



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

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**Autumn 1984**

**Vol 14 No. 3**

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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

## INVESTING IN BRITAIN'S FUTURE

### — Time for a Reappraisal of the Role of Public Sector Capital Expenditure

*Specially contributed by Andrew W. Street*

The new methods of economic management — which were introduced by Denis Healey in 1976 but have been practiced much more fervently since 1979 by Sir Geoffrey Howe and Nigel Lawson — have had a profound effect on the British Economy. The change of approach signalled the subservience of fiscal to monetary policy: its most notable achievement has been the reduction of Britain's inflation rate to an internationally respectable level. On the debit side, however, must be counted a lack of imagination displayed in the conduct of fiscal policy, particularly in recognising the links between the public sector's capital expenditure on infrastructure and the well-being of the private sector of the economy.

Quite understandably, control of total public expenditure is vital to the Government's ability to control the money supply under the existing financial regime. The other sources of monetary growth — changes in sterling bank lending to the private sector, external and foreign currency financing and the banks' net non-deposit liabilities can — vary significantly from one year to the next and cannot be forecast with any degree of confidence. By reducing the contribution of the unfunded PSBR to monetary growth in recent years — and in 1982 by significantly overfunding, or selling more debt than is needed to cover the borrowing requirement — the Government has improved its ability to limit monetary expansion. If public expenditure growth had not been restrained, this enhanced control could only have been attained through tax increases — never a desirable option for either Government or industry.

There is also another motive for keeping total public expenditure in check. One of Mrs. Thatcher's primary objectives when she came to power in 1979 was to reduce the proportion of Gross Domestic Product absorbed by government expenditure, as part of the policy of "rolling back the frontiers of the state." In the event, the depth of the 1979-81 recession made this extremely difficult to achieve. To make matters worse, the continued growth of unemployment during the recovery phase has not enabled the Conservatives to cut back the share of government spending in GDP as much as Labour did during 1976 and 1977. To add to the Government's problems, the present upswing in the economy may not sustain itself for as long as that of the later 1970s, so the opportunity to make a substantial impact may never really emerge.

During the last recession, the Conservatives felt obliged to resort to short term expedients to contain public expenditure growth in the hope that more considered measures could be taken in the upswing phase. The huge growth in social security expenditure (up 26% in real terms between 1978-79 and 1983-84) in expenditure on employment measures (up 61%) and the persistently increasing demands of the health budget (up 16%) were met partly by trying to contain other large budgets like education (up only 1%), but principally by slashing capital expenditure.

Only capital expenditure in defence has been exempted from cuts. The chief casualty outside defence has been capital expenditure on a new construction. Direct public expenditure on new construction has fallen by 14% in real terms between 1978-79 and 1983-84.

The decline of public sector housebuilding since 1978-79 has been a dramatic 61% in real terms. Transport has seen no real change in its overall expenditure, despite a growing need for road improvements as traffic volumes rise. The 8% real increase in total expenditure on transport since 1978-79 can all be attributed to current expenditure. Nationalised industries account for one quarter of all construction expenditure in the public sector — the unambitious plans of many of these industries tell the same story of cutbacks and missed opportunities.

TABLE 1 CAPITAL EXPENDITURE ON CONSTRUCTION WORK

	% OF TOTAL EXPENDITURE 1983-84	% CHANGE IN REAL EXPENDITURE 1978-1979 O 1983-1984
<b>DIRECT PUBLIC EXPENDITURE</b>		
Housing	21	— 61
Other environmental services	9	— 6
Transport	14	0
Education and Science, Arts and Libraries	4	— 61
Health & personal social services	6	29
Other	4	— 9
<b>TOTAL</b>	<b>58</b>	<b>— 14</b>
<b>GRANTS AND LOANS (HOUSING)</b>	<b>17</b>	<b>115</b>
<b>NATIONALISED INDUSTRIES</b>		
Electricity	3	16
Gas	7	303
Railways	1	— 105
Coal	3	22
Water Authorities	7	— 34
Other	3	— 16
<b>TOTAL</b>	<b>24</b>	<b>9</b>
<b>GRAND TOTAL</b>	<b>100</b>	<b>— 9</b>

The Government claims that the reduction in resources devoted to new construction can be explained by the fact that the nation's infrastructure is largely in place and that repair and maintenance should now take priority. Outside Whitehall, it is difficult to find any informed support for this view; yet the Government shows no sign of listening. Despite the resumption of economic growth, a fundamental review of the options for controlling public expenditure has not been made: the short term expedient of cutting capital expenditure continues to be taken. The Green paper on long term trends in public expenditure and taxation, published in March 1984, was depressingly brief and gave no indications that a more realistic or imaginative approach to public investment was forthcoming.

