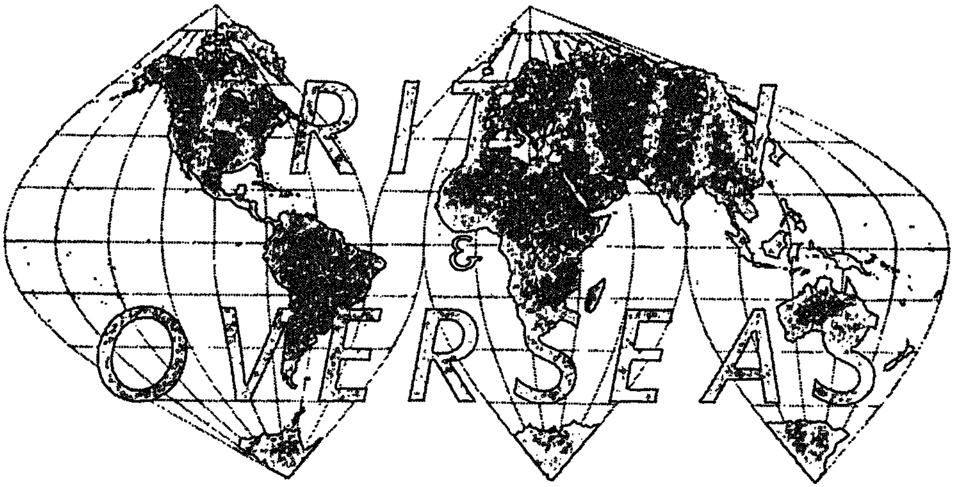

A DIGEST OF NEWS AND VIEWS ON BRITAIN'S ECONOMY AND OUR ROLE IN OVERSEAS TRADE AND PAYMENTS

Spring 1983 **Vol. 13 No. 1**

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SYMBOLIC BARRIERS TO FULL EMPLOYMENT: THE ROLE OF PUBLIC DEBT

The following extracts are taken from an article under the above title by Professor A. Allan Schmid of Michigan State University, published in the Journal of Economic Issues, March 1982.

"Widespread public participation in money policy has been prevented (or narrowly focussed) by shrouding money institutions in a veil of mysticism. The asserted complexity of these institutions makes people distrust anyone who attempts to describe it simply. To understand alternative ways that the government might energise the economy to use available resources fully, we must first understand how the credit system works in terms of property right, power and income distribution." . . .

"It is this perspective of seeing the credit system as a locus of distributive power that needs to be applied to public debt. The intent of this article is to describe as simply as possible the current system and an alternative thereto. The alternative is to bring unemployed resources that have no opportunity cost into production and without creating an asset for financial institutions and investors, namely, by interest-free government borrowing from the Federal Reserve banks." . . .

"In effect, a bank has been given the right to give a would-be entrepreneur the ability to command and organise unused resources. Banks create money by writing a number in the account of a borrower. The bank gets interest for its trouble. When unused resources are available, we must increase the symbols (money) available to command resources. Alternatively, prices could be reduced, but this usually discourages investment. It would make no sense to save (reduce use of *presently used* resources) in order to put *unused* resources to work. This is why banks are creative, not just brokers buying and selling existing money.

When for various reasons private entrepreneurs do not want to borrow to put unused resources to work, that leaves government to do the job. By habit, government now acts as any other borrower. It borrows money from banks and pays interest. Note that it was government that initially gave banks the right to create money. Government gives someone the right to create money and command unused resources; then, when no-one else wants to do it, government allows itself to be charged to perform the defaulted entrepreneurial function. There is no technical reason that the government should pay banks interest for the privilege of writing checks to command unused resources.

The Federal Reserve banks could simply put numbers after the government's name, as the commercial banks now do for private and public borrowers. The dollar so created at no cost to itself would be no different than the borrowed dollar the government has allowed private banks to create for a fee. But it would affect income distribution. In fiscal 1980, the taxpayer paid an estimated $57 billion to holders of federal debts. In general this is a flow of money from the less rich to the more rich, since the holders of the debt in our society are generally those better off." . . .

