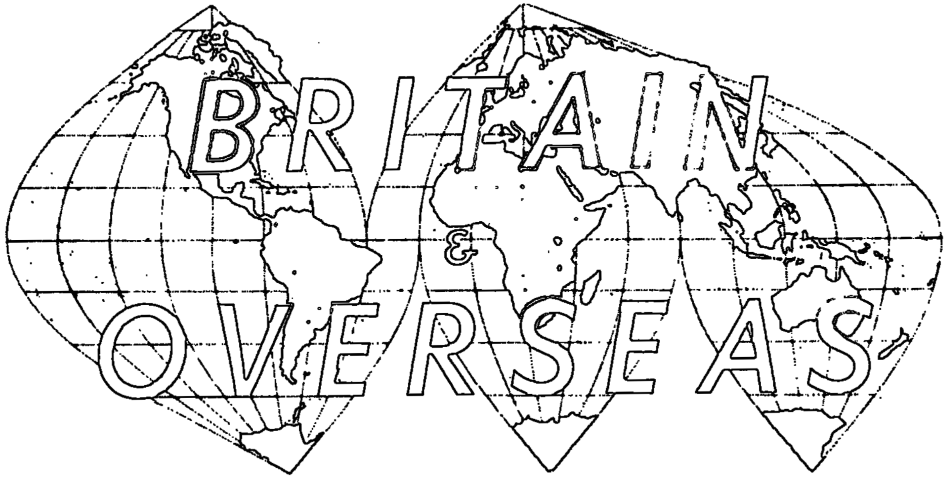

A DIGEST OF NEWS AND VIEWS ON BRITAIN'S ECONOMY AND OUR ROLE IN OVERSEAS TRADE AND PAYMENTS

Summer 1984 **Vol. 14 No. 2**

Published quarterly

Editor: Edward Holloway

Published by

The Economic Research Council

55 Park Lane, London W1

Subscription rates; U.K. £2p.a. Australia $6 Canada $6 New Zealand $6 U.S.A. $6

ALL PARTY SELECT COMMITTEE ON TRADE AND INDUSTRY

Report on meeting held on 11th. April 1984.

From the Economic Research Council, Jim Bourlet led the delegation, supported by D.P. de Laszlo, Shaun Stewart and Christopher Brown.

The Trade and Industry Committee was chaired by Sir Peter Emery supported by Stanley Crowther, Robin Maxwell-Hyslop and Mike Woodcock.

The Select Committee were enquiring into the relationship between manufacturing exports and imports between Britain and the EEC compared with the rest of the world.

We were cross questioned on a Paper presented to the Committee by Jim Bourlet. In particular the Committee seemed most concerned to establish why imports of manufactured goods from the EEC had risen faster than exports of manufactured goods to the EEC and why our exports to the rest of the world seemed to have fared better than exports to the EEC. Jim Bourlet gave an excellent summary of Britain's position with the EEC and World Trade in general covering the points of differences of unit cost of production and the demographic distribution of industry within the U.K. Emphasis was given to the phenomena that most of U.K. industry had over many years been accustomed to trading with Commonwealth and LDCs and as such were not well suited to competing in the European market during the earlier and middle part of the Seventies. Apart from this, the effect of oil had dramatically pushed up the value of Sterling greatly handicapping industry's efforts to export and fascilitating imports.

Shaun Stewart backed up Jim Bourlet with an overlay of statistical data.

The Committee questioned us also on why some of the forecasts and euphoric groundswell of joining the EEC had not been as productive as it might. It was explained that the forecasts based on the historical statistical data before joining the EEC had been largely correct, making allowances for the oil impact and it was the rather wilder forecasts made as part of the propaganda exercise prior to the referendum that had been wrong.

Your committee were further questioned on their thoughts re the future of U.K. manufactured exports to the EEC. It was pointed out that this was very much a case for conjecture. However, I think, after much discussion, we left them with the impression that the older industries' outlook was not promising, but the newer and younger areas of electronic related industry was promising, but we should probably expect slight further overall decline in manufactured exports, compensated for in an increase in invisible exports and that this situation would inevitably continue until the effects of oil had completely worn off on the exchanges.

At the end of the meeting, which lasted for an hour and twenty minutes, the ERC were congratulated on the factual basis of the presentation and the precise way the questions were dealt with. I think we may be bold enough to congratulate ourselves on doing an excellent job with very limited resources compared with the other people giving evidence at this very important enquiry.

Damon de Laszlo
12.4.1984

COMMENTS ON THE SECOND REPORT FROM THE TRADE AND INDUSTRY COMMITTEE

The House of Commons Select Committee on Trade Industry's second report, on 'The Growth in the Imbalance of Trade in Manufactured Goods Between the U.K. and Existing and Prospective Members of the EEC' was published on 22 May 1984. The ERC both submitted evidence and appeared before the committee as this subject is seen as central to the future trading interests of this country.

