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A LETTER TO THE CHANCELLOR OF THE EXCHEQUER

The Rt. Hon. N. Lawson, M.P.,
Chancellor of the Exchequer,
11 Downing Street, London SW1. *13th July 1983.*

Dear Chancellor,

The fact that you have been constrained to introduce an emergency package of £1,000m of spending cuts and unspecified state assets sales, and the possibility of a cut in aggregate Government spending in 1984–85, has aroused some concern, even among your own supporters. We appreciate the need for the Government to stay within public sector borrowing requirement targets but would draw your attention to one area of expenditure which seems to have escaped attention. That is the interest which has to be paid by the Treasury to the banking system when additional sums are required for financing Government expenditure.

It is a strange anomaly that money in the form of the note issue is created mainly by the Bank of England, the amount being fixed in agreement with the Treasury. The interest earned on the securities held by the Bank of England Issue Department against the issue of notes is refunded to the Treasury since the Bank of England is a Government Agent and profits on its operations are payable to the Treasury.

We suggest that more use could be made of the note issue and that this area along with the creation of credit by the banking system should be further researched. The power of the banks to increase the amount of *credit* money in circulation should revert to the State where historically it belongs. Had this been done, we have estimated some £30,000m could have been saved by the Government since 1945 if they had maintained their historic privilege of themselves issuing all forms of money, *including credit* which is now the main component of the money stock.

We submit that, as the banking system in creating credit is merely using the Nation's credit by liquefying it, the right of the banks to treat such created credit as a loan and to receive payments of interest thereon is unjustified, though they are fully entitled to an agreed fee based on extra work devolving upon them.

Savings achieved by the adoption of these ideas could have substantially reduced the borrowing requirement and would have assisted in the fight against inflation which we agree is a major requirement of Government policy.

Yours sincerely,

D. P. DE LASZLO, *Chairman,* EDWARD HOLLOWAY, *Hon. Secretary,*
Economic Research Council

Note: No reply has so far been received but we are assured that the Chancellor will consider our letter most carefully.

HOW LOCAL AUTHORITIES CAN HELP TO RESOLVE THE NATIONAL DEBT CRISIS

by Laurence Trimby, F.C.A.

The National Debt

That there is a crisis to be resolved may be shown by the current inability to fund the debt interest cost of the general government borrowing requirement. The National Debt Principal rose from £23,000 million in 1945 to £95,000 million by 1979 and at 31 March 1982 the total sterling debt was reported at £116,254 million. An increase of some five times over the 36 years since the end of the Second World War.

By 1981 the National Income and Expenditure Blue Book tells us that the relationship on general government current account between debt interest payable and the borrowing requirement was:

	£ million		
Receipts	105,628	Debt Interest	
		Central Government...	10,484
Borrowing requirement ...	11,215	Local Government ...	2,602
			13,086
		Other expenditure ...	103,757
	116,843		116,843

We should note that the total amount of local authorities' debt interest was £4,396 million, of which interest on loans from central government amounted to £1,794 million, which was eliminated as a receipt on consolidation, and which referred principally to servicing Public Works Loan Board debt.

The position revealed, which is indicative of the possibility of a future crisis, is that the entire borrowing requirement at £11,215 million falls short of the cost of debt interest by some £2 billion. The National Debt Principal continues to mount.

The Public Works Loan Board

In so far as local authority debt is concerned, from 1 April 1968 the National Loans Fund was set up with a separate cash account at the Bank of England. From that date this account contains all the transactions connected with the national debt and the bulk of government lending, transferred to the new fund from the Consolidated Fund.

