



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

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## GOVERNMENT DEBT AND CREDIT CREATION

### A Progress Report

by Damon de Laszlo, Chairman of the Economic Research Council

When the ERC launched the above research report in December 1981, it sank, but not without trace. Probably the complexity of the subject and the fact that very few people were concerned with the National Debt at that time, made it less than popular reading just before Christmas.

However, due to a great deal of persistence by a number of our members, the subject has over the last two years started to raise interest. In particular, Mr. William Armstrong and Mr. Geoffrey Leese — two members in Scarborough — persuaded their Member of Parliament, Sir Michael Shaw, that it was a worthy subject to be presented to the Conservative Backbench Finance Committee in the House of Commons.

It is with great pleasure that I have to report that Edward Holloway and I made this presentation on the evening of 24th January. It was a presentation that filled me with trepidation, as the Committee has extremely knowledgeable members. After the presentation of our case, we were asked a lot of very deep and probing questions for half-an-hour. At the end of the exercise, I feel we managed to stir up a great deal of interest in the subject — probably the most important result being that a number of influential Members of Parliament are now much more concerned about the rate at which the National Debt is compounding, and accept that the subject needs careful scrutiny. The Chairman of the Committee, Sir William Clark, wrote after the meeting: "Everybody was delighted with the speech and the way you handled the questions afterwards".

In a different area, John Moore, M.P., Financial Secretary to the Treasury, very kindly lunched with Edward Holloway and me to talk about the subject. We did not expect him to comment on the merit of our argument. However, he was interested enough in the ERC's proposal to ask us to discuss the subject with some of his Treasury technical experts.

Mr. Moore commented in a letter: "We do value the work of independent research bodies such as the Economic Research Council and I hope you will continue to publish original ideas on key current issues".

Also, during January, we managed to interest Andrew Knight, Editor of the *Economist*, in the subject. There is no way of knowing what the result of the discussions with Mr. Knight will be, if any, but at least the *Economist* is not unaware of our existence.

All in all, January 1984 has brought with it the prospect that the subject of Government Debt and Credit Creation will become a live issue.

*Government Debt and Credit Creation — A study of the creation of credit and its effect on the British economy. Research Report No. 9. Price £1 (post 20p) from ERC.*

*Our researcher, Malcolm Macdonald, has provided an up-date of the statistics in the above publication, showing the estimated saving in interest payments which could be made over the next five years by the adoption of our proposals. This is also available from ERC, 55 Park Lane, London W1, price 50p post free.*

## THE CHANGING FACE OF BRITISH TELECOMMUNICATIONS

by Sir George Jefferson, C.B.E.\*

Chairman — British Telecom

The rapid pace of change is, perhaps, the most striking feature of life in this latter part of the 20th century. Every day seems to bring something new, or something which is cheaper, more compact and more reliable than whatever it replaces.

Whole new industries are springing up where none existed before and the nature of our traditional ones is changing rapidly as we in this country seek to be part of the so-called technological revolution. There is increasing emphasis upon updating products, production methods and marketing. Vast resources are being channelled into further new product research and development. New organisations and arrangements are taking shape to handle the new situations facing our UK industry and economy.

In British Telecom, it is not too difficult to appreciate the evidence of dramatic change over the past few years — and the prospect of an accelerating pace over the years that lie ahead.

I would like to paint you a short word picture of the pace of change in the industry and in my organisation in particular. It's something of a tall order because in BT I'm talking about a business already serving 19m customers throughout the length and breadth of the kingdom. A business with a near seven billion pounds annual turnover, employing almost a quarter-of-a-million people and helping to sustain almost as many jobs again in our UK manufacturing and supply industries. A business that serves some 30m telephones, and much more besides, in one of the world's largest public telecommunications systems. A business that will this year sell or instal some 5m phone instruments, bring more than 200 new electronic exchanges into service, handle some 60m calls day in and day out, and invest one-and-a-half billion pounds in a network whose assets, at replacement cost, are worth some sixteen billions. The figures, like the size of scale and of our operations, are quite breathtaking. I will concentrate, therefore, upon some key examples of change.