At the press conference announcing the report, the chairman, Kenneth Warren M.P. said that he had not found any evidence to show an increase in exports from the U.K. to the EEC arising from the claimed 'dynamic effects' of membership. Such increases in exports as had taken place would most probably have happened regardless of membership and would be little, if any, affected by any decision on future membership. The Committee did find however an enormous and growing manufactured goods trade deficit with the EEC (far higher, they pointed out than Britains deficit in manufactures with Japan) which has arisen from the increase in imports this country has been buying, most notably, from Germany.

The recommendations were largely limited to focusing government attention on specific instances where other EEC members are acting in ways which impede U.K. exports - for example by subsidising loss making competitors, national purchasing policies or (in the case of Spain) the maintenance of very high tariffs.

The report (HMSO code 461 329-i-v Price £12.40) contains many submissions and is a mine of useful information. In seeking to explain the U.Ks. disappointing export performance several submissions gave figures to back the claim that U.K. based companies have, in recent years been making substantial investments on the continent, and U.K. portfolio investment in other EEC members has been high. This seemed to be an area worth further study but the Committee made little of it. One section deals with the evidence given by Norman Tebbit - afterwards critisised for 'complacency' for his refusal to recognise any real concern about the trade imbalance. But he did make a number of noteworthy points - such as "A deficit with any part of the world . . . should not be regarded as overwhelmingly tragic provided we have a surplus with other parts of the world. The essential of trade is that it is multilateral and not unilateral." If only he would point *that* out to all those protectionists complaining about trade with Japan!

A very large part of the current £8bn annual deficit in manufactured goods with the EEC actually consists of motor vehicles - and the submission by the Ford motor company is particularly interesting in this context - as is also a comment from British Leyland that U.S. restraints on Japanese imports have allowed the U.S. car industry to make larger profits - which have allowed G.M. to promote a very aggressive car sales policy in the U.K. based on imports from the continent.

Yet another submission pointed out that two thirds of our deficit with the EEC is actually with Germany . . . the reason suggested being our lack of competitiveness resulting from the high £ . . . yet sales elsewhere have continued satisfactorily . . . and so the report continues.

The investigation was unfortunately constrained by its terms of reference. The analysis is strong on U.K. *visible* exports to the EEC but weak on *visible* imports. Little was done to look at *invisibles*, of great importance to the U.K. Furthermore, nothing was done to look at non-EEC imports to the U.K. which could well be cheaper were we not members and thus allow us to export more competitively. Imports of all kinds do contribute to overall costs. Similarly little was done to look at exports and *invisibles* to third countries. But this is work for the future and in the meantime the Committee have produced a valuable report which has at last nailed the myth about all those export benefits of EEC membership.

J.B.

Note -
The Memorandum submitted to the Trade and Industry Committee together with the record of the oral evidence submitted has now been published in the Second Report from the Trade and Industry Committee Session 1983-84 published by HMSO on 22nd. May 1984 (£12.40).

THE ERC AND THE ESRC

On 1st January, 1984, the Social Science Research Council, established in 1965, changed its name to the Economic and Social Research Council. The similarity in name with the Economic Research Council was drawn to the attention of Sir Douglas Hague, Chairman of the ESRC as it was felt that this was bound to cause a certain amount of confusion. This proved to be true, letters and telephone calls intended for the ESRC were received by the ERC and this has continued throughout 1984.

In a reply to the Chairman of the ERC, Sir Douglas Hague pointed out that his Council is established by Royal Charter and that the change of title was authorised by Her Majesty's Privy Council on 18 November 1983. He expressed the hope that "we can exist amicably together, with the various other bodies whose titles properly associate the words 'Economic' and 'Research'."

Following this, Damon de Laszlo, Chairman of the Economic Research Council, wrote to Sir Keith Joseph at the Department of Education and Science, advising him of the confusion which the similarity in title had caused and inviting his comments.

The following reply from Sir Keith was sent on 16 May 1984. –

"Thank you for your letter of 20 March 1984 about the difficulties your Council is experiencing following the change of title of the Social Science Research Council to the Economic and Social Research Council (ESRC).

I am very sorry to learn of the confusion which has arisen over the similarity of the title of the two Councils. I understand that ESRC did consult widely in April 1983 about the change of name but unfortunately ERC were not among those bodies whose views were sought. As you will probably know ESRC's change of name was authorised by the Privy Council in November of last year and clearly some practical steps need to be taken now to see if the problem can be ameliorated. We have therefore been in touch with ESRC and the Council propose to insert a piece in their June Newsletter drawing their readers' attention to the similarity in title between ESRC and ERC. Could I perhaps suggest that you consider taking similar action? This will not of course entirely resolve the difficulties but I understand that ESRC will be contacting you in the near future to see if there are other steps that might be taken so that both ESRC and ERC can exist happily side by side. I hope that this will satisfactorily resolve the situation.