**It is time for the Government to recognise that a boost to public sector construction would not endanger its economic strategy:**

- ☆ There would be no reversal of policy priorities, with fiscal policy once again taking precedence over monetary policy. The PSBR, was 9.6% of GDP in 1975-76, before the present approach to macroeconomic policy began. It has now been reduced to 3.2% of GDP (1).

There is no longer the need to sell almost indigestible quantities of government debt in order to achieve monetary control. Therefore, by projecting a further fall in the PSBR to 1.25% of GDP in 1988-89 (in its medium term financial strategy) and 1% in 1993-94 (in its Green Paper on long term public expenditure and taxation trends (2)), the Government is unnecessarily creating a rod for its own back. A more sensible target would be to maintain the PSBR at around 3.25% of GDP over the next 10 years and use the additional borrowing to finance an investment programme.

- ☆ Although public expenditure would be higher than planned, the policy of "rolling back the frontiers of the state", would not be compromised. The additional expenditure would be filling a void which the private sector cannot occupy. Attempts to privately finance road construction have been rejected by the Government itself; there is no prospect whatever of private provision of water supply, sewerage facilities, sea walls for coastal protection, electrified railways or new railway rolling stock. Within the housing field, much of the necessary refurbishment work is in the public sector housing stock. Moreover, the need for new housing is not being adequately met by the private sector — some lead must be taken by Government to stimulate new construction, even if the work is not actually undertaken for the public sector.

A comprehensive public sector investment appraisal — looking at the need for both new construction and maintenance of existing assets — is urgently required. It should become a regular part of the annual public expenditure planning process, and form the basis of a 10 year investment programme. This is not a call for profligacy — merely for the sensible provision of the infrastructure needs of the private sector in an economy which is growing, albeit at a modest rate.

Indeed, the provision of a better infrastructure can actually improve private sector efficiency and hence the prospects for growth — besides offering some hope for the future for those who have been the casualties of the economic retrenchment of recent years. The Government is uniquely placed to give a lead and would benefit from doing so. It should not shirk this responsibility.

(1) estimate for 1983-84

(2) Cmnd 9189

Andrew Street is the economist for the British Road Federation

## THE SWING OF THE PENDULUM

When, in 1925, Britain returned to a gold standard for our currency, the way was set for a period of acute deflation. While the value of the £ sterling appreciated, prices fell, often to below the costs of production. Bankruptcies followed and by the 1930's 3 million people were unemployed, while food was destroyed and production curtailed; there was evidence of widespread malnutrition. All this, in response to the orthodox view that the supply of money, in all its forms, had to be equated to the amount of gold in the central bank.

With the outbreak of the war in 1939, the orthodox approach to monetary policy was abandoned, in spite of the oft-repeated question of "where is the money to come from" which had been used in the inter-war years, it was found possible to finance the vast output of armaments, the need to draft men and women into the armed forces, thus taking them out of wealth production and to mobilise the entire resources of the nation to the over-riding need to win the war.

Following the victorious outcome, the authorities decided to apply these war-time lessons to peace-time development. The then Chancellor of the Exchequer, Dr. Hugh Dalton ushered in a period of inflation, this in spite of the fact that so much blood and treasure had been expended and our real wealth used up in our effort to win the war. "With a song in his Heart" Dr. Dalton and the Labour Government ushered in the welfare state when the great need was to replenish our resources of real wealth.

### Long Years of Inflation

Successive Chancellors continued with inflationary policies, with certain notable exceptions, right up until the election of a Government pledged to bring down inflation was elected. The long years of inflation had resulted in the great deterioration of the purchasing power of the £ sterling. Industry was hopelessly over-manned, one management consultant put the figure of over-manning at 5 million employees, nearly half the labour force engaged in manufacture.