The loans advanced by the Public Works Loan Board during 1981–82 were provided out of funds made available under Section 78 of the Finance Act 1978 and the Local Loans (Increase of Limit) Order 1980, which empowered the Board to grant loans provided that those, to which the Board was committed at any time, together with the advances already made under the Act, did not exceed £6,000 million. This figure was increased to £9,000 million on 15 May 1981 by the Local Loans (Increase of Limit) Order 1981. One further increase of £3,000 million may be made by Order, subject to approval by the House of

Commons. At 31 March 1982 advances under the Finance Act 1978 amounted to £5,136,809,958 and loans approved but not yet advanced totalled £24,720,000. At that date the average rate of interest was 15%. During the year ended 31 March 1982 the following payments had been made to the Board by local authorities:

	£
Principal repayments ...	1,644,943,467
Interest payments	1,610,590,645

The Sovereign Right of Issue of Money

At this point let us ask ourselves, why does the Government borrow from the market on this immense scale? The answer is that in 1844 the Crown through Parliament passed the Bank Charter Act, which gave the monopoly of bank note issues to the Bank of England in England and Wales: in addition to which certain Scottish and Northern Ireland banks have the right to issue notes. That is to say that the sovereign right to create money in any form be it bank notes or coin is vested in Parliament, but was ceded in the last century to the Bank of England. Since that date the Government has been borrowing at varying rates of interest what is, in effect, its own money.

A Typical District Council

Let us now consider the accounts of a typical district council, which are particularly relevant as a rating authority:

		£
Loan Fund liabilities		19,658,271
Public Works Loan Board contribution		6,295,877
Percentage of Loan Fund		32.0%
Interest paid to Public Works Loan Board		592,118
Total Rate Income:	%	
Domestic properties	63.4	1,000,773
Commercial etc. properties ...	25.3	398,593
Government subsidies	11.3	178,589
	100.0	1,577,955
Percentage of Public Works Loan Board interest to rate income		37.5%

It must follow from this information that if the debt to the Public Works Loan Board, and, therefore, the interest payments flowing therefrom could be eliminated, there would be a saving in cash flow of £592,118 or 37.5% of the rate income.

The Problem and its Possible Solution

The problem to be solved is thus shown to be how to redeem the Public Works Loan Board debt without creating a new interest bearing debt; and without the inflationary device of issuing new money. The solution appears to lie in the structure of the Issue Department of the Bank of England (Appendix I). Here notes issued (£10,775 million) were backed by securities (£10,763 million) and Government debt (11 million) at 28 February 1982; while for the year ended 28 February 1982, income and profits from securities totalled £1,389 million, from which the costs of production, issue, custody and payment of bank notes and other expenses (£42 million) were deducted, leaving a net profit for payment over to the Treasury of £1,347 million. Hence, if the Treasury bore these expenses, there would have been no need to have issued interest bearing securities in the first place. A form of Treasury non-interest bearing bond would have sufficed and given full backing to the note issue.

If this approach is followed to its logical conclusion in the case of the district council indebted to the Public Works Loan Board in the sum of £6.2 million, then it should be possible for the following steps to be taken:

— The Bank of England could instruct its brokers to sell securities held by the Issue Department to the net value of £6.2 million on the market, the proceeds from which would be transmitted to the Public Works Loan Board for the account of the district council.

— The Treasury could issue simultaneously a non-interest bearing bond to the Issue Department of the Bank of England to take the place of the securities sold.

— The Public Works Loan Board would advise the district council that its debt had been cancelled and that no further interest was payable.

The District Council's Proposal

Bearing in mind the possible solution outlined above, the district council might well put the following proposal jointly to the Chancellor of the Exchequer and the Secretary of State for the Environment:

— If the Government would agree to take the three steps outlined in the possible solution above,

— Then, for its part, the district council would undertake to reduce its rate income by the amount so saved, so that the local ability to exchange goods and services would be enhanced rather than the capacity to invest in public works, which would not strengthen the local private sector of the economy.