(signed) Keith Joseph.

As a result of Sir Keith's suggestion the June Newsletter of the ESRC contained the following announcment –

ECONOMIC RESEARCH COUNCIL

Readers are reminded that ESRC and the above organisation are distinct. The Economic Research Council was established in 1943 to promote education in the science of economics with particular reference to monetary practice. It is a charity that publishes, holds meetings, conducts research and operates study groups in the relevant field. It sponsored the National Recovery Programme in 1968. Its President is the Right Hon. Lord Beeching, Chairman Damon de Laszlo and Honorary Secretary Edward Holloway, and its address is 55 Park Lane, London W1Y 3DH (telephone 01-499 3000).

In return, it was agreed to publish an announcement covering the activities or the ESRC. –

ECONOMIC AND SOCIAL RESEARCH COUNCIL

Readers are reminded that the ERC and the above organisation are distinct. ESRC was established as the Social Science Research Council in 1965 and changed its name to the Economic and Social Research Council on 1 January 1984. One of the five Research Councils funded by the Parliamentary Science Vote, its Royal Charter enjoins it to support research and training in the social sciences in the United Kingdom, with a grant-in-aid for 1983-84 of £22,430,000. Its Chairman is Sir Douglas Hague CBE, Secretary of Council Dr Cyril S Smith and its address is 1 Temple Avenue, London EC4Y 0BD (telephone: 01-353 5252).

The Chairman of the ESRC, Sir Douglas Hague, has accepted an invitation to speak at a dinner arranged by the ERC on Thursday, 29th. November 1984.

RESOLVING THE NATIONAL DEBT CRISIS

In the Spring 1984 issue of Britain and Overseas a progress report was made on the activity, which followed the publication in the Summer Issue of the article by Laurence Trimby entitled "How local authorities can help to resolve the national debt crisis.".

A further report can now be made. The Department of the Environment have said that, as the responsibility for Central Government redemption of local authority debt is essentially a matter for the Treasury, such applications should be addressed to that Department: that is the Chancellor of the Exchequer.

We would add that a copy of such applications should be sent through the Member of Parliament of the applicant to the Secretary of State for the Environment requesting his strong support of the application to the Treasury.

We have been asked by what means can the most powerful application be made, and, therefore, the one most likely to succeed. We would reply with the following priorities:

Where a local authority has a majority of councillors, who vote to make the application, then that is the strongest. In effect, that majority can speak for their ratepayers as a whole and give instructions that the application be made.

Applications by branches of the Ratepayers' Associations representing collectively all ratepayers.

Applications by the largest firms, who will not only be paying the largest charges but also will have units widespread throughout the United Kingdom.

Applications from individuals, who, as ratepayers are entitled to initiate such applications and support those who are doing so.

It seems to us that sustained pressure seen to be coming from the grass roots throughout the United Kingdom should encourage HM Treasury to act, particularly as such redemption would probably make 'rate-capping' unnecessary in view of the magnitude of local resources, which would be released.

A SUGGESTED METHOD OF DISCHARGING LOCAL GOVERNMENT DEBT

by Dr. Deryck Artingstall

It cannot be disputed that local government finance is in a state of crisis. First because of the reductions of the Rate Support Grants imposed by central government, but second by the new powers to impose Rate Capping.

The result is a severe and increasing loss of local community decision making and not least a radical shift in the balance of power from local level to the centre. Central Government control increases, while local councillors become mere cyphers to the dictates from Westminster.

The Size of Local Government Debt. 1983/84

Total Outstanding Debt in the U.K.	= £47.3 billion
Annual Interest at 11% (average)	= £ 5.2 billion
Capital Repayment	= £ 6.5 billion
Total Servicing of 1983/84	= £11.7 billion

Total Local Govt. Expenditure	= £34.0 billion
(Including District Councils Housing Revenue)	
∴ Total Servicing	= 33% of expenditure

Council Housing Debt	= 61.25% of L.G. Debt
Percentage Saving on Rates if Debt discharged	= 13%
Percentage Saving on Rent if Debt discharged	= 20%

Because district and borough councils are the housing authorities they carry a bigger dept burden than county councils, 40% to 10% respectively as an average of total expenditure across all local authorities. But as it is common practice in the housing authorities to charge all debt servicing to the rates. The abolition of all this accumulated and accumulating debt would on average lower rate demands by 33%. Such a saving is of considerable importance for future levels of money required to provide local government services.[1]

What is being proposed?