There is no reason government should pay banks a fee so that the government can put people to work. The government could be its own banker for this purpose. And there is no reason the government should be inhibited from productive investment for fear of burdensome debt service. Furthermore, if the increase in money supply is matched by government spending for unused resources, there is no reason to fear inflation. It is true that if government creates more symbols than there are unused resources, inflation will result. The payment of interest on public debt has not prevented overexpansion in the past, and its abolition need not cause more. The challenge is for the government to channel its spending directly to employ the underused resources in our economy. . . .

"Fake Debt"

"One of the strongest critiques of current public debt institutions is made by James Buchanan and Marilyn Flowers (1975). They refer to that part of the public debt supported by money supply expansion by the Federal Reserve as "fake debt". In this case, they say, "the banking system is provided with an interest income, not in exchange for any sacrifice of purchasing power or liquidity, but instead for creating additional currency, for carrying out the operation that is specifically within the constitutional power of the national government. In this sense, therefore, the interest payment of the 'debt' created in this way is largely unnecessary, and does not serve the same purpose or function as interest payment on real debt." They refer to the present process as an "institutional veil" and conclude that an economy with excess capacity and large unemployment, "government expenditures can be, and should be, financed at zero or very low real cost" (p. 335) . . . Buchanan and Flowers regard the interest burden as a subsidy to the banking system." . . .

"The United States faces the prospect of continued stagflation and even cataclysmic depression if the government is too paralyzed to act because it fears worsening inflation by its own addition to debt and overtaxing of cash flows to cover the interest on the public debt. To get out of this trap requires, in part, direct selective spending in areas of underused resources financed by interest-free credit. This need not be limited to the usual government purchase of goods and services, but could be direct grants to consumers for purchase of fuel efficient cars and homes. Surely, it makes better sense to have unemployed carpenters and auto assembly workers making useful products than to have them sit idly receiving transfer payments.

It is clear that there are alternatives to the current institutions and ceremonial conventions used to achieve full employment through government borrowing and spending. If they are not used, it should be evident that the present economic performance is the result of the power groups enjoying the present distribution of income to maintain their position rather than the non-availability of workable institutional alternatives. The barriers to full employment are symbolic and man-made."

THE FINANCIAL IMBROGLIO

The Money Bomb by James Gibb Stuart, published by William Maclellan (Embryo) Ltd.

How to defuse the money bomb which is ticking away at the heart of the Western World's financial system ? The author of this book, who is a Scottish industrialist, attempts to answer this question. The problem (familiar to Economic Research Council members) is how to free Governments from the burden of interest charges incurred when all the money (except notes and coin) needed by their citizens for daily use has to come into existence through bank loans on which the banks charge interest.

As the author of this book shows, the result is that over the centuries since the Bank of England was set up by Royal Charter in 1694, *to lend money to the Government*, our National Debt has risen from £1.2 million in 1694 to £112,780 million in 1981, with an annual interest burden now bigger than the PSBR (Public Sector Borrowing Requirement) of £10,500 million, and still growing. As the author points out — this makes a nonsense of the present Government's first attempt to control inflation by pushing up interest rates and almost doubling VAT. What happened was that businesses operating on borrowed money had to borrow more to keep going, while many faced bankruptcies or had to reduce staff.

Quoting examples of how interest-free money can work, the author goes on to give details of the Guernsey experiment after the Napoleonic Wars, American experience during and after their Civil War (1861) when President Lincoln said "The privilege of creating money was not only a Government's supreme prerogative but also its greatest creative opportunity." But Lincoln was assassinated; and in 1913, the US Congress, after five years of urgent persuasion by leading bankers, handed over the entire task of creating US money to the new Federal Reserve Board, founded (like the Bank of England) *to lend money to the Government.*

The success of Lincoln's "Greenbacks" alarmed European Governments, so much so that in 1860 the London *Times* could write of "that mischievous financial policy — by which a Government would furnish its own money without cost. It would pay off its debts and be without debt. — It would become prosperous beyond precedent in the history of the world."

More recently, the author points out that Western banks, noting that the grass was greener on the other side of the fence, "have lent large sums of (credit created) money on easy terms to the Soviet Union and its satellites, financing technical developments which have multiplied the threat to the free world: $23,000 million to Poland, $10,000 million to East Germany, $40,000 million spread between Bulgaria, Czechoslovakia, Hungary, Roumania and Russia itself."