Thus the immediate effects in the first year would be:

	Rate Income £	*Interest Saving* £
Increase domestic disposable incomes by		375,533
which would be partially reflected in local business turnovers.	1,000,773	
Decrease local business fixed overheads by		149,569
thus bringing back profitability to local business, whose break-even points would be reduced.	398,593	
Reduce government subsidies by		67,014
which should be well received by the Secretary of State.	178,589	
	£1,577,955	£592,116

Over a period of years all debts could be paid off, thus reducing the borrowing requirement. The prize could be great indeed, because, while the extra domestic disposable income would only partially find its way into local business turnovers; the savings in local business overheads would have an effect on profitability and, therefore, employment far in excess of the actual saving.

The initial proposal could be made by the Association of District Councils on behalf of their members with the support of the National Union of Ratepayers. Their position as representative of the rating authorities and their ratepayers respectively is unique in this context. Such proposals being simultaneously circulated throughout their membership.

In principle, there appears to be no reason why, eventually, all local authority borrowings should not be dealt with in this way: but, on account of the magnitude of the transactions it may well be deemed desirable to phase in redemptions, giving priority to those councils, which have been strict in their spending control and, therefore, deserving of this help at the earliest opportunity.

Such a scheme would have the effect of transferring funds from lenders to individuals and their businesses within each local authority: it would be strongly reflationary without being inflationary: a new cash flow available to enhance the exchange of goods and services.

Appendix I

Bank of England: Issue Department

Account for the year ended 28 February 1982

	£
Income and profits from securities of, or guaranteed by, the British Government	1,389,819,000
Cost of production, issue, custody and payment of Bank Notes and other expenses	42,496,000
Payable to Treasury	£1,347,323,000

Statement of Balances: 28 February 1982

Notes issued	10,775,000,000
Government debt	11,015,000
Other securities of, or guaranteed by, the British Government and other securities	10,763,985,000
	£10,775,000,000

With acknowledgements to "Government Debt and Credit Creation: A study of the creation of credit and its effect on the British Economy." Research Report No. 9, December 1981. Price £1.00. Published by Economic Research Council, 55 Park Lane, London W1Y 3DH.

BRITAIN AND THE JAPANESE MARKET

by James Y. Bourlet

Six months in Tokyo may not confer "expert" status but it was a period, for this writer, when at least some thoughts could germinate on Britain's economic relationship to Japan.

120 million middle class, high income — and by nature, not at all mean spending consumers should, for a start, surely provide a good market for British products of all kinds. Yet in general, British manufactures sell poorly — the basic reason being that the price at which goods leave Britain is too high to allow Japanese buyers to purchase them in preference to local products, after transport costs and inefficient Japanese distribution costs have been added. If prices are kept competitive, then quality, after sales service, distributors' margins (and thus incentives), reliability of supplies, or some other element, suffers. Generally, Britain simply not does produce mass-produced items cheaply enough to compete. High taxation, labour practices, low motivation, high professional fees, delaying bureaucracy, high raw material and food costs, high energy costs, a temporarily oil high exchange rate, a population seemingly uninclined to factory discipline and many such factors ensure that this is so.

Both tariff and non-tariff barriers for imports into Japan are now low — less than either the USA or the EEC. Pundits are left to argue that "buy Japanese" consumer attitudes or "restrictive import company practices" constitute remaining barriers — but this should be challenged. Many products from other countries succeed to disprove this point — American razor blades hold a 70% market share, German cars have recently achieved quite spectacular success, American aircraft are used generally, products from all over the world are available in Japanese shops. On the "Ginza" in Tokyo a magnificent avenue of large and small shops sell a more complete range of the world's consumer goods than in any other city in the world.

Some British products sell well. Of all the EEC countries, Britain is the largest supplier of "food and drink" to Japan, thanks to a 30% market share of the whisky market and good sales of biscuits, chocolate, tea and milk, etc. (some of these however may be under threat from cheaper products made from outside the CAP area). Burberry raincoats are everywhere — a great British success. There seems to be quite a few "Minis", the occasional Jaguar and a Rolls or two.