### Most Radical Change

Firstly, it's "all change" as regards our ownership. And I place this first in my scheme of things for the very good reason that we expect 1984 to bring the realisation of perhaps the most radical single change in the whole history of UK telecommunications. I refer of course to Government's plans to turn us into a public limited company, taking us from the public sector to the private, and to sell 51 per cent of the PLC's equity around the end of October. Those plans, incidentally, weren't even a glimmer in Government's eye when I took on this job. Now, three years later, they're well on the way to fruition.

\* Text of an address given to members of the Economic Research Council on 26.1.84.

And leaving the political issue right aside — though I acknowledge it is very much a political one — let me say that privatisation should have a number of beneficial effects for BT and its customers. It will go a long way towards freeing us from the web of political interference and control which has so dogged our managerial policies for many years. It will free us from what has been termed the “dead hand” of the Treasury, and allow us to make business decisions, and particularly investment decisions, related to developments in the market and what the customer needs. Too often, in the past, such decisions have been dictated by the vagaries of a particular Chancellor’s macro economic policies, rather than by what was good for the business. When I joined BT, I could see example after example of things which had been done differently from the way they should have been done, or which had not been done at all, because the amount left for BT in the public purse was simply not enough for its requirements. Often, projects had been carried through in a penny pinching way, the effect of which was to make them much less effective, with many fewer benefits, than if a little bit of extra money had been spent in doing the job properly. When I asked in my innocence why some of these rather silly decisions had been taken by obviously intelligent men — good engineers and good managers — the answer was invariably that it would have been difficult to demonstrate to the Treasury that the extra expenditure would meet its test discount rate. Now, I believe in identifying a market which is potentially profitable, and then working hard to make meeting that market profitable. Whilst disciplined financial analysis used as a tool to help business judgement is a good thing, it can be a very stifling thing when used oppressively by people who are not part of the business and whose principal concern is to protect Ministers, or protect policies not related to that business.

The second reason why I believe privatisation to be on the whole necessary at this stage relates to the other great change which has been affecting this industry — the change in our operating environment. In 1981, under the same earlier Act that split us from the Post Office and set up British Telecom as a corporation in its own right, the Government opened the way for competition. That competition has taken three forms — one, the supply of virtually every kind of equipment from an approved simple telephone to a complex large business switchboard; two, the licensing of value added services to work on the BT network; and, three, the licensing of a second public telephone operator to provide an alternative network to challenge our long standing monopoly in handling business communications.

Again, by and large, I believe this competition has been a good thing, and certainly good for customers. It gives them greater choice at a time when even the mass consumer market, let alone the already more developed business sector, is fast moving to a whole range of innovative technology services and devices.

#### Developing New Products

We in British Telecom will play a leading role in developing these new products and services which I suspect are going to have a fairly dramatic effect on people over the coming decades. So although we are confident of

our prospects and ability to expand our markets, we do now face very real competition for the first time for some 70 years. We have to sell our wares in an increasingly competitive domestic and overseas market place.

I believe this liberalisation of telecommunications in the UK has been driven not so much by political pressures as by the rapid expansion in the size and complexity of a market stimulated by the immense technological advances of recent years. And this brings me to my third area of change — the change in technology.

Not so long ago, we were essentially operating on a one-product market — the basic telephone call. Yes, there were one or two other services such as the telegram and, latterly, the Telex service. But ours was still very much a business dominated by a single service, provided nationally on a uniform basis by a centrally organised, public service monopoly — some would say monolith.

Technology is changing all this. We are already very much a telecommunications, rather than a telephone company. With the much-heralded convergence of telecommunications and computing, we are rapidly becoming an information handling company in an information society. A multiplicity of different services, aimed at different sectors of the market, will increasingly become the name of the game. Some of these developments can already be seen taking shape over the last few years.

The late 1970s and early 1980s have brought major structural changes in UK history. The complexity of modern production processes demands much communication to reach effective decisions, monitor production and ensure the timely arrival of components. At the same time, the shift away from traditional manufacturing towards service industries seems set to continue, although in my view the UK shall not have a long-term stable situation without a vigorous and efficient manufacturing sector. Whole new specialised service industries have grown up around the availability of new forms of communications. Increasingly, the structure of industry and the economy is being reshaped around the supposition that high quality ubiquitous communications will be available.

#### A Growth Market

The significance of all this is that, because we serve manufacturing and service industries alike — not to mention the private consumer — British Telecom has continued to operate in a growth market, even through the most difficult recent economic times. We have experienced rapid growth in text and data services, alongside substantial growth in the use of ordinary telephones.