Taking note of Mrs. Thatcher's success in eventually reducing inflation, the author believes that the real answer is still to be found. He notes that the coins and notes issued by the Bank of England's Issue Department on request from the Government are backed by Government Securities on which the interest paid by the Government is returned to the Treasury, less the cost of printing and distribution. He suggests that this method could also apply to funding the interest on the National Debt, as the appropriate Department of the Bank of England would then be supplied with the resources needed to pay interest on the National Debt to the holders of Gilt Edged Stock, Savings Certificates and other items, without adding anything to the present total sum of roughly £113,000 million and offering the opportunity of gradually reducing that formidable total.

The author is well aware of "the heights we have to scale" to break through conventional thinking. In his acknowledgements including a generous one to the Economic Research Council, he says plainly that these heights "are guarded by watch towers of prejudice, orthodoxy and vested interest. Those who remember the deafening silence that greeted the ERC's "Government Debt and Credit Creation" (published December 1981) will know what he means. M.A.C.

The Money Bomb, by James Gibb Stuart, published by William Maclellan (Embryo) Ltd. Copies available from the Economic Research Council, £7.50 case, £3.95 paperback plus postage 33p.

The publishers offer a prize of £1,000 for the best supporting or alternative proposal which addresses itself to the important subject matter and offers a practical and acceptable solution.

THE VIRTUES OF SMALL BUSINESS

by Damon de Laszlo

While rattling on the other day about the virtues of small business, I was challenged to say really why was small business so virtuous. The easy answer is that small business is more efficient, it's more versatile, and so on. On reflection, the correct answer, however, is somewhat different and more philosophical.

Big business is, I would suggest, potentially dangerous. It has financial, and more importantly, political power; it's attractive to government; it's attractive to politicians, and it gives a false sense of security. Power, in the political sense of the word, is the most important difference between big and small business. Combination of big business and politician which tend to revolve towards each other, threatens the freedom of the individual.

Many rebellions have been fought in order to throw off the combination of political and commercial power, the most famous of which was the War of American Independence, which was started because of the aggravation of the monopoly in tea of the Hudson Bay Company, granted to it by the politicians in London. There are many other examples.

Little Political Power

Any business whether it be manufacturing, farming, or service like stock-broking, teaching or a trades union, will use what political clout it can to gain protection for itself to the detriment of competition. Small business, on the other hand, like individuals, is so diverse, different, and so complex to cope with that it wields very little political power, and has very little attraction for the politician and the bureaucrat. Consequently, it cannot ask for any powers that would be of detriment to individual freedom. The other virtue of small business is that when it makes a mistake of industrial or commercial judgement, the outcome is not disastrous, or at least it is not disastrous for many, it is disastrous for a few. By contrast, when a big business makes a mistake, the outcome is disastrous for many. Great areas of personal disaster are created. We see this in the industrial disaster areas of England where one town has too often been dominated by one company and the company has gone bust, or even several towns dominated by one company. Look at the disaster when British Steel closes down a factory — thousands of people are involved each time.

The flexibility of small companies tends to prevent this. Out of a thousand small companies, ten percent, or twenty percent, might go bust each year. But if the thousand small companies are one group, and the group goes under, the whole lot are closed.

Protection of Freedom

Another interesting philosophical virtue of small business is that it encourages other business. It is interesting to note, historically and currently, that where you have a great many small businesses, they attract another one, and another one; but where you have an area dominated by one company, it is almost impossible to start another company. This is because most businessmen recognise the virtue of another business, but every bureacrat recognises the danger of another business, and will automatically try and discourage it. It is the inherent protection of freedom of the rights of the individual that is the virtue of small business, and this protection that a healthy small business community gives, is because it is difficult to influence, and well nigh impossible for the bureaucrat and the politician to get at.

It's relatively easy for the very big company to persuade the politician that it needs protection by restriction of trade or other semi-monopoly powers. In Britain today where the Government spends 50% of GNP, it gives safety to the civil servant buying from a big company. There is no risk, the bureaucrat gets no points for innovation. It also, as a *quid pro quo*, makes the politician feel more comfortable. It's much nicer to be dined in the big board room, than having to grab a beer and a sandwich round the corner. After all, if you are running a very large company and the politician wants to influence you in a particular area, it is relatively easy for him to attempt to approach you and offer the usual reward of title or government position for doing his bidding, whereas he wouldn't attempt, and even if he wished he couldn't approach five hundred little companies and make much impact on them at all.