"Unique" or "Cheap"

In order to sell in Japan a manufacture needs to be "unique" (such as a "Burberry"), or "cheap" (such as German wine), or "heavily promoted" (such as BMW cars), or "not produced in Japan" (such as aircraft) or "required to satisfy regulations" (such as ship's safety equipment) or perhaps just "superior" (such as British loudspeakers). There simply is no reason for the Japanese to buy items not coming into such categories — and in the case of some items, such as furniture, British products are highly unlikely to suit the size and type requirements of the Japanese home.

And yet Britain has a regular bilateral balance of payments SURPLUS with Japan ! How ?

This is actually a slightly amazing case of realising that one should "fish on the other side of the boat" — and in this case, that means acknowledging that Britain's comparative advantage lies in "invisibles" rather than in manufactures. In a Japanese restaurant one may not sit on a British chair, but one will probably listen to "Beatles" music — and although it will be played on Japanese equipment, the tape recorder will have paid a royalty for the use of the British "Dolby" system. One may buy a Japanese product in the Ginza, but British investors may well hold a major part of the shares in the manufacturing company involved. Non-British imports of all kinds are likely to have been transported to Japan on ships chartered and insured in London and Japanese tourists to Britain and elsewhere go by British Airways. Royalties are paid on British books translated and sold in Japan and Japanese students study in British Universities and Polytechnics.

Bank of Japan figures for 1981 show that: (in US$ million)

Visible trade		
British exports to Japan		2,102
British imports from Japan		4,500
'Visible' deficit		2,398
Invisible items		
British receipts from Japan:		
(i) Transportation	1,568	
(ii) Travel	245	
(iii) Investment income	4,973	
(iv) Other	1,464	
		8,250
British payments to Japan:		
(i) Transportation	726	
(ii) Travel	26	
(iii) Investment income	2,746	
(iv) Other	397	
		3,895
Balance on 'Transfers'	34	
'Invisibles' surplus		4,389
Current SURPLUS with Japan		1,991

Thus there seems to be a happy complementarity between Britain and Japan. British people benefit hugely from excellent and reliable Japanese manufactures of highly advanced and efficient design (though quota restrictions can idiotically destroy much of this benefit) whilst Japanese companies and consumers look to Britain as a source of services of all kinds, plus ideas, entertainment and capital. Britain derives this position from its individualistic and inventive people, through its language, through its world-wide communications network and especially Commonwealth connections, and through a rather long history now of satisfactory business relations with Japan.

To safeguard and expand this valuable exchange Britain should obviously avoid restrictions on Japanese imports (especially where they compete mainly with alternative imports rather than home production) and do everything possible to safeguard and expand service sector "sales" to Japan. That means acknowledging their existence, possibly subsidising their development and urging the Japanese Government against any measures which might reduce these activities.

Relations Soured

The British Government's response however, seems quite the opposite. An attempt has been made to largely deny the existence of the "invisibles" surplus whilst attempts are vigorously made to try and push more British manufactures on to Japan ! International relations are soured by references only to "visible" trade. "Invisibles", the British Government argues, can be largely ignored through the following "logic".

British Business, the journal of the Department of Trade published articles in April 1981 and in January 1982 which set out the argument.

Any transaction involves receipts, costs and "value added" (or "profit"). A company can measure performance by sales revenue or by profitability. A country can measure exports by total foreign moneys received or by receipts less import content — as in the case of imported oil and steel used for an exported motor car. The two approaches one may call "cash flow" versus "value added" or, as the British Government chooses as "gross" versus "net" receipts. ALL transactions, visible and invisible will produce substantially *lower* figures on the latter basis. Company profits will always be less than sales.

Transportation and investment income to Britain from Japan does inolve a substantial sum which passes "through" London to other, principally other EEC, countries. A German ship may be chartered in London, Dutch money may be invested in or lent to Japan via London. Japanese companies may raise working capital in London from banks which in turn balance their books with borrowing abroad. Not all the money arriving in London, "sticks". It is argued that this should be called financial "entrepot" business.