1. The elimination of all existing local government debt.

2. A different method of financing local government needs, without recourse to either rate support grants from central government or borrowing from the general public, central government and the commercial banks.

How?

1. By adopting the same method as the Treasury and the Bank of England use to provide and issue currency notes and coins, without either the interest or the capital repayments becoming a charge on central government expenditure or adding to the National Debt.

2. By requiring every district council to establish a Municipal Bank, which would first discharge the existing debt and thereafter create all monies required for the councils' capital expenditure as interest free, non-repayable credit, on the base of the local authorities' assets – (land, housing, schools etc.). Such Municipal Banks would act as bankers to all levels of local government.

Further Explanation

How does the central government increase cash currency without incurring debt? The answer lies in a working arrangements between the Treasury and the Bank of England.

When it is deemed necessary to increase currency money to meet the publics demand for notes and coins, then the Treasury issue bonds to the required amount. These are transferred to the BofE Issue Dept., through the agency of the governments brokers. The Issue Dept. then place an order for the notes to be printed and the coins minted to the value of the bonds they hold. The Treasury duly pays interest on these bonds. But since the nationalisation of the B of E in 1945 the profits of the Issue Dept. revert back to the Treasury. The two book entries, therefore, cancel each other out. The capital sum represented in the bonds is never repayed, it is merely rolled-over from year to year. So the net result is interest free, non-repayable credit money, issued as cash currency. Between 1945 to March 1982, the nation's currency money has been increased from £1.5 billion to £10.8 billion.

It is proposed that the local authorities and their Municipal Banks should use this same method to create interest free non-repayable money. That is, each council would deposit with its M.B. bonds to a value not exceeding the monetised value of its assets. The M.B. would then credit the council's capital account with monies, as required, up to the value of its assets. This credit would then be spent into circulation on capital projects. The running costs of the authority's services would continue to be met out of direct charges to the recipients of such services or through the rates, or some other form of local taxation. (e.g. taxation of land values). But as each authority will have discharged its debt and no fresh debt will be incurred the amount of money needed will be substantially reduced.

The discharge of the debt? The first charge on each local authority will be to use its new credit creation facility to pay off all its accumulated debt. The total debt is made up of three parts **a)** debt to the Public Works Loan Board. 36% **b)** debt to the banks either as temporary overdraught loans 8.9% or stock acquired (no % available) **c)** dated loan stock acquired by the general public, and institutions e.g. pension and insurance funds. (no % available).

Would not the repayment of £47.3 billion cause inflation? No – because all, except for the small amount held by individuals would not increase the purchasing power for goods and services. Why?

The reason will be seen by examining each section of debt holders. But first it is necessary to remind ourselves that when a bank loan is repayed then that money ceases to exist and when a gilt edged security is sold (redeemed by the Treasury) then the deposit represented by such a security is cancelled and with it the bank's ability to create a loan on its value.

1. P.W.L.B. debt: Money passing from the local authorities to this body to cancel the debt, would be passed to the Treasury, who would redeem bank held gilts, thereby increasing the banks liquidity, but not its ability to increase the money supply by lending.

2. The bank's debt: That part held in overdraft when repayed, simply destroys that money. That part held in local authority stock, when repayed, would have the same effect as Treasury redemption.

3. Institutional Debt: The redemption of stock held by pension and insurance funds or corporate businesses would again increase liquidity but would be quickly reinvested and therefore would not affect purchasing power.

4. Individual Dept: If it was considered that repayment of such stock would significantly increase purchasing power, then either redemption could be staggered by redemption only at the maturity date or alternatively the increased money in circulation could be mopped up by a temporary tax increase. Concern over this small portion of the total debt discharge would only arise if it accepted that inflation is in fact caused by 'too much money chasing too few goods'. A supposition which is far from proven.

As the law stands the implementation of such a scheme would require the consent of the Bank of England for the new Municipal Banks to be licensed as credit creating banks. It would also require the agreement of the commercial clearing banks for the Municipal Banks to participate in cheque clearing arrangements. Not, it is suggested, absolutely insurmountable difficulties, given the will and pressure of public opinion to accomplish this reform.

[1]*Figures abstracted from 'Capital Expenditure and Dept Financing Statistics 1982-83 by Cipfa and Government Expenditure Plans 1984-5 to 1986-7. Cmnd 9143 – II.*

NEW ZEALAND'S PROBLEM

To compound New Zealand's problem, the largest trading entity in the world, the European Community, then goes on to subsidise heavily the export of surplus products of its high-cost and relatively inefficient agriculture, to the point that it is now the major world exporter of dairy products and sugar and the second largest exporter of beef. As a result, world prices of these and other subsidised products are depressed to artificially low levels. New Zealand is thus penelised twice: once through restrictions in traditional markets, and again through the lower prices amd limited possibilities offering in third markets.