This may be a cynical view, but monolithic companies and the freedom of the individual are inevitably everywhere mutually exclusive. Government influence by big companies means that individuals' freedoms are suppressed.

This is the fundamental reason why security of the individual and freedom of the state is only protectable with a thriving small private business sector. After all, the opposing philosophy, as in communism, is that the State should own all capital which is the means of production, in order to control the lives of the individual. No independent or small business is allowed, only one monolithic State.

Thinking Ahead

THE ETHICS OF SCARCITY AND THE DISTRIBUTION OF PLENTY

by H. C. Rutherford

All basic economic thinking has now to start on a total world scale. It requires as a preliminary the recognition of two facts. The first is that though the mineral resources of the earth are limited, they are plentiful, and sufficient to last into the forseeable future, provided that they are not squandered on unwanted and even harmful luxuries, or on multiplying weapons of war which it is hoped will become obsolete before ever being used — and which, if they were used, could destroy a large part of the human race. However the resources of plant life and of animals, birds and fishes, which can provide us with food and other necessities of life are continuously renewable, provided that we treat the earth and all that grows or lives on it as an organism and not as mere mechanism or chemistry.

By the application of science and technology in every field of production — industrial and agricultural — it would be possible to provide everyone in the world not only with food, shelter and clothing but also with reasonable comfort. It is not suggested that this could happen quickly. A great deal of work is needed to abolish dire poverty in the world, but once this had been achieved it would require only a proportion of the world's working population and only a proportion of their present working hours to keep everyone in comfort.

Since our mother Earth in her generosity has bestowed her wealth upon us liberally, and since man with his inventiveness and ingenuity has discovered how to convert this wealth to human uses with ever less labour, economic scarcity is no longer inevitable. It is indeed true that people have had to compete, and even fight wars, for a share of the available wealth, and consequently the notion that has pervaded all our economic thinking and has provided the model for our present economic system has been one of competition for scarce wealth. But now, with the possibility of overcoming scarcity, this model is no longer appropriate and is hindering the development of an ample world economy.

Problem is Distribution

The real problem of economics is no longer production but distribution. In times of scarcity there are two main methods of distribution. The more primitive one is that the stronger takes the largest share of everything. The more civilised is that there should be some attempt to distribute wealth equitably. Our present economic system, based as it still is on the premiss of poverty, is a peculiar mixture between the aggressive rapaciousness of the one method and the measured apportionment of the other. Humanity has not yet discovered how to distribute plenty, because it is trying to do so with the thinking processes and implements of scarcity. But scarcity will never be eliminated so long as such thinking persists.

The production and distribution of wealth in the organism is the proper model for the organisation of plenty. Every organ does the work which is necessary for the good health of the whole and the wealth which is produced by the metabolic system is distributed freely throughout the whole body in the bloodstream. The essence of this method of distribution is that there is no attempt at measurement between the contribution of each part of the body and the amount of wealth it receives, because no such measurement is possible. Translated into human economy this means going by the principle of "labour-free service of citizens, maintenance-free gift of the community."

Abolish Atavistic Conflict

This is not a new idea. It was, for instance, quite explicitly stated in Sir Thomas More's *Utopia*, though there it was still hedged around with ideas stemming from the fact of scarcity. Now, for the first time in human history it is an idea which is not only practicable, but necessary for our survival. It is necessary for survival because it would abolish the atavistic conflict between capitalism and communism which is now one of our chief sources of danger. The conflict is out of date because both systems are based on the premiss of economic scarcity.

There remains, however, one huge prejudice to be eliminated before such an idea becomes possible. It is the precept which is stated in the Epistle to the Thessalonians (II, 3.10) "if any work not, neither should he eat." The modern form of this prejudice is the revulsion against "scroungers", who may be either the idle rich or the idle poor according to which side of the fence you are on. In its day this commandment may have been fair and reasonable, though a harsh one. Now it prevents the realisation of an economy of plenty by insisting on measurement in the distribution of wealth, so that no-one should receive more than the equivalent of what they have given to society. It is in fact now recognised in the system of social security that everyone has an unconditional right to the means of livelihood whether they work or not, but this is still given grudgingly and those who receive it are made to feel that they are not fully valid members of society, because they are not contributing their work to justify the payments they get.