Now whilst this writer's guess (based on the high level of British portfolio investment in Japan plus the major outflows in recent years of UK capital) corresponds with estimates resulting from enquiries to London brokers, that around 70% of investment income to Britain "sticks" here, *British Business* asserts that only 10% does so. Similar figures are given for transportation — and even travel. In this last case, the Japanese figures are based on bank returns of tourist purchases of pounds sterling but the *British Business* figure is based on some interviews with Japanese tourists arriving at Heathrow.

In this way, *British Business* argues that the "invisibles" surplus with Japan is only about one-fifth of that given by the Bank of Japan, and cannot fully offset the "visible" trade deficit. Should we accept this argument ?

A number of points should be remembered.

(1) The Bank of Japan figures, understood simply as flows of cash, are unchallenged by Britain. For what they are, they can be regarded as "hard

fact". London's Committee on Invisible Exports acknowledge this without question.

(2) Following IMF convention, all countries record both visible and invisible business flows on a simple "cash flow" basis — except Britain.

(3) The "value added" approach involves a complex pattern, *e.g.* moneys are received by British investors via other financial centres such as New York, Singapore or the Cayman Islands but these are recorded by Japan as payments to those centres — not to the UK.

(4) It is highly misleading to "mix methods" — to compare visibles on a cash flow basis with invisibles on a value added basis.

(5) Visible trade on a value added basis is also highly complex. Scottish whisky involves almost 100% "home" content (barley, water, glass, labour) but a Japanese ship may be only 60% "Japanese" using imported steel, power, plastics, engines, safety equipment and much else.

(6) The office in London responsible for suggesting the figures for *British Business* estimates simply do not have the resources, data and time to come up with convincing figures. They are purely guesses and there must be a strong temptation towards bias. Figures given for British payments to Japan must be a total "shot in the dark".

Best Solution

Thus the British Government's idea of using "value added" (which is also called the "Economic Transactions Basis") runs into numerous practical problems. The overall current balance (visibles plus invisibles) is probably (depending on taste !) in surplus with Japan on this basis — but no one knows, nor are they likely to find out, even if the detailed methodology could be agreed internationally.

But in the meantime, the debate serves to obscure the perfectly clear cash flow relationship between Britain and Japan, harming, I believe both attitudes and opportunities.

The best solution would surely be a return to the more open minded approach of asking each country to simply balance its payments and receipts with the rest of the world (thus neither hoarding other nations' currency, or gold, nor flooding the world with its own money), get on with developing multilateral trade and stop inventing "bilateral" disputes.

Farmers Reject EEC Reform

Britain's farming leaders have rejected the latest plans to reform the Common Agricultural Policy and are seeking urgent talks with the Government and the EEC Commission in Brussels. The Commission's plans to save £1,800 million a year in public spending would harm both farmers and consumers, Sir Richard Butler, president of the National Farmers' Union, said yesterday.

Measures aimed at controlling the production and disposal of farm surpluses and curbing soaring expenditure which is threatening to cripple the entire EEC budget, would cut subsidies to beef, dairy and sheep farmers. Dairy farmers among the most efficient in the world, would meet stiff penalties to meet the cost of disposing of surplus milk.

Agriculture correspondent, Sunday Telegraph, 31.7.83

OUR WEALTH AS A SOCIETY

by John Pomian

With the elections out of the way we can seriously address ourselves to the problem of unemployment.

A recent letter to *The Times* rightly pointed out that this problem, which basically arises from increased technological productivity, has been successfully solved many times since the Industrial Revolution by reducing hours of work, extending education and providing for retirement, rather than by using all the increase in wealth on higher wages and salaries.