Extract from an article by Ian Stewart published in NZ Quarterly.

GOVERNMENT BORROWING
A Canadian View

Extract from a brief submitted to the Royal Commission on the Economic Union and Development Prospects for Canada entitled "A New Way Forward" by J. Martin Hattersley, Q.C., M.A., LL.B.

Incredible as it may seem, when the Federal Government finds its income running short in a year of recession when program needs are high and taxes cannot be raised, it considers no other alternative but to *borrow* the necessary shortfall.

The process of borrowing involves the Government printing paper promises to pay in the form of Treasury Bills, which it sells at a discount, so giving an 'effective yield' to the purchaser. Some of these Bills are purchased by the Bank of Canada, a highly profitable Crown Corporation, which gives either credit in its books, or legal tender Bank Notes to the Government in exchange for these Bills. The remainder of these Bills can be purchased by financial institutions such as Chartered Banks. Assuming that the Bank of Canada has purchased a sufficient number of Treasury Bills, and the Government has spent the proceeds of sale on its salaries and various programs, these will have been deposited in the Chartered Banks by the recipients. In very round figures, every million dollars so deposited gives the Chartered Banks the opportunity to buy twenty million dollars of Treasury Bills with 'Bank Credit' – that is, the Bank's own promises to pay. This Bank Credit is secured by the impeccable reputation of Canada for paying its debts. Twenty one million dollars that never existed before are now in circulation. Canada is in debt an additional twenty one millions of dollars, and the interest burden of this (unless paid off in the future) will be a charge of three million dollars or so in taxes on the Canadian people, year after year.

Behind the promises of the commercial banks of this country, and giving us confidence in their ability to pay, stands the Bank of Canada. Its Bank Rate is an open offering to any bank in cash flow trouble to borrow from it at the stated rate. Behind the Bank of Canada stand the printing presses of the British American Bank Note Company, able to deliver legal tender money - almost the only legal tender money there is in Canada - in quantities sufficient to satisfy any conceivable demands for currency that the public might place upon it. Behind this paper of the Bank of Canada stands the law of the Canadian government – that the paper of the Bank of Canada is lawful money - legal tender for the settlement of debts. In financing the National Debt in the way it does, in fact, the Government is, at immense cost to the Canadian taxpayer, borrowing credit created by the Chartered Banking system which would be worthless paper if it were not for the Government's own guarantee that it will never allow the Banking system to fail.

As an exercise in lunacy, this process takes the prize. It enables, for instance, insolvent Banks who have over-lent to insolvent Dome Petroleum Company to put together a package by which an insolvent Government will give them a guarantee, and all will be saved from failure. Canada must be the only place in the universe that three negatives can be assembled together and used to manufacture a positive!

Once upon a time, the Canadian Government issued Treasury notes – without debt. Even now, through the Royal Mint, it issues Canada's coinage – without debt.

Treated responsibly, it did not lead to runaway inflation. Adam Smith's "Wealth of Nations" seems to indicate that in the American Colonies, it led to properity far beyond that of the Britain of his day. The creation of a nation's money supply by borrowing it from the Chartered Banking system is a farce and an absurdity, which not only involves unnecessary levels of taxation and restriction of social services on the populace, but also prevents the economy having a sufficient supply of a cheap and credible medium of exchange to work at an optimum level of activity.

AN HONEST MONEY SYSTEM

Extract from an address by the late Professor Soddy, M.A., LL.D., FRS. given 34 years ago in Birmingham on January 12th 1950.

The world is now lining up for conflict under the two irreconcilable camps of communism and capitalism. As regards the basic problems before the world of how to use the enlarged potentialities of science to make the world a happier place to live in, instead of a prison or grave, both these preposterous overgrown babies of the pre-scientific era are as misbegotten as the Tweedledums and Tweedledees of our domestic politics.

They are still thinking in terms of bow-and-arrow warfare but are arming with atomic and bacterial weapons. So if the Armageddon looming up is at all evenly contested, science threatens to exterminate civilisation altogether. But if the vast majority in either camp had any real power over their destinies, which I am coming to doubt, they would all with one accord, as Mercutio did, but before instead of after it was too late, "call a plague on both your houses."

There is growing up among the masses, who have no part in or liking for the power-politics of their rulers, a feeling of fatalism that the threatened conflict is inevitable. According to the Marxist doctrine, capitalism carries within itself the seeds of its own collapse, so that they are coming to regard communism as the only alternative. My thesis is that the threatened collapse of our Western civilisation has nothing to do with the political issues between capitalism and communism, but is the consequence of its false money system. Not only the impending collapse but its whole development, culminating in this very concentration of power into two opposing world-groups, has been due to the creation and issue of money having passed out of the hands of the several nations, at first into the hands of private bankers and now into the supranational Money Power which has usurped sovereignty over the whole Western World.