Demands for increased welfare and higher wages, without recognition that the resources to match the demand were not available. Excessive taxation tended to turn the nation from being renowned for honesty into petty pilferers. All these and many more problems needed to be dealt with if inflation was to be defeated.

The Government was, therefore confronted with immense problems and in its first term of office, it succeeded in redressing the acute inflationary trends which had been increasingly in evidence over many years.

The price of this turn-round has been very great, and we now have to ask ourselves the question, has the pendulum swung too far? Are we once again seeing the deflationary trends of the 1930's. The signs seem to indicate that the answer is 'Yes'.

### Britain under-using its resources

Industrial production has stagnated. Total output in the second half of 1984 is estimated to rise by only about one percent. Unemployment, now standing at 3 1/4 million is still rising, thus increasing social security costs. Local authority spending is under threat. There seems little hope of a significant cut in interest rates. It seems clear that Britain is under-using its resources, resulting in a standard of living lower than is physically possible.

The Government is committed to a policy of reducing inflation and is relying on developing a free market economy to put the economy right. The question which arises is – can a free market economy function properly under the orthodox system of finance? Clearly the first requirement is “Honest money” which retains its value, something which we have lacked over the years. At the same time, investment is urgently required in the infrastructure, including the areas of health, housing, transport, education, etc. where the provision of adequate finance is an essential element.

The Government, meantime, has determined to reduce the public sector borrowing requirement (PSBR) and has been making strenuous efforts to curtail expenditure in various directions. One area which seems to have escaped examination is the cost of servicing the national debt which has steadily increased over the years.

Recognising that the payment of interest at high rates places an intolerable burden on the productive sector of the economy, the Economic Research Council published a paper entitled “Government Debt and Credit Creation”\* which made some proposals for dealing with this problem. This suggested that the creation of the nation's money supply by borrowing from the banking system was unjustified. It involves unnecessary levels of taxation, the restriction of essential social services and prevents the economy from having a sufficient supply of the medium of exchange to enable the nation to work at an optimum level of activity.

Looking at the economy of Britain today we observe that taxation remains at too high a level, particularly at the lower end of the scale; social services are being curtailed and there is considerable underuse of manpower and productive capacity. The reason for these failures the publication suggests is to be found in the operation of the monetary system which Lord Thorneycroft once described as an “antiquated pumping machine creaking and groaning at all the main valves.”

#### Increasingly heavy burden

Some time ago the Prime Minister pointed out that the cost of paying interest on the National Debt is as much as is spent on education, health or defence. Yet, when the question of reducing government expenditure is under discussion, the possibility of reducing this increasingly heavy burden is scarcely mentioned. It is this aspect of monetary policy that is in urgent need of attention, for if the cost of servicing the National Debt could be reduced, the savings achieved could be really significant.

If we examine the way the money system works today there is a strange anomaly revealed. 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. In the light of this it is suggested that more use could be made of the note issue, but the important point is that the power of the banks to increase the amount of credit money in circulation should revert to the State where historically it belongs.

It is worth glancing back to the events of 1914 in relation to monetary policy. With the outbreak of war a moratorium was declared as the banking system could not meet its liabilities. The Currency and Bank Note Act, 1914, was hastily passed; under this the Treasury issued currency notes valued at £1 and 10/-. These notes being legal tender

to any amount were put into circulation through the banks. Dr. Leaf, former Chairman of the Westminster Bank described the issue as “essentially a war loan free of interest for an unlimited period and as such as a highly profitable expedient from the point of view of the Government”. Unfortunately, the Government of the day, instead of extending the principle of a state-issued currency to that of state-issued credit, decided to bridge the gap between total expenditure and the proceeds of taxation and genuine savings by borrowing credit from the banking system. Thus, a great opportunity was missed of financing the war with debt-free money.

The publication suggests that the banking system, in creating credit is using the Nation's credit by liquifying it. The right of the banks to treat such created credit as a loan bearing interest is unjustifiable. In recognition for the valuable service the banks render the nation they should be paid an appropriate fee. The means by which this principle could be applied needs to be carefully worked out, causing the least possible disturbance to the operation of the banking system.