Today, if we are to make any progress we must take a view about our wealth as a society. Can we or can we not afford earlier retirement so as to reduce our workforce ? Can we afford more spending on education to improve the quality of our manpower ? Can we afford some kind of partial remission of the debts of the Third World to revive the flow of international trade ? Such prior answers must be given before we can approach virtually any problem before us.

In terms of our productive capacity the answer is yes. Clearly what the OECD countries suffer from is surplus capacity, due primarily to a tremendous progress of science and technology and of productivity over the last forty years. It applies to every branch of production, from agriculture, through mining, basic industries and to every kind of manufacture bar those supplying the latest inventions. Should it all be harnessed the way it was during the last war, a stupendous output could easily be achieved.

Could it be that we have reached the age of plenty ! And if we have, would we be prepared to admit it ? Would we know how to cope once we did ?

Ever since Adam Smith, economists have tended to assume that the object of their enquiry the *homo economicus* was a lean and hungry creature. But would his behaviour be the same were he to be born and bred in "comfortable circumstances" ? On 3 October 1982 the *Sunday Times* published a MORI poll in which 46% of the adult population assessed their total wealth (including that of their spouses) at being in the £10–50,000 bracket, 17% between £50–100,000 and 1% at over £150,000. One might assume that *pari passu* the situation in other OECD countries is much the same. Is this to be ignored ?

Presently it seems that any myth, any view, any attitude which denies our wealth is immediately adopted and flourishes lustily. Take for instance the fashionable idea of a rapid depletion of natural resources. Ever since our first ancestors ran out of game, nuts and berries and had to breed animals and cultivate the soil, the human race has had constantly to adapt to a "rapid depletion of natural resources". Now suddenly we start worrying about it.

But it is when we look at the economic landscape as reflected in money terms that everything clouds over and the familiar difficulties pile up. We enter the prestigious realm of figures, supposedly calculable, precise and authoritative. Here hypocrisy can thrive.

Take for instance deprivation and poverty, two words in constant use, in the maintenance of which we all seem to have a vested interest. Thus to succeed in international negotiations our Government pleads poverty, the Treasury does the same *vis-à-vis* the spending departments, industry clamours for tax concessions, the unions leapfrog their demands claiming they have been left behind and everybody else complains of unfair treatment or deprivation.

We all agree that all would be well with our finances if only we could accept living within our means. All the log jams would disappear. But an incomes policy is resolutely rejected by the Trade Unions, while year in year out, depression or not, earnings increase faster than inflation. This happens in other countries as well, which is not surprising as it is the vast majority in employment which benefits from it all.

This could be put right by higher taxation. But here again the majority will firmly vote it out of court. It is claimed that higher taxation is stifling and oppressive, slows down development and discourages hard work. Could it really be that when taxes are high *homo economicus* takes to his back garden and downs his tools and when they are low he takes to the bench and works like a beaver ?

As things stand at present we succeed in creating dangerous financial imbalances, which stifle development, deprive us of many services and amenities and above all inflict on our society the curse of mass unemployment to which there seems to be no end and which will cost us dearly.

The moral is that greed holds us back. The problem is as old as the human race itself. Our ancestors Adam and Eve, were the first millionaire couple to go bust. They had everything yet they wanted more. They lost it all. Can we do better ?

ENERGY ECONOMICS IN BRITAIN

No less than twenty-seven experts have contributed to this major review of Energy Economics in Britain,* which is edited by Paul Tempest. Topics covered include UK energy policy; coal in Britain; British nuclear power policies; gas prices and exploration; estimation of UK Government revenues from oil; licensing, conservation and taxation. Among other subjects covered are North Sea electricity main ring, the new petroleum futures market, interactive load control and the potential for non-fossil fuels. The contributors cover a wide range of opinions, some highly controversial, they include Nigel Lawson, Eric Price, Sir William Hawthorne and Robert Belgrave. The question is posed in the preface: "By giving low priority to investment in new energy (both supply and demand sides), are we not unnecessarily and arbitrarily constraining opportunities for renewed global economic growth ?

