hayek and Popper's 'Great' or 'Open' society depending as it does, not on the grand design of any man but rather on the spontaneous emergent picture from the actions of the multitude, acting according to their own lights. But this is unfair. Compulsory, authoritarian collectivism is not to be equated with voluntary attitudes inspired collectively and operating throughout society bent not on maximising GNP or conquest but rather on the creation a decent, humane and caring society through the practice of shared ideals. One is tempted, though this hardly does justice to the point to give as an example the success of post-war Japan which, far from being a miracle of Adam Smith individualism is the product of a nation team sharing attitudes, living in a virtually crime free environment to the apparent bafflement of the

rest of the modern world.

Genuine doubts for the careful reader center more on the details of prescription than on the diagnosis of our problems. The proposals for money supply and control seem to assume the possible existence an authority more capable than any yet known and a notion that 'responsible' money control invariably means the avoidance of the creation of extra credit during periods of inflation. They would, he claims limit money supply to "maintain stable prices and maximise employment" which seems to this reviewer to assume away the toughest economic problem, of them all. Again the suggestion that the economy should be run so as to eliminate inflation whilst allocating low interest credit to worthy individuals and firms begs the question of just who can so ably select those to be favoured and whether under these conditions interest rates of 3 or 4% would be low enough to generate adequate investment anyway. But this should not lead one to overlook the valuable discussion of the benefits of signorage - the value of credit creation which mostly accrues to banks and should be the right of the state nor the most interesting claim that J.M. Keynes whilst prescribing government deficits (under specified conditions) omitted to say how to finance these deficits except by piling up unsustainable debt!

The sub-title of this book is "Economics : Brake or Throttle" and the breadth of subjects involved can only be noted here - Resource transfers, multi-national companies, an Energey strategy, food development, the international monetary and economic system, education. It does add up to a consistent program and draws support from contributors as diverse as J.K. Galbraith, Edward Heath, Paul Samuelson, R.H. Tawney and Group Captain Cheshire.

So much writing today consists of works by young scholars developing ever more specialist ideas and publishing for their career. How refreshing to read the thoughts of a widely read and deeply concerned experienced man publishing a work because it really needs to be read. Far from being part of 'mere economics' - the dismal science, this book is refreshing and full of hope from perhaps the one source from which there has always been hope. It is recommended despite minor reservations but the last words in summary of its philosophy seem naturally to be Cameron's own quotation from Group Captain Cheshire:-

> 'If there is one thing that I have learnt in life, it is that our own problems and difficulties are best solved by going to someone else's help'.

"Kindling a Purpose" by M.A. Cameron. Copies available from the author at 22 Jireh Court, Perrymount Road, Haywards Heath, West Sussex RH16 3BH. Price £2.00 (postage 20p).

COMPUTERS AND THE ECONOMIC SYSTEM

By Dr. K.V. Roberts
(Culham Laboratory)

Following Adam Smith, some people still believe that a stable, optimized economic system will evolve automatically and sustain itself in a quasi-static equilibrium by the operation of market forces alone. This idea which has recently been extensively advocated by Milton Friedman presumably originating from analogies with early control mechanisms in engineering - for example, the governor on a steam engine - and was later reinforced by the biological principle of evolution by natural selection.

On the other hand to a physicist or engineer it seems over-optimistic to imagine that everything will arrange itself entirely automatically, since he is more familiar with highly-engineered systems that require careful design and adjustment before the automatic control mechanism can take over. He would also point out the possible relevance of more recent concepts in control and stability theory that are not allowed for in classical economics.

Furthermore, although natural selection did provide an efficient way of evolving new and improved species, life was not so good for the individual animal that got eaten or could not reproduce. Similarly if one reads Adam Smith or Malthus one finds that most of the population automatically remain at bare subsistence level, just as they do nowadays in many developing countries. A further point which Smith could not take into account was the competition for work between humans and computers or robots. In effect these machines constitute a new species, and since they are better adapted in many cases to the industrial or commercial environment they are likely to drive us out of niches of employment that we previously occupied. The history of biological evolution provides no guarantee that the old species will find another niche elsewhere; many species simply die out.