The same standard of measurement is applied on a world scale, where it is even more vicious in its effects. It so happens that the countries in the North Western hemisphere of the world are the ones which up to now have

been foremost in technological development and consequently they have determined how the world economic system should work. Those in the South Eastern hemisphere on the other hand have been a rich repository of the raw materials which the other hemisphere needed for its manufacturing activity. But since the North West dictated the terms on which the economy worked, they have valued their own technology more highly than the natural wealth which they got from the other hemisphere and so they became relatively richer, while the South East became relatively poorer.

Slavish Adherence to Measurement

This slavish adherence to measurement in the distribution of wealth has now brought the world economy to the ridiculous position that it is sticking to the pretence of measurement while in fact having to abandon it. That is to say, they are "lending" to the poorer countries in the South and East the means of buying the production and technology of the North and West, knowing quite well that the debt can never be repaid. And such is the perversity of the whole situation that they are preventing the South and East making payment by sending their products to the North and West, because it creates unemployment. So every nation is now busily engaged in trying to send wealth to other nations and trying to prevent those other nations sending wealth to them. And this is because money, which is the means of measurement, is now valued more highly than real wealth itself.

This may sound like a caricature of the world economic situation, but in principle it is a very accurate one. And it brings us round to what is thought to be the most critical and difficult problem in the world — except the poverty of the South and East — namely unemployment. And this is the measure of our madness. Ever since God cursed Adam and said, "In the sweat of thy face shalt thou eat bread, till thou return unto the ground . . .", mankind has been working to try to lift this curse. And now that we have succeeded we are caught in a curse which we have imposed on ourselves. While wealth was scarce it was made a condition of receiving it that one should give equivalent value to society in return, except for those few who were powerful enough to demand it without giving anything in return. This equivalent value was measured strictly in terms of money, and so we got the absurd situation, which Kropotkin notes, of trying to work out how many cabbages a ballet dancer is worth.

Recently there has been much criticism of what is called "the Protestant work ethic", but some of it is misplaced. What is wrong about it is the idea that everyone should be gainfully employed, that there is an obligation on everyone to earn their living by working. That is to say that they should, in order to deserve their maintenance, work to provide something on which society places a monetary value. Work on the other hand is natural to human beings. To work, to make an effort, to strive, whether physically, mentally or spiritually — and preferably all three — is necessary to the health of most people. Nevertheless there are some to whom it is more natural, and perfectly healthy, "to stand and stare" — and equally for the sake of their health everyone should be able to do this. And who is to say that these people contribute less to society or are less valuable than those who work hard ?

It is not the urge to work that is wrong. It is the moral compulsion which many people wish to impose upon their fellows that they should work, that this work should be valued in money terms and that its valuation should determine the amount of wealth which they are entitled to receive. It is this insistence on applying measurement to the distribution of wealth, which hinders both the distribution of wealth and also its production. How does it hinder its production? Because if anything is strictly doled out according to what can only be an arbitrary standard of measurement, everyone wants to bargain so as to get as much of it as they can. It is a short step from wanting as much as one can get for the work one does to doing as little as one can for the money one is getting. This is merely sensible commercial bargaining so as to increase the money value of one's work, but the natural result of it is to concentrate attention more on the measurement of distribution than on abundance of production, to attribute greater value to finance and trade than to industry and agriculture.

But how, the reader may ask, are we to abolish measurement in the distribution of wealth? We have not enough available to give away free to everyone all that they want. That is true; and as long as that situation lasts, we will have to use money as a measure of wealth in some form or other. But it is not being suggested as a practical proposal in the foreseeable future that the valuation of wealth in terms of money should be eliminated, or that payment for work and wealth should cease. It is being put forward as an ideal towards which it is necessary for mankind to work if world-wide material prosperity is to be achieved on the scale on which it is now physically possible. This can in the end be achieved only if wealth is allowed to flow as freely through the whole world as blood flows through the human organism. The first step towards this would be to think of "giving" not simply as charity but as a part of the economic process as essential as "paying" or "lending"; and to consider receiving free to be as honourable as earning. And this new morality should apply both between individuals and between nations.