The same retail stores which ten years ago refused to have ordinary phones available to their counter staff are now bringing in sophisticated transaction telephones to facilitate credit card authorisation at the point of sale. In the largest business organisations, the emphasis is now on speed of communications, on an integration of the different forms of communications and on communications as their very life blood. They have moved away from straightforward

data processing by central computer departments towards on-line systems that put powerful workstations on the desks of managers and secretaries, providing the capability to instantly consult company databases, send mail electronically and communicate both within the company and outside.

Across Britain's smaller businesses, we find growing penetration of comparatively high-technology communications equipment. Only five years ago, a small concern would have had perhaps a couple of telephone lines on a manual intercom system and an electro-mechanical Telex machine alongside the mechanical typewriter. Today, that same office is increasingly likely to have among its facilities an entirely new generation of Telex terminal, with the capacity to communicate with a variety of other terminals, and one of our modern digital call connect systems, with automatic diversion facilities.

### Dramatic Changes

Rapidly falling real-term costs, stemming from the development and application of new technology, have offered us the means of fundamentally transforming the working methods and practices of many businesses. We expect to see dramatic changes in the provision of new systems and devices for the integration of telephony and data processing, with value-added services like Viewdata meeting the specific needs of certain sectors.

This multiplicity of services is only one of the effects of technological advancement. Another, perhaps at first sight slightly odd, is that it is becoming difficult to draw clear boundaries around the different kinds of services that can be provided. The services are more and more integrated in nature; and customers are increasingly looking for integrated packages.

This underlies my concern at some of the pressures which are exerted from time to time to confine BT's role to that of basic network provider.

For a start, with the development of increasingly intelligent networks, it is very difficult to define what is meant by basic network. If we are thinking in terms of the simple task of transmitting a message, then we know that that is unlikely to be an attractive long-term proposition for a BT PLC. Technological development will greatly increase the capacity for low-cost message transmission. The scope for profitable growth in the future lies increasingly in adding value to the network and enhanced network services. To cut a network operator off from providing these kinds of services would be a technological nonsense and, ultimately, a commercial disaster.

Similarly, with the development of intelligent apparatus, which increasingly provide networking facilities and characteristics, it would make no sense either commercially or technologically to preclude the network provider from the equipment market. It would certainly make no sense for the consumer in industry, who needs sophisticated packages of the latest communications if he is to trade successfully against his international competitors.

And I believe it would make no sense for the future of information technology in the UK to try to exclude BT from these markets. The UK needs a strong force in this area. Small may be beautiful; but big is not always bad,

and is sometimes necessary if you are going to succeed against the AT&T's, IBM's and NEC's in this increasingly competitive market, both at home and abroad. Looking around the UK, I cannot with the best will in the world see any other company with the same technological and, potentially, financial resources as BT in this sector. I know the size of BT sometimes worries people; but I like to point out that we are only about the same size as *each* of the seven companies created in the USA by the divestiture of AT&T.

There is, of course, a unique opportunity for small firms to develop dynamically in this field. But I submit they need a strong domestic force in the market.

BT's task, as I have stated elsewhere, is to ensure that it stimulates the development of a UK IT industry, and does not use its dominant position in some areas to operate against the public interest. The DG Oftel's job will be to ensure fair play, and I am absolutely certain that the draft BT licence gives him more than enough powers to do so. And this thought brings me to my next great area of change — in our relationship with our equipment suppliers. Traditionally, this has been essentially one between a monopoly or near monopoly buyer and a limited number of suppliers. Indeed, in certain vital sectors — for example, in the supply of switching equipment — our manufacturers will continue to enjoy virtual monopoly of supply to BT for a long time ahead — a situation which causes me some wry concern when I hear complaints from that quarter about BT's monopoly! However, because many of our markets are now being opened up to competition, we are no longer the monopoly buyer in many fields. The range of products and the number of potential suppliers will rapidly increase and our buying will be much more competitive. This is already happening in many items of customer apparatus, where we are encouraging the development of a number of new British firms, some of them relatively small. And, in view of some recent highly ill-formed speculation about BT wishing to purchase abroad, let me say that we have supported the UK manufacturing industry with massive investment; and that it is in BT's interest to reap the benefit of that investment by continuing to buy British from a strong and secure domestic industry, provided that that industry produces internationally competitive equipment, such as I believe System X — our new digital exchange — to be.