Effect of Automation

By themselves therefore, the ideas of pure classical economics are unlikely to lead to a system that one would nowadays regard as acceptable. To look for a system that might work satisfactorily, let us now discuss a specific example of an economic instability together with a possible method of built-in stabilization. The example considered here is an instability caused by the impact of automation on employment, particularly in the UK, and the use of a scheme for avoiding it which will be called the National Dividend, and which is related to (but not identical with) the Negative Income Tax Scheme of Milton Friedman.

Most families have in the past been financially supported by one or more of their members being paid for work of a routine kind, either mechanical or intellectual, and that much of this work can now be performed more cheaply and more conveniently by robots and computers. When this happens the individual employer is forced either to cut his costs by replacing people by machines, in order to meet national and international competition, or else to go out of business. The savings he achieves by automation may be considerable, not only because of the reduction in salary or wages but also due to the decrease in incidental taxes and various forms of overhead such as staff accommodation, personnel management, industrial relations, safety, training, pension contributions and so on. He also avoids future problems associated with over-manning and redundancy payments. The employer therefore has a strong incentive to avoid taking on new staff and to automate as much as he can.

On the other hand the family still has to be supported somehow, and if another job cannot be found this task is nowadays taken over by the welfare state. The cost of an elaborate structure of unemployment pay, social security, rent and rate rebates and other benefits together with the cost of the administrative organization that maintains it is evidential. When to this total is added the cost of automation to the employer, and perhaps the hidden social cost of a high level of unemployment, the net advantage to the country as a whole may well be negative. Thus automation may proceed at too high a rate.

This instability has other well-known symptoms. Much socially useful work can no longer be done because organisations cannot afford to pay people to do it, in spite of the fact that people who could do it are being paid to be unemployed. The quality and cleanliness of the environment suffer as a consequence. Vacancies in firms often exist for which suitable staff are available but are not filled because the wages that the employer can afford to pay are not sufficiently attractive compared to unemployment and social security benefits. British factories that could produce goods that people require are closing down or are running on short time, while goods that could be produced here are imported. Manufactured exports are falling and are likely to fall further as the designs get out of date. Automation of manufacturing and the redesign of products to incorporate microprocessors and other improvements call for large numbers of skilled staff who are not being trained in sufficient quantity, while people displaced by machines find it difficult to obtain jobs without such retraining.

There are several related instabilities. It is now hardly profitable for an individual or a firm to engage in manufacturing in this country or to invest in it. Import agencies, services, financial or property operations are simpler and more lucrative. Similarly there is little encouragement or incentive to be an engineer. Yet for the community as a whole manufacturing and engineers are essential to increase exports and reduce imports in order to maintain the balance of payments. The interests of the individual and of the community are therefore out of step with one another. Although the quantity of goods available remains almost constant, people are continually asking for higher pay, thus automatically driving up prices without their receiving any real benefit. Again the interests of the individual and the community are out of step. Investments decrease year by year in real terms because the interest after tax cannot keep pace with inflation. This discourages the formation and growth of small firms from which design innovations and new employment are most likely to come.

Radical Solutions Needed

The situation created by rapid and massive automation of almost all routine tasks, together with an urgent need in this country to redesign a wide range of manufactured products to incorporate microprocessors if these products are to remain internationally competitive, is so radically new that radical solutions must be examined.

The idea of a negative income tax was put forward by Friedman in 1962 in his book 'Capitalism and Freedom' and elements of this idea have appeared in the programmes of Presidents Nixon, Ford and Carter. However in their more recent book 'Free to Choose' Milton and Rose Friedman themselves regard it as a transitional measure and suggest it as a subsidy paid through the tax authorities to families whose income falls below their personal tax allowance, the subsidy rate being a fraction less than unity, say one-half. Families whose income exceeds their allowance would receive no subsidy and would pay tax in the usual way.

Although the negative income tax scheme has been mentioned by Milton Friedman in his BBC TV programmes of 1976 and 1980 it has received almost no public discussion, at least in this country, compared to that of his complementary proposals for monetary policy and it seems clear that neither the scheme nor its potential significance are generally understood. The phrase itself is perhaps unfortunate, involving as it does the two prejorative concepts, 'negative' and 'income tax', and the fact that the poorest families would in effect keep only a fraction (in this case one-half) of their own income retains an element of the poverty trap.