A Retrograde Policy

The alternative is for the West certainly not communism, which, as is becoming clear beyond any concealment, would be the substitution of one form of tyranny for another, and, to our ideas even worse one, and politically a retrograde policy of despair rather than progress. The alternative is the restoration to the several nations of their traditional sovereign powers over the creation of money and the substitution of an honest for the present dishonest system of the private creation of money as a debt, bearing interest to the creators. Under the system we now have, as can be theoretically proved and has been abundantly established in practice, *it is impossible* to maintain the price-level stable. We want an honest money system, with money

of constant purchasing power, operated, not for profit, but, as it always used to be before the present infernal system was invented, as a public service, like those provided for the maintenance of just weights and measures, the cost of which is borne out of the public revenue, and the profits accounted for as part of the national revenue.

Preliminary Step

True, this is the essential *preliminary* step to all social reform, and it is only one time will allow me to go into, and upon which I have any qualifications to speak. But if this great devolution of sovereign power back to the nations great and small were effected, nowadays with the vast increase and diffusion of knowledge, won by the bitter experience of the past, on social and economic antagonisms, the subsequent steps would be relatively easy in the enlightened social conscience of these days. My point is that until an honest money system replaces the existing Procrustean bed upon which all humanity is being tortured, all other reform is impossible and, indeed, all reforming zeal is as idle as ploughing the sands.

The subject of money is so bedevilled and plastered over with deception and so redolent of ancient confusions and errors of the past, – moreover, it arouses particularly among its would-be reformers, such violently conflicting dogmas comparable with the religious feuds of the Middle Ages and the pseudo-religious clap-trap of communism – that it is perhaps necessary to explain exactly what I mean by honest money. It does not mean what it is made of, which as Arthur Kitson once remarked has about as much to do with money as a man's clothes have with his character. Indeed, the man in question is nowadays quite nude more often than not as modern money is for the most part made of nothing. It is a claim to wealth on demand, represented by the balance between sums paid in and paid out of the owner's bank-account, which is called a bank-deposit, but has no other tangible existence, being a figure only indicating the sum of money the bank *owes* the depositor, and is owed by its debtors for whom they have created it out of nothing.

Honest Money

By honest money I mean, first and foremost, money that remains of constant average buying power, subject neither to debasement as now, nor, as has happened up to now, to being brutally dragged back to par-value, after debasement, every dozen years or so, by the sudden destruction of part of it, producing the artificial economic blizzards of trade-slumps, bankruptcies and unemployment. In the past, most orthodox economists used to pay lip-service to this constancy of value as the theoretical ideal, apparently beyond the wit of man to attain in practice, Now they join in with the minions of the money-creating hierarchy forever exhorting everybody to work harder to put more into the £, and turning a blind-eye to the real reason why the £ to-day is worth little more than a third of what it was worth before the Second World War, namely that there are now nearly three times as many £'s as there were then – over £8,000,000,000 as compared with some £3,000,000,000 in 1939.

Ask any of the academically consecrated exponents of the dismal science, *officially entrusted with the task of expounding its mysteries to the public*, a blunt question as to the origin of these floods of bad money, and see how they hedge. Their embarrassment is much like that of nursemaids when asked by their charges naive questions as to where babies come from. It is to the money reformers the public owe such enlightenment as they yet possess of such indelicate matters, and, to his lasting honour, to one banker Chancellor-of-the-Exchequer, though long after he was Chancellor, Reginald McKenna, even though he, just before he died, recanted.

Bank-credit is nothing but the old fraudulent alchemy of the Middle Ages revived in an infinitely more insidious and subversive guise. If, as Ulysses did, one stops one's ears with wax to the patter of the sirens, or, if like the scientist one is so genuinely interested to find out for oneself as to be deaf to all distracting noises, and takes cognizance only of the actual facts, bank credit is utterly different from genuine credit, in that it is the creation of new money to lend, either to the bank itself with which to buy itself investments, or to other borrowers to enable them to buy the necessities of their trade. Any increase of bank credit is a creation of that amount of new money and not the lending of any previously existing money at all. Conversely, any decrease is the destruction of the corresponding quantity of existing money.