THE WORLD BANKING SYSTEM

There are three main points of serious pressure on the world banking system —

1. The so-called sovereign lending to weak countries who have little or no prospect of paying interest or repaying capital within a commercial time scale. Indeed, these countries will require for a goodly period ahead new lending to cope with their future deficits.
2. The lending through the Eurodollar market to multinationals, many of whom are tottering under the impact of the long continued world recession.
3. The striking increase in the post-war world of the dependence of the domestic economies on bank finance.

These three points of pressure on the banking system at worst threaten its solvency and, at best, if unrelieved will constitute continuing pressure to a deflationary contraction of bank lending.

Extract from a speech by the Right Hon. Lord Lever, 6th December, 1982.

NEW ZEALAND BUTTER AND THE EUROPEAN COMMUNITY

Each Country Doing What it Does Best

Historically the New Zealand dairy industry developed to supply Britain with the butter and cheese it needed to feed its industrial workforce, while in return British factories supplied the bulk of New Zealand's requirements for manufactured goods and capital for development. This was possible because New Zealand possessed ideal conditions for pasture-based dairying that outweighed the remoteness from the British market. Mild temperatures over the year and adequate rainfall, together with relatively large and productive farms, allowed cows to be fed outside on pasture all year round without the need for extra feeding or animal housing.

It was the classic international division of labour of Adam Smith, whereby each country did those things in which it enjoyed a comparative cost advantage and thereby maximised the benefit enjoyed by all. International economic affairs were simpler then; times have changed. New Zealand faces a far more adverse international climate now than at any time in its recent history.

New Zealanders realised many years ago that as Britain withdrew from its worldwide interests and focussed its attentions more and more on its relations with its near neighbours in Europe, this would affect the traditional trading relationship that had been built up over such a long time. Well before British entry to the European Community at the beginning of 1973, efforts were begun to diversify trade away from the critical dependence on the British market.

Changes Over Twenty Years

As recently as 1960 New Zealand still derived 53 percent of its export earnings from sales of agricultural products to Britain. In 1972, the year before Britain entered the Community, the figure was 31 percent. Last year, the tenth year of British membership, less than 14 percent of New Zealand exports went to Britain. That is rapid diversification in anyone's language.

In the dairy sector, however, the opportunities for diversification are extremely limited, and the butter that New Zealand still sells to Britain remains critical to the health of the dairy industry and accordingly to the well-being of the economy as a whole. An alternative market for these quantities of butter simply does not exist elsewhere in the world. In addition there is the technically integrated aspect of modern dairying to be considered. Butter is only one of a number of by-products of milk, but modern dairying requires the marketing of them all. Thus sales of butter to Britain are fundamental to the economics of selling skim milk powder in South America or casein in the United States.

Butter Becomes a Special Case

At the time of British entry into the European Community in 1973, it was accepted by Britain's European partners that special access arrangements had to be made for New Zealand. Failure to do this would have meant the automatic cut-off of New Zealand's dairy trade with Britain, as the provisions of the Common Agricultural Policy came into force, with devastating results for the New Zealand economy.

The result was the establishment of special access provisions for butter and cheese under Protocol 18 of Britain's Treaty of Accession. Britain was authorised to import specified tonnages of butter and cheese over the five-year period 1973 to 1977, at the end of which the position was to be reviewed.

Under the protocol, butter imports were reduced from 165,000 tonnes in 1973 to 138,000 tonnes in 1977 and cheese from 68,000 tonnes to 15,000 tonnes. In continuing recognition of New Zealand's critical dependence on these butter exports the Community agreed to extend access for butter, but not for cheese, to 1980, reducing imports to 115,000 tonnes in that year. In return for trade concessions to the Community, however, New Zealand subsequently gained a small entitlement to export 9,500 tonnes of cheese each year to the EC.

Access for butter was again granted in early 1981 for a further three years, with a level of 87,000 tonnes in view for 1983. Despite the sharp rate of degressivity, this level still represents approximately half of New Zealand's current butter exports. Now once again the question of New Zealand butter exports is before the Community. The question of how much butter New Zealand should be able to sell after this year, and on what conditions is due to be considered by Community agricultural ministers before 1st August 1983.

While the actual degree of dependence has lessened, the basic issue facing the Community remains essentially the same as it was in 1973. Agriculture remains central to the New Zealand economy. New Zealand produces competitively priced foodstuffs for which Europe is the traditional market. If New Zealand, as a friend of Europe, is to continue to act as a force for stability and development in the Asia-Pacific region, it must be allowed to sell what it produced most efficiently.