Perhaps the most intriguing aspect is that many of our suppliers are now our potential competitors, since they have the opportunity of opening up their own routes to our customers. Each of them has to decide on its strategy — how far will it use BT as its sole or prime route to the market? To what extent will it compete with BT? On which products? And in which segment of the market — retail, wholesale or manufacture if we decide to expand our activity in that area?

Personally, having spent most of my life in the highly competitive but incestuous Aerospace industry, I am entirely used to competing with, co-operating with, selling to and buying from the same people in varying sectors of the business, whenever it made commercial sense to do so. I believe, therefore, that we will be able to work out these new relationships on a sound commercial basis, which always makes greater sense than imposed regulation.

### Task-Oriented Approach

And so to my final area of change which is that within British Telecom itself. Today's BT is indeed a very different animal from that of only a few years ago. Our old rigid departmentalised structure has given way to a task-oriented approach dedicated to giving our customers, big or small, ever better service and value for money. In British Telecom, the customer is now truly king. To meet changing customers' needs, we've completely reorganised our sales force, moving away from our traditional order-taking function to a highly motivated commercial sales organisation dedicated to serving today's many and varied market sectors.

We've completely reshaped most elements of our organisation to provide responsive business and product-related groupings. Our aim has been to bring expertise and responsiveness closer to the customer. Our local General Managers around the country used to be what I termed, somewhat unkindly, "District Commissioners", administering the service in their areas, but with very little authority to influence that service and how it was provided. Today, we are turning them into what they should be — Managing Directors of significant businesses in their own right with a turnover of around £100m and often the biggest employer of labour in the district in which they operate.

Telecommunications is a proven and increasingly important wealth-generating sector of our British economy. Since 1975, BT and its predecessor have already achieved 58 per cent real output growth, adding one per cent to the UK's real Gross Domestic Product, while the other burgeoning information technology industries have added another one per cent. This is comparable to the total contribution of North Sea oil over a period in which our UK economy as a whole has grown by just six per cent. Yet the biggest slice of the telecommunications and allied industry contribution is still to come, from the infrastructure now being created for the next phases of communications development. My time with British Telecom has convinced me that enormous worldwide growth opportunities lie ahead for those organisations able to recognise the pattern of communications change and to respond to it.

### Immense Opportunities

For our part, as a public limited company, with our vast resources and potential to attract commercial investment, I am sure that we in British Telecom can be the flagship around which many other companies in the information technology sector can also prosper at home and abroad. I want to see British Telecom and Britain become world forces in this growth area so crucial to our economic future. At a time when we are beginning to see sure signs of a welcome upturn in other areas of business, I'm delighted to be able to end on this note of optimism in my own sector. The fact is that in this changing communications-hungry age, many people just cannot wait to get their hands on new communications systems. And we in Britain lie in a pole position to exploit the growing demand, especially in Europe and North America, as well as here at home.

The vision of a powerful UK-based information industry, with all that this

implies for our economic growth prospects, is within our grasp. And the fundamental changes in store for British Telecom later this year will, I believe, leave us that much better fitted to lead the attack. The changing communications scene is one of immense opportunities for innovation and enterprise, spear-headed by the strength and experience that British Telecom offers.

### UNEMPLOYMENT OR LEISURE

by Ken Tod

Newspapers abound with articles deploring unemployment and, usually, twisting and turning to avoid admitting that Full Employment as we have known it hitherto has gone for ever. Alongside these are other articles deploring the increasing number of pensioners to be supported by a falling number of people of earning age. Surely if these two gloomy opinions were brought together they would be found to cancel each out: the computers and mechanization which cause unemployment can also provide for the maintenance of pensioners. All that is necessary is to change the word Unemployment to Leisure by organizing the distribution of the products of the robots and computers to maintain at a high standard both the pensioners and the new leisured masses.

The universal fallacy is to think in terms of money instead of in terms of goods and services. The function of money should be to provide for the distribution of goods and services just as the function of the horse is to pull the cart but people will insist on arguing that the function of carts is to provide employment for horses. In nearly every department of life we are right into the jet aircraft age, yet in financial matters the conventional wisdom is still at the horse and cart stage. Indeed it has hardly even reached that stage. If men become unemployed their subsistence drops sharply, yet the horse still gets his fodder even if he has not pulled a cart all day. If he did not the whole nation would protest at cruelty to animals but as every football hooligan knows cruelty to humans is quite acceptable.