The National Dividend variant proposed in this article is simpler and more straightforward and would be a permanent rather than a temporary measure. The state would pay through the tax authorities the same basic amount to every adult citizen regardless of age, sex, marital status or other income. (Children under the age of (say) 16 would receive through their parents or guardians proportionately less according to the needs of their age in order to avoid undesired

population growth). This payment would be regarded as an investment income arising from the equal share which citizens would be deemed to have in the productive capacity of the state, now largely to be provided by machines. It would not be a payment for work, hence the term 'National Dividend'. To begin with it would be enough to live on frugally, but it could later be increased as further automation made the country more prosperous.

This single payment would replace most of the present elaborate structure of unemployment pay, social security benefits, marriage and child allowances, student grants, rent rebates, assisted travel, old age pension, food subsidies and so on although additional payments would be made to the sick and disabled.

In addition to this basic payment each person would then be free to receive any other earned or unearned income at a level determined solely by the market, subject to income tax on the total at a rate which would increase progressively and smoothly from zero, there being no need for discrete jumps in the rate now that computers are available to do the calculations. There would be no artificial restrictions on working as at present, no poverty trap, no retirement age, and no tax distinction between the married and single state since each person would be responsible for his own tax.

Increase incomes - reduce prices

In this dual system the forces of classical economics would be allowed to operate freely as Friedman recommends, so that most of the advantages outlined in the book 'Free to Choose' should be attained, but with each individual citizen adequately protected by the National Dividend. Wages would be determined by the Law of Supply and Demand with no lower limit: they could where appropriate fall to the marginal level necessary to persuade people to work for the extra reward and job satisfaction. This would automatically subsidize depressed and labour-intensive industries (such as the postal mail service and the railways) without any specific government intervention. In fact employers, workers and customers should all benefit since in such industries the employer would only be supplying a fraction of the total income and therefore it would be possible simultaneously to increase incomes and profits and also to reduce prices.

Suppose for example that the amount needed to support each adult is £1500 pa and that both the total welfare payments under the present scheme, and the National Dividend under the new scheme, are set at this level, i.e. £3000 pa for a married couple. At present an employer cannot afford to pay a wage that will yield an amount (net after tax, travel and other expenses) less than £3000 pa since otherwise there is no incentive for a man to work and the level is even higher when large families are supported by social security. Many employers cannot afford to pay this amount and people are thrown out of work; in other cases wages and prices are driven up and profits fall.

Under the new scheme the employer could pay as little as (say) £1000 pa, the remainder automatically being made up by the National Dividend. With a much reduced wage bill he could reduce prices and at the same time maintain an adequate level of profits.

The scheme would relieve the increasing competition between labour and automation by making it cheaper than at present to employ labour, and would enable people to perform a variety of socially useful and interesting work that at present remains undone because it cannot by itself provide a living wage. It would also encourage the formation of craft industries and other small firms because the principals could initially rely on the National Dividend for their own support and need pay only marginal wages while they build the firm up. Unemployment and severe poverty as such would disappear. No one would need to work if he or she did not wish to do so, but there would always be a financial advantage for anyone who wished to work either part-time or full-time, or to take more than one job, instead of the present restrictions which prevent the unemployed or pensioners from supplementing their allowances to more than a small extent even though there is useful work they could do. Barriers to part-time employment such as employers' contributions and excessive administrative overheads would be dismantled.

National production and social benefit should increase, partly because any work that was economic at the marginal rate would be in accordance with classical theory find somebody to take it on, and partly due to a reduction in costs resulting from a simpler administration. Indeed with the increasing automation of government administration it will become necessary in any case to simplify the system since complex administrative software is expensive to write and cannot be altered quickly enough to meet changing needs.