The economic relationship is not all one way, however. New Zealand is a useful market for Community exports as well as a significant purchaser of "invisibles", and the overall trade balance including "invisibles" has been consistently in favour of the European Community. If New Zealand cannot sell to Europe, neither can it afford to purchase what Europe produces.

Co-operation on World Scene

Since 1973, however, a new factor has arisen in the Community's relationship with New Zealand, which is an additional reason why it is in the Community's broader interest to continue access for New Zealand dairy products. Between them New Zealand and the Community supply by far the major part of the international dairy market's requirements. Through the operation of the Common Agricultural Policy, the Community has accumulated a surplus of dairy products in excess of its own requirements. To dispose of this surplus through exports it has had to bridge the gap between its own high internal prices and prevailing world dairy prices. This is done by means of subsidy payments

to Community exporters, which are met from the Community's common budget. Increasingly in recent years this has been done at the expense of policies the Community has wished to follow in other fields.

Co-operation with New Zealand in the international dairy field has been mutually advantageous, and it has been specifically recognised by the Commission and member states to have been of considerable benefit to the Community. It has helped to keep prices on the international market relatively stable and this has resulted in great financial savings to the Community. It should be remembered that because of this co-operative relationship it was possible for New Zealand in 1981 to act in the joint interest and successfully manage the disposal of a large quantity of American surplus butter which would otherwise have been placed directly on the international market in a way that could have precipitated a price collapse, with disastrous consequences both for New Zealand and the Community.

In comparison with the scale of the benefits to the Community, the granting of access to New Zealand for 80–90,000 tonnes of butter, for which there is an existing market and which would otherwise have to be disposed of on the limited international dairy market in competition with the Community's own surplus, cannot be regarded as a major concession on the Community's part, as it is often portrayed.

Much has been written about the structural problems of European agriculture that result in the expensively amassed surpluses that have to be disposed equally expensively on world markets, often to the detriment of more efficient producers like New Zealand.*

Imports from New Zealand not the Cause

The point must be made, however, that imports from New Zealand are not the cause of these problems. Compared with the total level of European production New Zealand butter imports are quite insignificant — less than five percent in fact. It is the direction of the Common Agricultural Policy itself that tends to cause Europe's structural surpluses and this is recognised in the Community's own efforts to discourage excess production. It will be important both for the Community and for producers of temperate agricultural products like New Zealand that these efforts should succeed if damage to the interests of both on the international market is to be avoided.

What is clear, is that the problems of European agriculture will not be solved by limiting New Zealand's entitlement to export to its traditional markets. Besides, it is in no-one's interests to destroy efficient farmers in other parts of the world simply because they are efficient, or to damage a co-operative relationship which is of continuing mutual benefit.

* See, for example, the article "Could food prices be lower in the European Community ?", by Professor Stefan Tängermann, in Summer 1980 issue of *New Zealand Quarterly*.

From *New Zealand Quarterly*, No. 1, 1983

THE ECONOMY — ANY HOPES ?

Brief Summary of Talk by the Rt. Hon. Joel Barnett, P.C., M.P. to members of the Economic Research Council on 26th April, 1983.

All recent governments had found themselves in holes from which it was hard to get out. Attempts to do so had pushed up inflation and reacted on exchange rates. In 1974 the Labour Government tried unsuccessfully to buck the trend, as more recently had President Mitterand. Labour increased public spending by 9%, then had to cut it back. Now we had money supply as the target, and massive deflation. The trouble with money supply was you could not measure it when so many different forms of credit were around. How control what you can't measure? There had been some improvement in production and some reduction in public expenditure — now about the same as in the Labour Government's worst years. Balance of Payments had improved, and some modest growth (2%–3%) was expected but was it sustainable?

In the period 1979–83 there was almost no growth, though devaluation had helped competitiveness; taxes had been reduced (only for the wealthy) who still felt no real incentive to invest or manage better. Above all, there was no improvement in unemployment, forecast to grow this autumn. Factories were not re-opening. We were told "There is no alternative" (TINA). But there had to be. Four million unemployed, with no prospect of reduction meant a severe social problem, there would be a revolt against hopelessness. Our levels of growth under both Labour and Conservative governments were far below those of our competitors. We had become two nations — north and south of Watford.