### Change in Thinking

A considerable change in habitual thinking is necessary to move from the age of the human sweat-shop to that of the robot. It is no longer reasonable to consider that the principle destiny of man made in the image of God is to labour through the daywork hours in factory or office, often in very uninspiring occupations. Politicians will have to give up the pleasurable game of beating the government about the ears with the unemployment statistics. If the word was Leisure it would not be nearly so painful a weapon. We will all have to give up the concept that the varying rates of wages, salaries and pensions are a reward and punishment system. They are a tool for distribution of goods and services and no longer need they be so scarce that many people must expect to go short. To an increasing extent this distribution will have to be independent of service to the community by productive activities. The community's requirements will increasingly be provided with minimal human assistance. Education will have to aim at worthwhile leisure occupations,

including occupations of benefit to the community. It is the absence of such education that makes unemployment such a deadening and depressing experience.

Hitherto income derived from human effort, physical or mental, has been considered respectable, often a source of pride, while that derived from capital investment, although not quite disreputable, has needed explanation, even justification. This mental attitude too must change. In future more and more incomes will be derived from capital investment as the robots take over production, and less will come from direct labour. There will need to be increasing separation between income and work. Increasingly personal incomes needed to absorb the output of robots and computers will have to be distributed independently of human work.

#### Necessary Adjustment

The necessary adjustment of our thinking processes is urgent. The problems and social tensions are with us already but the re-education has hardly started. Either we must conform to the realities of modern production methods or we must destroy the robots and computers, prohibit their manufacture, forbid competing imports from fully mechanized sources and put people back on to the production line at lower average wage rates. The surprisingly large number of people, many highly educated, who maintain that man is made for productive labour, however dreary and whether his output is needed or not should come out in the open and say which of these alternatives they favour as the ultimate goal of the human race. They would do well to remember that the only periods in this century when the population has been truly fully employed have been in wartime with central direction of all manpower.

### TEACH YOURSELF ECONOMICS FOR EVERYONE (2nd ed.)

by Keith Norris and John Vaizey

*Teach Yourself Economics for Everyone\** provides a straightforward and vigorous introduction to economics for the beginning student or layman who feels baffled by the media's daily bombardment of economic terms and arguments.

It describes the role of government, the structure of both public and private sectors, international trade and market forces, and examines issues of contemporary concern, such as inflation, unemployment and the distribution of income and wealth. Economic terms and concepts are clearly explained and placed in the context of everyday political activity.

Dr. Norris and Lord Vaizey have made an excellent contribution to the Teach Yourself series; if you want to take an intelligent interest in all the economic debates you couldn't do better than to start with this book.

In former years John Vaizey wrote two studies for the Economic Research Council, *The Costs of Education* and *A Survey of the Brewing Industry*.

\* *Teach Yourself Economics for Everyone*, published by Hodder & Stoughton Educational, £2.75.

### HONEST MONEY — THE UNITED STATES NOTE

by Charles S. Norburn, M.D.

Reviewed by Jim Bourlet

Few books\* on such a dry subject as money have ever reached this reviewer that have the gusto, depth, sense of intrigue and story line to outrage which inspires reading at every available moment. Yet this book is as captivating as any novel and maybe . . . one takes a deep breath . . . he is right.

Charles Norburn, the ex-surgeon forced to early retirement through an accident has devoted many years to the task of analysing, with a totally professional scalpel, the ills of a larger patient — his country, the USA.

Economic problems he sees as principally arising from defects in the monetary system — as it has come to be manipulated by those who benefit from usurping the right of seignorage (the entitlement to the value of newly created money) which the US Government, he claims, has been tricked and cajoled into giving to private bankers. And this is said with the sincerity of a man standing foursquare in the highest US tradition of democratic paternalism, a man who constantly reminds us of the original, often deeply religious principles, of the early settlers and of the Founding Fathers. One wonders if it is he or whether it is an echo of Abe Lincoln who thunders that "There was no need to take the people's gold" (in 1933).