#### The “Silent Treatment”

Although the Economic Research Council has tried to persuade the authorities to consider these proposals, they have met with little success. Perhaps the most revealing comment was made in a letter from Jock (now Lord) Bruce-Gardyne when he was at the Treasury. He wrote that the proposals “would entail a fundamental change in the relationship between government and the banks of a kind the government would not wish to contemplate.

Another strange fact is that no mention of these proposals has been made in the National press or the broadcasting media, it seems that they are to be given the “silent treatment”. Yet the reforms proposed would, if implemented, greatly improve economic progress and lead to decreasing unemployment and the possibility of higher living standards. If the proposals made are not feasible, it would seem that more satisfactory reasons should be stated by the authorities than have so far emerged.

These views on credit creation are widely held, not only in the U.K. but in many other countries. An article on page 8 shows the support given by U.S. State Legislators and a brief by a well-known Canadian Q.C. has been submitted to the Royal Commission on the Economic Union and Development Prospects for Canada. There are also groups working in New Zealand and Australia.

The swing of the pendulum from deflation to inflation needs to be halted and a more stable and efficient monetary mechanism is an urgent need if the economic problems are to be solved.

*\*Government Debt & Creation – A study of the creation of credit and its effect on the British Economy – published by the Economic Research Council, 55 Park Lane, London W1Y 3DH Price £1 (postage 20p) also available copy of letter sent to the Chancellor of the Exchequer – July 1983.*

## MONETARY REFORM URGED BY STATE LEGISLATORS IN AMERICA

by Margaret Thoren

State legislatures are becoming the battle grounds for monetary reform as the American people learn more about the nature of the Federal Reserve's debt-money system.

These legislatures have the power to petition the United States Congress and the President for action on specific issues and these requests carry weight in the nation's capitol. With this kind of clout, State capitols are becoming the focus of important lobbying activity by groups advocating structural changes in the Federal Reserve's method of creating the United States money supply as interest-bearing debt.

State Senator Jack Metcalf (of Washington State) has emerged as one of the important leaders in the efforts for reform. Senator Metcalf is the founder of Honest Money for America, an active grassroots lobbying organization. HMA orchestrated the highly successful national "Debt-Money Awareness Week" held last February. As a result of this educational effort, millions of Americans became better informed about the method of money-creation and how this method causes instability in the economy.

### A Major Resolution

In July Senator Metcalf was successful in passing a major resolution regarding the Fed at the National Conference of State Legislatures annual meeting in Boston, Massachusetts.

The Plenary Session of the convention — made up of well over 500 legislative leaders from every state — overwhelmingly approved a resolution which will result in hearings on the Federal Reserve's policies. The resolution is designed to address charges that:

1. "The Federal Reserve has failed to achieve the objectives laid down when it was established;
2. "The Federal Reserve has operated in the best interests of the large banking interests instead of in the interest of the people;
3. "The Federal Reserve debt-money system works to the disadvantage of the people and results in ever-higher interest rates for people, business and government;
4. "Violations of prudent bank management practice by large U.S. banks in making loans all over the world have placed this nation, and our banking system and our taxpayers in dire jeopardy;
5. "Congress has been unwilling or unable to face this issue squarely and take action to protect us from further abuses."

The study committee, currently being formed by the NCSL, will meet later this year and during 1985 to compile its report for the 1985 annual meeting to be held in Seattle, Washington, next summer.

### Encouraging Support

Senator Metcalf received encouraging support from individual legislators from

Massachusetts, Illinois and Wyoming as well as from the entire delegation from Alabama, Arizona, Idaho and Virginia.

In September Senator Metcalf addressed the Fiscal Affairs and Federalism Committee of the Council of State Governments, Western States Conference on the role of the Fed in interest rates. He is also working to involve the American Legislative Exchange Council in this issue.

### At the national level . . .

As the Presidential election campaign gathers steam, a third party — the Populist Party — has emerged with planks in its platform calling for the abolition of the Federal Reserve System and repudiation of the national debt through the issuing of debt-free interest-free money "...as the Constitution intended instead of borrowing it. . ."