A simulation showed that in five years inflation could be only 5%; balance of payments could be in surplus — but that assumed that growth in earnings would come down from 5% to 1%. Labour proposed a National Economic Assessment but that would show how little was left to improve living standards.

There must be an alternative. New industries don't provide enough new jobs. Private manufacturing industry had been a disaster; we were now living off North Sea oil — while it lasted. Shorter hours and earlier retirement — yes, but would be of little immediate help. More public expenditure on necessary works — drains, houses, infrastructure was essential.

COMMON CRISIS

North–South: Co-operation for World Recovery
The Brandt Commission 1983

COMMON CRISIS, published by PAN Books in February 1983 at £1.95 is the response of the Independent Commission on International Development Issues, chaired by Willy Brandt, to the continuing deterioration of the world economy since its main report, *North–South: A Programme for Survival* was published three years ago.

Since 1980, the outlook for the world economy and for an improvement in the relations between industrialised and developing nations have rapidly deteriorated, threatening the political stability of many countries and creating

conditions which, unless remedied, could lead to disintegration of societies and anarchy in many parts of the world. In the light of this, the members of the Commission met five times during 1982 and in Ottawa in December agreed "an urgent and up-to-date version of our Emergency Programme".

Shorter and more forthright than the original report, COMMON CRISIS evaluates the world's failure to meet the worsening crisis and presents a detailed programme of action for nations at all stages of economic development.

In his Introduction Mr. Brandt states: "Everybody should know what immense dangers the present economic crisis holds, and that only a new relationship between industrialised countries and developing countries can help overcome this crisis. There is a clear common interest."

SURVIVING DEPRESSION

The Downwave — Surviving the Second Great Depression by Robert Beckman, published by Milestone Publications.

The author of this book is an economist who came to London from New York in 1963. Since then he has written, broadcast and lectured and has established a wide following, particularly as a result of his daily radio programme, "The Beckman File" on LBC. He is the proprietor of the weekly *Investors Bulletin* which he edits and he has a proven record of personal investment success.

In *The Downwave* Bob Beckman foresees the present recession turning into a depression, with further banking crises, financial panic and calamities of desperate proportions. Although his predictions are horrific, his intention is to provide the individual with advice which will protect them from the ravages that lie ahead and give guidance towards the "Upwave" which will follow.

Whether one accepts his pessimistic forecasts of further bankruptcies, bank failures, industries disappearing, and a world turned upside down, the book does provide an interesting backcloth to events which have led to the present situation and he is certainly right to challenge complacency wherever it is to be found.

Of particular interest to readers of BRITAIN & OVERSEAS are the sections dealing with the international debt mountain and the banking mechanism. Of the former he writes — "The emerging debt crisis is now actually more serious than that which led to the series of bank moratoriums and 'bank holiday' in the 1930s." He goes on: "international monetary policy can only take one of two directions, both of which lead to the same end. The system can continue to act in consort, rescheduling debts, rolling-over credits, extending time limits for payment with printed fiat money. That would ultimately lead to global hyperinflation, and would merely postpone the inevitable" . . . The second direction monetary policy could take would be to keep a tight prudent rein on lending. If defunct sovereign borrowers find their debts are written off as bad debts and they are no longer able to obtain credit, a major default will be precipitated either in Latin America or Eastern Europe. This would lead to a chain reaction of bank failures and a credit crisis, and a collapse of the international banking system which would make the 1930s look like an era of prosperity."

The section entitled "Understanding the Banking Mechanism" gives a clear and concise account of the way in which the banks operate in carrying out their normal business. Banks in Britain he writes — "may not only lend the money they have on deposit, but may also lend several times that amount." He concludes: "The problems in the banking system are like a cancer spreading unmercifully through every cell of banking activity."

Readers of this journal will be aware that there are some solutions to these problems and it is strange that the author, with his wide experience and knowledge of the economic scene does not, in this comprehensive book, show any awareness of the efforts being made to bring the serious defects in the monetary system, both in its internal and international aspects to the attention of the authorities. E.H.

The Downwave — Surviving the Second Great Depression by Robert Beckman, Milestone Publications, £7.95.

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