Summary is risky, but comment depends on it. One might argue that this book reminds us of one theme familiar to readers of this journal — that the right to interest arising from the creation of extra credit (broadly that represented by increases in M3) should belong to the people, or rather their representative government, and used to supplement taxes for state expenditure; but adds another that no-one should be able to deposit money with banks at interest. This latter and much more controversial idea is his key to undermining the complex web of private credit multiplication that has proceeded from the original London goldsmith's discovery that money in excess of deposits can be lent for profit without undue commercial risk. Norburn seems to have answers for all the questions which arise from this suggestion . . . but doubts remain.

Nevertheless, it is the first point which seems the most valuable. Differences emerge, of course between the US and British systems. The much-vaunted independence of the Federal Reserve with its private banking control contrasts with our nationalised Bank of England/Treasury control and the US lack of official control over reserve asset ratios differs from practice here. But in essence, the case is the same — that credit creation has taken over from note issue as the major form of new money supply, that such increases are the life blood of an expanding economy and that this claim to goods and services now goes, by accident to form a massive subsidy to the banks. This subsidy is, incidentally much larger during times of inflation and is particularly visible when governments undertake massive borrowing to maintain prosperity —

\* "*Honest Money*", by Dr. Charles Norburn, published by New Puritan Library, Route 1, Lytle Road, Fletcher, N.C. 28732 USA, price \$5.

as at present. Total reform is advocated and one feels he would scorn suggestions for more modest changes — such as an increase in banking competition or an insistence, by government, that its expenditure over income should be debt free and balanced by strict reductions in new bank credit creation.

But there is work to be done, and this book is a most stimulating contribution to a long overdue debate.

### THE STRANGE STORY OF STANLEY ADAMS

Jonathan Cape are to be congratulated on publishing the story of Stanley Adams\* which, to quote the words of a former Lord Chancellor, Lord Gardiner, in his foreword, is both "unique and extraordinary". This account of a fight by a courageous individual against corporate iniquity, told by the author in this book, has wide implications for those concerned with the power wielded by large international corporations and the protection of the individual in international law.

It was in February 1973 that Stanley Adams supplied information to the EEC Commissioner in charge of competition laws on the illicit trading practices of his employers, the giant multinational drug company Hoffman-La Roche. It was an act of conscience which had horrendous consequences for Stanley Adams and his entire family, for it led to arrest in Switzerland where he was tried for industrial espionage and treason. His wife, interrogated by Swiss authorities and told that her husband faced up to twenty years in prison if convicted, committed suicide. Not informed until two days later, Adams was also denied the right to attend her funeral.

Eventually released on bail, Adams went to Italy where he tried to set up a new life, but in 1979 he was again arrested and imprisoned. He finally made his way to Britain where he now lives with his daughters. The Stanley Adams Appeal Committee was set up by Michael Ivens to assist Adams and his family.

There are now several legal actions pending. A case has been submitted against the European Commission to the European Court of Justice in Luxembourg claiming damages for breach of confidentiality and negligence which will be heard shortly.

A second case against the European Commission will claim damages for misinterpretation of the EEC/Swiss Free Trade Agreement and a third case against Hoffman-La Roche will be heard in a court in the Federal Republic of Germany. To quote Lord Gardiner again — "A final judgement deserves to be set plainly before the public so that it may have an opportunity to know that justice has been done".

\* *Roche versus Adams* — published by Jonathan Cape at £8.95.

### THE NATIONAL HEALTH SERVICE — Facts and Solutions†

Ralph Howell, M.P. for North Norfolk, suggests that there is something radically wrong with the service and urgent action is needed to remedy the situation. He says that the Government has failed to tell the full story and thus bears a heavy responsibility for its future.

† Published by *Aims of Industry* at £1.20.

## LETTERS TO THE EDITOR

SIR,

### International Payments

It was very interesting to read the paper (The Crisis in the International Payments System) highlighting the main aspects of the deteriorating financial system and tracing their historical development.