The Populists adopted these planks in February and have begun organizing committee to promote their candidates in all 50 states. At their Nashville, Tennessee, convention, the Populists nominated Mr. Bob Richards and Mrs. Maureen Kennedy Salaman as their candidates.

The Republicans have taken a less forthright stand in their platform statement but they do officially accuse the Fed of "destabilizing actions" and call for its overhaul. This plank has been generally unnoticed or barely mentioned by most of the American press.

(Margaret Thoren is editor of 'Truth in Money' bulletins published in Chagrin Falls Ohio)

## THINK THE UNTHINKABLE!

The process of developing objectives and strategy will require people to "think the unthinkable". It is commonplace nowadays to say that this is what think-tanks are for. But it may not be understood why that should indeed be one of the things they do.

Thinking the unthinkable requires the deliberate removal of assumed constraints — political, financial, temporal — which would otherwise weaken the imagination and cloud analysis. There is nothing naive about such an exercise, the constraints can always be reimposed later. But their temporary absence makes the thinking more vigorous, and as a result some of the constraints may turn out to be less immovable than at first thought.

Ask the fundamental questions, however far-fetched at the outset. Think the unthinkable while there is still time to think at all. Like everyone else, a government's IQ drops when it's under pressure and by then it's too late.

Fundamental questions are seldom asked inside Whitehall, because they often appear naive. They are dismissed, not by reasoned argument but by massed knowledge about the status quo before they can start anyone thinking. We therefore have to ask them outside because asking simple questions can help to uncover the complicated ones.

Extract from an article "Needed now: a Tory national plan" by Sir John Hoskyns, director-general of the Institute of Directors and from 1979-82 head of the 10 Downing St. Policy Unit. Published in "The Times" 9 October 1984.

## **"THE FUTURE ECONOMIC ORGANIZATION OF THE RECOVERY OF MINERALS FROM THE INTERNATIONAL SEABED"**

*by D. S. Redfearn*

During the five hundred years up to the Second World War, the European nations, in their restless urge for overseas expansion, came near to dividing the rest of the globe between them, and brought about in the process a whole series of more and more devastating wars. This is not the way in which the cause of human progress will be served, any more than that of an eight-oared boat, if the crew fight among themselves, or pull in different directions. Even in sport, the deadly rivalries between one nation and another overlie the calmer ones of a not so remote period of time. Nevertheless, there is one field of activity in which it is still possible for peaceful cooperation to prevail, and to demonstrate the folly of the dangerous game that is known as international politics. It is the recovery of minerals from the seabed beneath international waters.

Largely as a result of the concern felt by Arvid Pardo, Malta's delegate to the United Nations, at the growing tendency of the maritime nations to extend their territorial waters with a view to the exclusive appropriation of these minerals, the U.N., in 1970, declared the remaining area to be the common heritage of mankind, and stated their intention of establishing an international regime to give effect to this declaration. Now this is really splendid. Who, with the best interests of mankind at heart, could wish to a sounder principle, or a more definite expression of a desire to act?

Unfortunately, the scheme that emerged and formed part of a comprehensive Law of the Sea Convention after twelve years of negotiation, suffered from the kind of defect that might have been predicted by anyone familiar with the handiwork of large numbers of delegates attempting to reach a consensus of opinion. It was unworkable. So far as votes went, the consensus was as close as it was ever likely to be, with 130 recorded in favour, 4 against, 17 abstentions and 17 absences. This would have seemed all very well but for the fact that one of the contrary votes was that of the United States of America, the country with most interest in seabed mining, and that among the abstainers were Britain and West Germany, who were also among the five countries known to have prepared, or to be preparing, independent legislation providing for the issue of exploration licences, and ultimately recovery permits. The most prominent among these five, however, was the United States, whose assurance that their Act recognizes the common heritage principle may not inspire universal confidence.

### **Intense Arguments**

Since then, the arguments have been prolonged and intense, with abstaining Governments being urged by enthusiastic but unreflecting advocates of the common heritage to change their minds and sign the Convention. Their objections, however, must be admitted to have good grounds. The British Government, for example, is not at all happy that mining consortia should be obliged:

- (1) to pay (not only) an initial application fee of \$500,000, plus fixed production charges, but also a share of the net proceeds, to the International Seabed Authority (I.S.A.).