There are four annexes which provide a useful and comprehensive list of professional bodies, universities and journals covering energy economics. There are also full details of the British Institutes' Joint Energy Policy Programme and the BIEE Archive List of Key Papers.

******Energy Economics in Britain, edited by Paul Tempest, published by Graham & Trotman Ltd., 66 Wilton Road, SW1V 1DE. Price £18.00 plus postage.*

THIS MONEY AGAIN!

by Christopher Havergal

I have read article after article in recent and not so recent editions of *Britain and Overseas* in which authors inveigh against the many follies in Western monetary systems; and, more often than not, the only visible differences between them have been in semantics and imagery. Moreover authors writing on identical subjects make scant reference to the works of others. So we continue to "rake over" rather than to build. Yet these issues are perhaps the most momentous of all, for all mankind. Edward Holloway draws attention to this uncivil vagary in the final paragraph of the last edition (Vol. 13 No. 1) of *Britain and Overseas.*

In drawing attention to this I have a personal axe to grind, for I have myself had published several papers and articles on the subject of monetary control, whose seemingly unassailable logic has never been torpedoed by any expert. Yet they have seemed to flicker momentarily like willow the wisps over the swamps of controversy before vanishing without trace.

Yet is not money the principal tool of civilisation ?

As economists should we not point to a logical way to make money stable and sure, by ensuring that its rate of flow through any Economy is kept matched to the rate of input of productivity into that Economy ? I challenge any member of the Economic Research Council to refute this !

So please let me run the risk of being wearisome when I repeat hereunder that:

$$S = QD$$

In this relationship S stands for the number of employed manhours supplied to an Economy per day (let us say). Then D will stand for the number of manhours demanded from that Economy per that same day; and Q stands for the proportionality between them. This formulation gives succinct expression to the self-evident fact that — if charity and burglary are excepted — no goods or services can be removed from any Economy without an exchange of authorised units of demand (*i.e.* without exchanging currency notes, coins, or credits). Were this quite unassailable relationship to be geared to govern, for example, our British money supply, it would of course be necessary to give our £ an "Employed Manhour Standard of Value" to enable the daily demand for them to be matched to daily supply of goods and services.

Manhour Standard

"But ah !" you may say, "What about establishing that Manhour Standard? How would you do that ?"

It would in fact present very little difficulty. For, on day one of the system, one would wish the value of Q to start at unity and would therefore give it the arbitrary value of one on that day, and rearrange the equation to yield the Value Standard thus:

Let S′ represent the Value Standard in terms of Manhours per Pound.

Then: $$S = QDS'$$

Transposing: $$S' = \frac{S}{QD}$$

Then as an example:

If on day one the average input of employed men and women was, say, 240 million manhours per day, and the average monetary input was, say, 1,200 million £'s per day, then the Standard would be:

$$S' = \frac{240{,}000{,}000}{1{,}200{,}000{,}000} = 0.2 \text{ Manhours per } £$$

And the general control formula would thereafter be:

$$Q = \frac{S \text{ (manhours per day)}}{0.2\ D \text{ (£'s per day)}} = 1$$

Should at any time thereafter the value of Q come out at less than one, the currency would be inflating. If more than one it would be deflating. The objective would, of course, be to institute a fairly fine control, designed to keep it either at or very near to one. And in constituting this control I submit lies the greater problem than in enunciating the law to which it must give practical expression. So let us accept the truth of the latter and concentrate our minds on developing a non-political *mechanism* for carrying the law into effect to supersede the exceedingly blunt instrumentality of Base Rate manipulation (as Torrens and others in the last century foreshadowed should be done).

A Two-Tier System

I tentatively suggest that perhaps a two-tier system — in which one completely non-political tier would issue up to half the money supply in interest-free credits (in accordance with the E.R.C's Research Report No. 9), while second-tier credits would continue to come from banks and other existing sources. Reliability in money purchasing power would lead to cheap money, and that in turn would lead to the re-employment of the wasted unemployed.