May I point out that the following are some of the factors that contributed, in varying degrees, to the present state of affairs:—

1. The deliberate depreciation of the dollar in 1978 by the American authorities was a contributory factor that prompted the greedy OPEC cartel to raise the price of oil to \$34 a barrel. The outcome of that disruptive action was to channel a larger proportion of the dwindling world liquidity to the coffers of the oil producers, thus exacerbating the already deteriorating situation.
2. The oil-producing countries deposited their massive surplus funds with the international banks and that gave rise to a massive recycling process that seemed lucrative to the banks. They embarked on an unprecedented extension of loans in huge amounts in US dollars for medium terms at variable rates of interest tied to LIBOR. The OPEC members thus had the best of both worlds. They sold their oil at crippling high prices to the underdeveloped countries for cash generated by the recycled funds. The risks inherent in the recycling process was thus borne by the banking system.
3. The banks failed to apply to these loans the yardsticks normally applied to corporate lending. They were overwhelmed by the quantity aspect of their activities without scrutinising the quality of their loan portfolio. They ignored the basic investment principle that a bankrupt corporate debtor can have his assets apportioned to the creditors, whereas a defaulting sovereign state cannot be subjected to bankruptcy law.
4. The post-1979 period was characterised by a further contraction of world liquidity as Britain and then the US to some extent, opted for dogmatic monetarism, manifested in crippling interest rates, shrinking rate of growth of money supply and floating exchange rates. The outcome was catastrophic to the productive sector of the economy. Confidence was further eroded by relying on the so-called market forces to determine exchange and interest rates. Market forces are irrational. They are influenced by the whims of speculators who rely, in the main, on yardsticks devoid of any economic significance, ranging from reading the charts to gazing at the stars.
5. The present stop-gap method resorted to by the banking system in tackling the debt problem of the developing countries will only make things worse in the long run. It is apparent that the over-valued dollar, the relatively high interest rate and the dwindling exports of the developing



countries combined to push up the ratio of their debts and interest to their export earnings to impossibly high levels. Thus unless that ratio is restored to more manageable levels, there can be no lasting solution to the debt problem and its shadow will always haunt the banking world.

Perhaps it is time that the monetary authorities in the developed countries tackled the problems of monetary growth, wide exchange rate fluctuations and crippling interest rates with a greater degree of rationale and foresight. An economic strategy that stems its strength from bankrupting other countries and creating massive unemployment is, to say the least, unethical. It is also self-defeating in the long run. A recent study of inflationary trends carried out by Geoffrey Moore of Columbia University and Prof. Kaish of Rutgers University points to unmistakable signs of an acceleration in the US rate of inflation in the months ahead.

It is encouraging to see the Economic Research Council taking the initiative in highlighting these crucial issues that can be instrumental in shaping the political structure in many developing countries.

Yours sincerely,

PETER R. MAXWOOD

SIR,

### Crucified on a Cross of Credit

The interesting article by M. A. Cameron — which was headed as above in Vol. 13, No. 3, of *Britain and Overseas* — ought I feel to elicit strong support from all those of your readers who realise that money is merely the mechanism or medium, by which specialisers of all kinds and conditions, are enabled to swap their demandable services or productivities, day by day, with one another. The article makes plain the fact that all currency units — be they gold, paper, or whatnot — would be completely valueless unless there were people enough willing to supply their work to win them; and by so doing to fill each unit with a quota of productivity. The quota of productivity transmutes the unit into what might be called a legal “Deed of Demand” which empowers diligent community-servers to earn and realise rights to negotiate other people’s goods and services, in proportion to their own. And surely this is at least one of the principal mechanisms that has borne human civilisations way ahead of the rest of the animal world, for by its agency we are concerted, and they disconcerted.

There are however some all too familiar problems.

To name a few of them:—

Firstly, some purely mathematical mechanism must be devised which will ensure that the rate money supply can be kept in match with the rate of productivity supply. In this connection it may be that some readers may recall that I have myself suggested, in Occasional Papers and in *Britain and Overseas*, how I believe that should be done.

Secondly, to obviate any non-mathematical political manipulations and distortions it would obviously be essential that the actual money supply control should be completely insulated from politics.

Thirdly and similarly, the control mechanism should be insulated from any manipulations designed to serve banking or commercial interests.

These are tall requirements for sure. And there may well be others.

But where there’s a will there’s a way; and, were we to succeed in finding it, the answer to M. A. Cameron’s final question would be a resounding yes, and not only for hyper-indebted countries, but also for the whole civilised world on both sides of the Iron Curtain.