- (2) to sell their technical knowledge to the I.S.A.'s "Enterprise", in order that it may be enabled to compete with them in the future, without, however, being liable to pay the same fees and charges.
- (3) to submit to an arbitrarily calculated production ceiling, according to which the I.S.A. would presumably have the power to stop their activities at any time.

Such provisions are understandable when one considers that they are the result of the thinking of Third World Governments, to whom some variety of socialism would appear to be the only alternative to the exclusive appropriation of natural resources already referred to. When, however, they are examined from the point of view of the people who have developed the technology, supplied the capital, carried out preliminary explorations, and recruited and trained the skilled labour, they are clearly impossible. Equally impossible is the idea that, if all Governments were to sign the Convention as it stands, some way would be found of amending it in detail to make it acceptable to all parties, even to the indispensable United States.

### **Different Approach**

No, what is needed is a fundamentally different approach, whereby the operators themselves would exercise some control over the return accruing to them — after all, who is more able to assess it than they are themselves? — but in competition with each other on the open market, so that the residue they would offer, in the form of annual royalties to be paid to the United Nations, would be a close approximation to the rent of the classical economists, that is, the difference between the actual produce and what could be obtained by an equal effort exerted on the least favourable site actually in use. There would thus be equal rewards for equal labour and investment, and a generous surplus to represent the common heritage of mankind.

The I.S.A.'s duties would be limited to coordination and supervision, and there would be no "Enterprise". Such a scheme would satisfy the form objections of the United States (copies of which may be obtained free of charge from the U.S. Embassy in London), and of other countries without whose cooperation little progress would be possible, and at the same time form a much more useful basis for general negotiation.

### **Realistic Schemes**

It is worthwhile to suggest in conclusion that the proper way of assigning the heritage so collected is not, as is commonly assumed, to hand it over to the Governments of Third World countries. It is unlikely that the supposed beneficiaries would in fact benefit at all. There are, however, quite realistic schemes for the improvement of our planet that at present would be rejected as economically unviable, in the sense that they would give no immediate return. One that springs to mind is the damming of the Congo in order to recreate a Central African lake, and eventually to restore fertility to vast barren areas. If the same system of wealth distribution employed for the seabed were then to be applied to such areas, it could well afford a clue to a reform of the economy of the western world that would at the same time allow the fullest scope to individual enterprise, furnish ample funds the common purposes, and constitute the best possible defence against the propaganda of the socialist states — namely a proof that in the end nothing but freedom will do.

## LOCAL GOVERNMENT PRIVATISATION IN JAPAN

Japanese local government costs are much lower than in Britain because in Japan many more functions are contracted out to private companies. Japan's population of 116 million is double Britain's 55 million but, despite this, Japan employs less civil servants and less local government employees. The result is lower taxes, lower government spending, and the extra spending power people enjoy increase industry's turnover and creates jobs.

These facts are disclosed in a new study, "Privatisation of Local Government Activities; Lessons from Japan". The study has been written by John Tepper Marlin, president of the Council on Municipal Performance (COMP) of New York. COMP is a non-profit research group in New York City dedicated to improving the quality of municipal government through the pursuit of uniform standards of financial and performance accounting and auditing.

### Activities Contracted out

The study lists well over 50 activities which are contracted out in whole or in part by Japanese cities and districts. Secretarial work, telephone switchboards, tax assessment, tax collection, payroll computing, pension records, water and sewerage charging, surveying and mapping, information services and distribution, sports centres for the handicapped, youth work centres, care of the deaf, disabled and old, inoculations, all feature on the list, apart from familiar services like refuse collection and disposal, office cleaning, security, microfilming and school lunches.

The Japanese fire service is not contracted out but extensive use is made of volunteers to back up fire departments. In housing, the Japanese commitment to the private sector is even more pronounced. Compared with the UK's 6.5 million dwellings in the public sector, Japan has only 2 million. There is, instead, a large private rented sector.