Speaking more generally I would suggest that once one can accept the fact that there is no wealth known to man other than the manhours we all put in per unit of time, to making and winning for, and distributing to, each other, it will be clear that it is impossible to bankrupt Economies unless the men and women who comprise them cease to supply goods and services to one another.

In short civilisation demands that we "do it for one another at least as much as we do it for ourselves".

COMMON MARKET QUOTES

Cheap EEC Butter for Russia

Russia is to get 30,000 tonnes of Common Market butter, with an EEC-paid subsidy three times bigger than is available to British consumers. "It is the first properly authorised deal since the Common Market imposed sanctions on butter sales to Russia in early 1980, in the wake of the Russian invasion of Afghanistan".

Agriculture correspondent, Daily Telegraph, 22.6.83

EEC Farm Costs

"Farm spending by the Common Market is running nearly 40% above last year's levels" senior EEC sources said in Brussels last night. The runaway costs are largely due to the apparently inexorable growth of the surplus food mountains. Altogether, food worth more than £3 billion has been bought and stockpiled to maintain guaranteed minimum prices to eight million farmers . . .

Mr. Christopher Tugendhat, the British Commission member responsible for the EEC Budget, revealed in London last week that it was costing £5 million every working hour to prop up European agriculture.

Agriculture correspondent, Daily Telegraph, 24.6.83

Britain's Pubs

A Common Market decision to allow most of Britain's public houses to stock a greater range of beers, spirits and food was welcomed yesterday by European MP's from both Conservative and Labour parties.

Common Market correspondent, Daily Telegraph, 24.6.83

Joint Action for Recovery

A master plan for a European economic recovery by the 1990's was presented to the European Parliament in Strasbourg yesterday by its joint authors — M. Michel Albert, the left-wing French economist and Professor James Ball, the right wing British economist . . .

The authors are most scathing about the EEC. "The word Europe can only be used in an ironical sense. In this respect there is no such thing as Europe. There is only non-Europe."

Ian Murray, The Times, 8.2.83

Soaring Cost of Food Surpluses

Britain's growing mountain of surplus grain and butter have forced the Government to double public spending to £642 million this year under Common Market farm support arrangements.

Agriculture correspondent, Sunday Telegraph, 10.7.83

Sensible and Equitable Reform

"I have no doubt that both the result of the election and the decisive nature of the Government's victory have strengthened Mrs. Thatcher's ability to show she speaks for the whole British nation in seeking sensible and equitable reforms of Community financing."

Malcolm Rifkind, Minister of State at the Foreign Office, reported in The Times, 12.7.83

A Labour View on Europe

"If no significant progress is made in reforming the EEC in the next few years, Labour should again advocate withdrawal at the next election, but in the meantime the party should genuinely try to work within and change the EEC."

James Curran, Editor, the New Socialist in an article published in The Times, 13.7.83

EEC Slides 150m into the Red

The EEC seems certain to go at least 150m into the red by the end of the year because the compulsory cost of supporting the Common Agricultural Policy is still soaring at an unprecedented rate.

Farm support is 41% more than in the first eight months of last year, and the money left in the existing EEC budget is enough to pay for only a further two-and-a-half months at present rates.

Ian Murray, The Times, 16.7.83

Hard Fight to Recover EEC Cash

The British Government yesterday promised a long, hard fight with the other EEC countries to win back £56.1m it claims to have "shabbily" taken away from it. It is also concerned that a further rebate worth £450m maybe cut off by the EEC before the end of the year . . .

Mr. Nicholas Ridley, the British Minister, said' that Britain's EEC colleagues had damaged the Government's confidence in them just as crucial negotiations to save the Community from bankruptcy are due to begin.

Ian Murray, The Times, 23.7.83

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