Obligation on Debtor

This invents an entirely different sort of creditor-debtor relation to that applying to the rest of the community, in that the obligation is only on the debtor, to pay interest and to repay the principal. The creditor, on the other hand, entirely evades his obligation to give up and go without the money lent out at interest. All he lends is a cheque-book which empowers the debtor to buy with new money manufactured by the bank. In this way the banks have usurped the prerogative of the Crown over the creation and issue of money and have frustrated the Acts by which Parliament alone is lawfully entitled to make forced levies, whether in money or kind, on the property of the citizens. The only difference is that the forced levy in kind by the creation of new money is upon the general wealth of the nation on sale and not on the property of any particular individual. Even Parliament could not lawfully make forced levies except for national purposes, and certainly not for the aggrandisement of private banks.

The result of this has been that the banks are now in reality private mints, lending money manufactured by themselves, which debases the rest of the money formerly existing in proportion to the ratio of the old and the new. The Big Five Clearing Banks with a nominal Capital of some £66,000,000, most of which has never been paid up, now lend to the tune of over £6,000,000,000 of money of their own creation, which is some three-quarters of the total money in the country. This in itself constitutes a usurpation of supreme power over the economic life of the whole community, which now can only expand by getting ever deeper and deeper into completely irrepayable dept to the banks. But the bitterest irony of the situation is that this new-fangled money system is itself a point blank denial and infraction of those very laws of nature, the laws of the conservation of matter and energy, by the recognition and observance of which the scientific civilisation itself may be said to have had its origin. It is reminiscent of the Story of Penelope's web, strenuously woven during the day and as strenuously unpicked during the night. In more homely language thé money system is no longer primarily to replace

barter, and distribute wealth smoothly and equitably from producers to consumers, but a means whereby the issuers of it get something for nothing, which, of course, in these days of disbelief in magic, means that everyone else gets nothing for something. It is not surprising therefore that a civilisation based on one set of principles ruled over by the people who act on the exactly opposite set is in danger of collapse.

FARMING IN THE CLOUDS*

It is hard to imagine any reader of 'Britain and Overseas' who has not by now seen reference to 'Farming in the Clouds' (published May 31st 1984). The Times, The Financial Times, The Telegraph, Farmers Weekly *et al* - all have enthused, condemned, carped or commended Richard Body's new book. What can one add? Some notes perhaps:

i) Anyone able to understand 'The Archers' can tackle this modest sized book – it is delightfully written, stimulating and interesting. Light reading with a dramatic message.

ii) The conclusion is optimistic – no "the end is nigh" stuff this, and repatriation of agricultural policy (which will, in particular benefit livestock farmers) must eventually be as inevitable as it is sensible.

iii) The heart of the book concerns five groups made poorer by the Common Agricultural Policy; Consumers (obviously), Overseas producers (more than I had realised), Taxpayers (at least this one is common knowledge!), the unemployed (argued convincingly) and Farmers (farmers? – read on . . .).

iv) Those with vested interests in artificially high land values on in supplies to over intensive arable farming (machinery and fertilizer manufacturers for example), all with their heads 'in the clouds' if they imagine that this over-subsidized gravy train can continue expanding forever under the cloak of Brussels, would prefer you not to purchase a copy . . . .

But enough said. Agricultural policy has gone sadly awry. The 'Telegraph' has just reported that in order to change from unprofitable livestock farming to surplus creating corn growing, the water table around Oxford is to be lowered by four feet. In cosequence there will be no more punting and boating for undergraduates – no longer the Oxford of so many memories.

If all this seems at least odd and of proper concern, there is now one small thing each of us can do about it – we can read "Farming in the Clouds".

**by Richard Body M.P.,*
Published by Maurice Temple Smith, Jubilee House, Chapel Road, Hounslow, Middx.
Price £3.50

BOOKS RECEIVED

The Legal Regime of Foreign Private Investment in the Sudan and Saudi Arabia – A case study of developing countries by Fath El Rahman and Abdulla El Sheikh. *Published by Cambridge University Press, price £40.*

The main purpose of this book is to demonstrate the way in which a developing country would steer its diversified financial capability towards international investment.

EMPLOYMENT IN THE AGE OF DRASTIC CHANGE*
– The Future With Robots

by Professor D.A. Bell
Professor Emeritus of Electronic Engineering, University of Hull.

Reviewed by Jim Bourlet

David Bell has tackled head on - and wrestled mightily with, that intractable interface between the evolving application of technological developments and the socio/economic problems of unemployment and welfare. The dour dark blue plain book cover and explicit but uninspiring title (Why not something like a bright collage of leisure impressions with a title "Count-down to Leisure" or "Opportunity through technology" - or one is tempted by plagiarism - "Brave New World") hides a thesis concerned with the most exciting development of our times and the diligent reader will be amply rewarded.