All public sector housing construction and major and recurring maintenance, even painting, is contracted out to the private construction sector. Councils only involve themselves in small basic maintenance jobs. "By contract," says Michael Ivens, Director of Aims of Industry, in his introduction to the study "the stories of waste of public resources by council direct labour organisations in the UK are legion, with large cumulative losses."

Payment for contracted out services in Japan is made on the basis of work done or on an annual fee basis.

In 1980, the Japanese Ministry of Home Affairs carried out a survey of the performance of contractors in Japanese cities. "The results overall constitute an overwhelming endorsement of the practice of contracting out in Japan," says Tepper Marlin:

"80% reported efficiency up;  
50% reported costs down;  
57% reported services improved;  
66% reported staff members were down."

Nearly 50% of the cities stated that they had made improvements in the quality of services despite staff reductions. This shows up the irrelevance of the socialist-led "Fight the Cuts" campaign in Britain, where any attempts to curb local spending are greeted with cries of outrage.

"By contracting out and giving their citizens choice and real local control, it has been possible for the Japanese to hold their bureaucrats at bay," says Michael Ivens. "They have avoided the main disease of British local government, the cancer of bureaucratic empire building."

*"Privatisation of Local Government Activities: Lessons from Japan", by John Tepper Marlin; Aims of Industry, 40 Doughty Street, London WC1 2LF; price £1.20.*

## DIRECT INVESTMENT FROM JAPAN

Recently, much has been heard of the claim that investment from Japan into the U.K. has dramatically increased. In popular publicity the expression has been frequently used that "Half of all the Japanese investments in the E.E.C. now comes to Britain".

The only figures available for these claims are those published in each year's April edition of the Bank of Japan publication 'The Balance of Payments Monthly'. The claim for "Half" for example relating to the 1980 figure of 42%.

The 1983 figures are now available and the following tables show the changing position between 1970 and 1983. What seems of especial note is the dramatic change around 1974 (presumably reflecting decisions made around 1972) when Britain's share of Japan-EEC investment fell from 80% to 20% and from a near comparability with Japanese investment in the U.S.A., to a mere 5%. The latest figures show little change.

	% of Japanese direct investment in E.E.C. coming to the U.K.	Japanese direct investment in the U.K. as % of such investment in the U.S.A.
1970	67%	37%
1971	78%	47%
1972	68%	70%
1973	80%	65%
1974	79%	78%
1975	30%	7%
1976	14%	5%
1977	21%	9%
1978	17%	3%
1979	14%	4%
1980	42%	13%
1981	12%	4%
1982	23%	9%
1983	26%	12%

For comparison Direct Investment in the U.K. by Japan in 1970 was \$34m (perhaps \$180m in 1983 prices) and in 1983 was \$160m.

### World investment flows

The ERC can comment on this question in relation to investment from Japan. A major survey undertaken in Japan found that the overwhelming factor in determining overseas investment locations is the prior establishment of a successful market. During post-war years Britain has been the 'best' European market for Japanese goods – for many reasons including language. This remains the case – as the sale of video tape recorders demonstrates where the U.K. has bought more of these machines per head than any other European country. The tendency therefore is for Japan to invest in Britain. EEC membership however has brought two new factors into such decisions:

- i) Black-mail tactics such as the French 'Poitiers customs post' incident and EEC pressure generally on Japan to move production to the EEC leads the Japanese to 'spread' investment around the EEC rather than concentrate on Britain.
- ii) The removal of all customs between EEC members makes it easier for Japanese firms to locate on the continent where they find some cost advantages from which location they can serve their U.K. distributors.

But a more important long term effect of membership is the fact that Britain now buys from the EEC a vast amount (eg cars) that could be bought more cheaply from Japan. Limiting Japanese company's interest in investing here in the future. It may well be the case that Japanese sales here are far more likely to lead eventually to production here than French or German sales – if only because of transport costs.

The only figures available on Japanese investment flows are those issued by the Bank of Japan. Direct Investments, trade credits, loans and securities are each listed for various countries and fortunately the U.K. is listed separately from the EEC so that comparisons can be made. There was a major change around 1973.