Finance - an essential question

How to finance the scheme is of course an essential question. It should first be pointed out that a National Dividend Scheme would involve no net extra cost because in a welfare state everyone receives an amount at least equal to the basic payment in one form or another already. Nevertheless it does require a different financial organisation because a substantial part of the wage costs now met directly by the employer would in future be met by the state, and taxation would need to be devised to make the funds available. The total sum to be recycled is considerable: say of the order of £1500/year each for 40 million adult population or about £60,000M/year altogether, which is to be compared with a Gross Domestic Product of about £140,000M and a Government Expenditure of £62,000M in 1977. Against this could be set the virtual elimination of existing social security and other payments to individuals, now said to amount to

£19,000M/year and expected to increase as unemployment rises, of industrial and regional subsidies, of subsidies, of rate support grants and so on, a reduction in slalary levels for government employees by approximately the amount of the National Dividend, and a substantial reduction in the amount of central and local government administration.

Essentially, the National Dividend would be collected as tax from individuals and firms who were doing well out of the automated society for example, those with very low labour costs, and distributed uniformly to individual people throughout the community who would be free to spend it as they wished. Although it would not be distributed to firms or to local authorities directly, depressed firms would benefit by their ability to pay lower wages and depressed regions by the input of money. While the sum circulating would be large, the uniformity of distribution would reduce both administrative costs and the dangers usually associated with government intervention. The scheme might be compared with the strong negative feedback used in electronic amplifiers.

Some may consider that the universal distribution of a basic National Dividend would discourage people from working but history appears to be against this. A substantial part of our civilisation has been built up by people who had an independent source of wealth and until recently many middle-class families received part of their income from investments. There is no reason why this should not be extended to the population as a whole, now that computers and robots are available to do the bulk of the routine work. In this way everyone would share in the prosperity that these machines can provide.

How likely is it that such a scheme will be introduced? In their book Milton and Rose Friedman believe that the introduction of negative income tax would be very difficult. However one may question whether there will be any real alternative to a National Dividend Scheme as automation continues to increase and drives the present system unstable, with widespread and permanent unemployment leading to social unrest, extensive opposition to technological advance, and with many essential jobs finding no one willing to carry them out.

Secondly, if it is indeed true that an industrial country operating a National Dividend scheme can stabilize its economic system and achieve a higher level of production, then as soon as one country adopts the scheme the others will be forced to follow suit and a kind of phase transition can be foreseen which may occur quite rapidly. As a contingency plan one should therefore certainly investigate how the scheme would operate in practice and how a smooth transition from the present system might be made.

Finally, there remains the question of support to the developing countries which is widely recognised to be an urgent and intractable problem. If the economic system of the industrial world can be stablilized at a high level of production by the introduction of a National Dividend Scheme in each country, then its prosperity might be shared more equally by the provision of a World Dividend to individual members of the population of all countries in a similar way.

ECONOMICS – A LETHAL WEAPON – HANDLE WITH CARE

Brief summary of a speech by Lord Roll KCMG, CB. at a dinner of the Economic Council 24.3.82.

Lord Roll began by apologising for the title. Economists themselves were pretty scrupulous, and have observed the differences between social and economic sciences. Most of them have taken care to separate practical conclusions from their economic reasoning. The danger lies in applying economics to politics. J.M. Keynes' remark that economists were becoming as useful as dentists was misleading. Historical analysis is difficult, and distinguishing cause and effect is controversial. Over the last forty years, there has been a tendency to confuse economic analysis with policy making, especially during the world depression in the thirties.

The last war changed much. Macro-economic theory had to be used for practical purposes, governing rationing and allocation of scarce resources. With direction of labour and control of prices and incomes, and the State in full command, application of theory was relatively easy. But one can't derive many practical conclusions to apply when there is no command economy.

The first Economic Survey White Paper, based on macro-economic analysis and aiming at full employment was unprecedented here and in the U.S. It led to setting up administrative machinery necessitated by the Marshall Plan and the European response, and depended on acceptance of the new economic approach. A Development Decade began, based on how much of GNP should be given to developing countries. The followers of Keynes talked nonsense about 'fine tuning' of the economy, and the anti-Keynes monetarism was worse than Keynes, who today would deny that he was a 'Keynsian'. Most economists know their limitations, but some are tempted to bend figures to support their views, e.g. Lassa. Pure monetarism is barren, and there is always danger in relying on economic abstractions and models. The market system needs to be used for public purposes. But a 'Command Economy' can exist only in wartime.