Technological change has formed the basis for many notions. J.K. Galbraith in "The New Industrial State" saw such change as essentially determining the changing locus of power and influence in society; Michael Oakshott in "On Being Conservative" saw technology as merely the radically changeable tool of more constant attitudes. But for this author, the march of technological change reduces inexorably the opportunities for employment in our manufacturing industries because the limitation of natural resources denies us the alternative of increased output. This is itself a questionable starting point – at least for our life-times and seems largely to ignore developments such as miniaturisation and new material use. But the economist can accept the idea on the basis of the falling proportion of income spent on manufactures and so proceed.

Proceed first of all to the most valuable chapter – chapter 2 which shows how Britain differs from other countries (though the discussion on export/GNP ratios seems naive because so much depends on the size of country taken – no doubt Yorkshire is as 'dependent' on exports as is Luxemburg) and then on to a fascinating discussion – revelations to the mere social scientist – of both historic and modern technical changes. But all this still, it seems, leaves us with a problem of reduced manufacturing employment and the need to grasp alternative opportunities in the face of inevitable unemployment.

Proceed next to the real strength of this book – the discussion of work sharing, of leisure pursuits, of the values of free trade and the need to adapt our educational system to give "Education for Life" – a concept involving school, apprentiship – and retirement

This is a carefully prepared and well documented analysis. Somehow, to conclude on the note of "education" seems unsatisfactory to an economist more at home in the optimistic thoughts of market signals and new sector development, but a challenge it remains and a very worthwhile new perspective and reference work on a major problem of our age.

**Published by Abacus Press, Tunbridge Wells, TN4 0HU.*

NOT SO DEMOCRATIC 'PERSUASION' – AND ITS' CONSEQUENCES FOR BRITAIN' JAPAN. . . AND THE EEC. . . .

We hear a great deal about public attitudes to British membership of the European Economic Community and the changes that occur in them. But how are those opinions shaped and how well informed are they? In the booklet he has written for the Open Seas Forum, James Y. Bourlet, a senior lecturer in Policy Studies at the City of London Polytechnic who is an authority on the EEC issue, takes an in-depth look at this crucial question. He shows that by far and away the biggest influence in this field is the highly slanted and often grossly misleading material put out by an EEC Pressure Group of which the Commission's own 'information services' are a major part. The results of its activities are the more serious, he contends, because its 'dubious methods of persuasion' are not opposed by other 'equal strength' pressure groups but only by voluntarily financed individual opposition.

To illustrate its message, the booklet provides a 16-year picture of the evolution of British public opinion on membership and traces the connection between the story it tells and periods of EEC 'information' activity.

The booklet also includes the first comprehensive study to be published in Britain of the Commission's activities in Japan, a subject on which the author speaks with special authority. It spotlights the significant role played by EEC orchestrated adverse publicity in presenting the Japanese in an unduly bad light in the interests of justifying the EEC's protectionist momentum.

In the foreword, Richard Body, a Tory MP who has not been afraid to adopt an anti-market attitude, points to the crucial distinction between a 'customs Union' and a 'free trade area', a matter of great relevance to the controversy over British membership, and adds his own observations on EEC lobbying – and its results – in Brussels.

Opinion, Economics and the EEC. By James Y. Bourlet. Published by the Open Seas Forum, 20 South Street, London W1Y 3DH. (available from ERC) Price £1.50

BRITAIN AND THE EUROPEAN COMMUNITY MADE SIMPLE

By Keith Perry, BA. MA. ARHistS.

The author of this book which is one of a series of made simple books published by Heinemann says in his foreword "we cannot know for certain what the state of affairs would have been if Britain had remained outside the EEC. To the present writer the evidence seems to show that the British economy would have done no better and possibly even worse outside rather than inside the EEC but readers must come to their own conclusions on a subject that is still controversial and often misunderstood."

The book is intended to identify and clarify the main issues and covers a wide range of contents dealing with the origins, objectives and institutions including the CAP.

Published by William Heinemann at £3,95 (paperback)

THE VAT-MAN COMETH

From June 1, 1984 all energy saving measures installed in established homes are costing 15% more – thanks to the imposition of Valued Added Tax on all building works. As a result the proportion of the costs of installing loft insulation covered by the Government Homes Insulation Grant is reduced.

Those who are registered for VAT – companies, local authorities, the Property Services Agency – will be able to reclaim the expenditure. However those not in that position include much of the health service, as well as 20 million householders.

The decision has caused widespread concern among manufacturers and installers particularly of the more expensive energy saving items, like cavity wall filling or energy management systems for hospitals. It is feared that in some circumstances cost increases may increase the reluctance of prospective purchasers, as payback periods for the investment are increased.

An amendment exempting conservation measures, tabled by Liberal energy spokesman Jim Wallace MP to the Finance Act 1984 which followed the Budget proposals was defeated.

From 'The Fifth Fuel' –
Newsletter of the Association for the Conservation of Energy. Summer 1984