	% of Japanese direct investment in E.E.C. coming to the U.K.	Japanese direct investment in the U.K. as % of such investment in the U.S.A.
1970	67%	37%
1971	78%	47%
1972	68%	70%
1973	80%	65%
1974	79%	78%
1975	30%	7%
1976	14%	5%
1977	21%	9%
1978	17%	3%
1979	14%	4%
1980	42%	13%
1981	12%	4%
1982	23%	9%
1983	26%	12%

Source: Balance of Payment Monthly Bank of Japan

For comparison Direct Investment in the U.K. by Japan in 1970 was \$34m (perhaps \$180m in 1983 prices) and in 1983 was \$160m.

### "NO" – FT. No Comment

The Summer edition of "Britain and Overseas" reviewed the latest Open Seas Forum booklet "OPINION, ECONOMICS AND THE EEC" and readers will be aware that this is a controversial but convincingly argued case showing that in both Britain and Japan, the EEC Information Services and allied groups have been responsible for a great deal of misleading publicity concerning economic arguments over EEC policies. The booklet was launched at a well attended press conference at the House of Commons on July 18th and one journalist present was from the Financial Times.

There followed 5 occasions when the booklet title could have been made known to U.K. readers of the FT but somehow. . . . it is a perplexing story:

- i) On the 19th July the FT's first edition which is sent out of the country contained the following perfectly satisfactory piece.

#### Truth of Japan-EEC trade balance 'misrepresented' by CHRISTIAN TYLER, TRADE EDITOR

The EEC publicity machine was accused yesterday of manipulating trade statistics in order to whip up popular feeling against Japanese imports and justify Community protectionism.

Mr. James Bourlet, senior lecturer in policy studies at the City of London Polytechnic claims in a booklet published yesterday that the EEC information services in Tokyo is consistently misrepresenting the truth about the Japan-EEC trade balance.

He said yesterday that Britain's relations with Japan are being "seriously and unjustifiably damaged" by this activity.

According to Bank of Japan figures for 1983, the EEC had a visible trade deficit with Japan of \$11bn and a surplus on invisibles of \$4.4bn. The UK had a visible deficit of \$3.3bn and an invisibles surplus of nearly \$3bn, leaving a very modest bilateral imbalance.

The figures were made to look worse by understating trade in invisibles, he claimed.

Mr. Bourlet who was recently visiting Fellow at Keig University, Tokyo, said he was himself anti-Market on economic grounds.

Referring to a report commissioned by the EEC on Japanese non-tariff barriers, and allegedly suppressed, he said there was no longer evidence that Japan was a "fortress economy" as claimed by the EEC.

Opinion, Economics and the EEC half-truths for Britain and Japan Published by Open Seas Forum 20, South Street, W1Y 3DH; £1.50.

The political editor, on reading it, ordered it deleted from subsequent, U.K. circulating editions on the grounds that it was "too polemical".

- ii) On reading the article, Gilles Anouil, Head of Press and Information of the European Commission office in Tokyo, wrote a letter of protest to "the editor". This was published on August 2nd, but the title "Opinion, Economics and the EEC" was not given
- iii) On finding that nothing had apparently appeared in the paper, the author rang the FT and was told that, rather than review the booklet, the FT would invite him to write the 'guest column' shortly on the subject. Details of what to include in this piece were discussed and he was told to ring back 'next week' for confirmation of the invitation. On ringing back, he was told that the editor wished to print nothing more on the subject and yes, he could interpret this decision as political if he so wished.



- iv) On reading the letter, Mr. Bourlet wrote to "the editor" expressing his views on the points raised expecting to have a 'right of reply'. Nothing appeared.
- v) On hearing of this rather 'one sided' state of affairs Richard Body M.P. who wrote the Forward for the booklet wrote to Geoffrey Owen, Editor of the FT. to enquire what sort of letter in reply would be accepted. A reply was received saying that such a letter should be "temperate" in tone and concentrate on the issue of "invisibles". Mr. Bourlet duly wrote in this vein with the fact that he (and M. Anouil) were referring to the booklet "Opinion, Economics and the EEC".

This letter was published on 20th August, but the editor had removed from it all reference to the booklet.

Despite the considerable interest with which this publication has been received in other quarters maybe it is unworthy of mention . . . but readers must judge for themselves.

**NO (FURTHER) COMMENT!**

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