CHRISTOPHER HAVERGAL

## COMMON MARKET QUOTES

### Farmers Oppose EEC Levy on Milk Output

The National Farmers’ Union gave notice yesterday that it will oppose any EEC measures which it considers discriminate against British dairy producers.

It describes the idea of a “super levy” on increased milk production as unacceptable. Some of the most progressive and efficient farmers, who had made perfectly legitimate decisions to expand production during the past two years, would find themselves bearing penal rates, it said.

*Agriculture Correspondent, The Times, 19/10/83*

### Only 55 Days Left to Save EEC from Financial Collapse

There are only 55 days left, including week-ends and holidays to save the EEC from collapse. That is the pessimistic view of a growing number of Brussels diplomats who are becoming increasingly alarmed at the very slow pace of negotiations since France took over the presidency of the Council of Ministers at the start of the year.

Britain is particularly anxious to inject more urgency into the snail-pace bargaining.

*Ian Murray, Brussels, The Times, 26.1.84*

### Urgent Need for EEC Budget Agreement

There can be no increase in EEC own resources unless both requirements laid down by the Government in Stuttgart — effective control of agricultural and other spending and equitable financing arrangements are met, Sir Geoffrey Howe, Secretary of State for Foreign and Commonwealth Affairs, said in answering Commons questions about the EEC.

He began by saying that he expects to attend the next EEC Foreign Affairs Council on February 20 and 21. I attended (he continued) the first Foreign Affairs Council under the French presidency on January 23. The French Foreign Minister said it was the aim of the presidency to reach agreement on the main issues of the post-Stuttgart negotiations at the March European Council.

*The Times, 26.1.84*

### EEC Farm Ministers Warned

Farm ministers and 8,000,000 European farmers were warned yesterday by Mr. Poul Dalsager, EEC Agricultural Commissioner, not to expect any drastic alteration to the EEC Commissioner’s farm-price package unveiled a fortnight ago despite its unpopularity with farmers.

The proposed package has already brought a veto threat from the West German Farm Minister because it would cut the prices German farmers receive.

*Agriculture Correspondent in Berlin, Daily Telegraph, 28.1.84*



### **Warning on EEC Funds**

Mrs. Thatcher told Italian leaders yesterday she would not agree to any increase in EEC funds until Britain's Common Market partners met its case for budget reform.

She said she wanted "very substantial progress" before the next EEC Summit in Brussels on March 19, following the failure of the Athens' Summit last December.

*Political Correspondent in Rome, Daily Telegraph, 28.1.84*

### **Protest on French Meat Curbs**

Britain yesterday protested to France about new curbs on meat imports being introduced by the French Government.

In an operation reminiscent of the French move to direct the imports of Japanese electronic equipment through a single Customs post at Poitiers, France is to halve the number of entry points for meat imports from the present 110.

*Agriculture Correspondent in Berlin, Daily Telegraph, 28.1.84*

### **Farmers Furious Over EEC Cash**

German hill farmers are to be paid an estimated £30 million in Common Market subsidies which have been denied to upland cattle and sheep farmers in Britain.

British farmers are due to be paid about £100 million under the Hill Livestock Compensation Allowance scheme, but the money has been frozen by the EEC after the failure of the EEC farm ministers and the Common Market Commission to agree on a package of farm aid for 1984.

### **Howe to Oversee Euro-manifesto**

Mrs. Thatcher has given Sir Geoffrey Howe, the Foreign Secretary, the key role of overseeing the preparation of the Conservative manifesto for this year's elections to the European parliament.

### **Time to Act**

With the sheer brass nerve of a gang of confidence tricksters, Common Market auditors "discover" that Britain owes the Community about £450 million. Just about the same sum as Mrs. Margaret Thatcher is demanding in rebates. This European farce cannot go on.

*Extract from editorial in Sunday Express, 29.1.84*

### **French to Step Up Meat War**

French farmers are to step up their fight against British meat imports by blockading the French Channel ports from Sunday. It is understood that six ports threatened are: Calais, Dieppe, Boulogne, Cherbourg, Le Havre and Dunkirk.

*Agriculture Correspondent, Daily Telegraph, 3.2.84*

## **ECONOMIC RESEARCH COUNCIL**

**55 PARK LANE, LONDON W1**

Copies of Annual Report, List of Publications and other information from the Hon. Secretary, Economic Research Council, 55 Park Lane, London W1. Telephone 01 499 3000