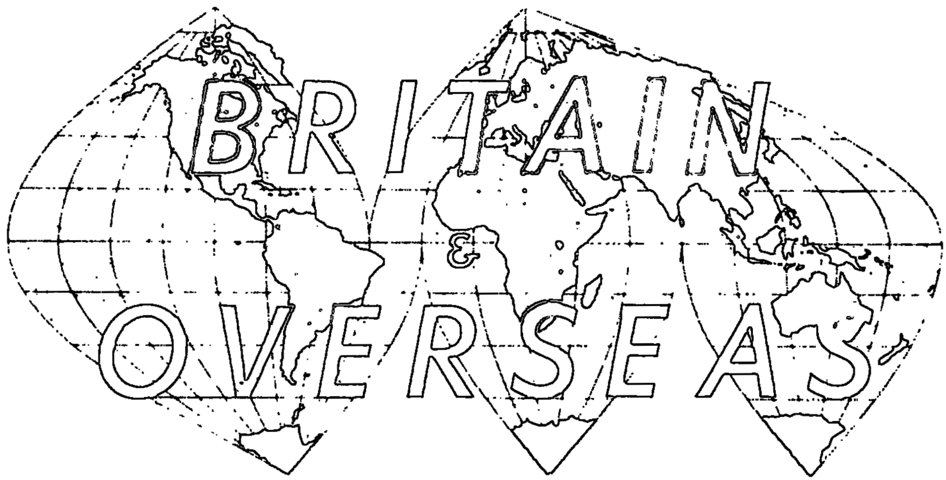

A DIGEST OF NEWS AND VIEWS ON BRITAIN'S ECONOMY
AND OUR ROLE IN OVERSEAS TRADE AND PAYMENTS

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LORD BEECHING

The President of the Economic Research Council, Lord Beeching, died on March 23 at the age of 71. The Council has, therefore, sustained a sad loss, for he had been President since 1986 when he first became associated with the work of the Council.

It was as a result of the promotion of the National Recovery Programme that Lord Beeching, together with Sir David Barran, initiated an appeal for funds which had an encouraging response. In 1969 he accepted an invitation to become President of the Council and he was appointed in October of that year. An Inaugural Dinner was held at the Savoy Hotel, London, when he gave his Presidential address on GOVERNMENT AND MANAGEMENT. from which the following brief extract is taken -

"The essential role of government is to balance the long-term interests of the community against short-term interests, to control sectional interests for the sake of the general interest, and to weight some of the more obscure basic considerations properly in relation to immediately apparent benefits. It is sensible and desirable that a government to do these things should be selected democratically, but it is not sensible to do so by such process that the government is deprived of freedom to do its task properly when selected."

"Our governments are always too close to an election. For too much of their time they are either trying to escape from the absurdities arising from the last one, or thinking of the next one. In relation to the time cycle of many of the events which they are attempting to control, and in relation to the time it takes for many of their actions to come to fruition, their secure tenure of office is too short. It is, therefore, very difficult for governments to play their essential part, by weighting long-term considerations properly. It is very difficult for them to believe that any long-term consideration can be more important them continuation of their power to govern.

Less obvious in its effect, and for that reason more insidious, is the dependence of the government upon the maintenance of a fair degree of harmony in its own party."

Lord Beeching was made a Life Peer in 1965.

FUTURE ECONOMIC EFFICIENCY REQUIRES INFRASTRUCTURE INVESTMENT.

Summary of a speech by Tony de Boer CBE, Chairman of the British Road Federation to the Economic Research Council in 30/1/85.

In assessing the need for more capital investment, the fact that more jobs might be generated now is incidental. The boost in infrastructure spending is necessary because it will underpin Britain's future economic efficiency, this in turn will generate higher levels of future employment.

It is a pity that political debates about infrastructure have concentrated on employment and have degenerated into a dispute about whether tax cuts or public investment would do most to create jobs.

It has also been sad to see the Prime Minister misled by information that construction expenditure would stimulate more imports than equivalent reduction in taxation. This just isn't true.

The Government is obsessed with controlling total expenditure and is not looking closely enough at the relative merits of different expenditure programmes. A new approach to expenditure control is needed and the starting point must be to distinguish between capital and current expenditure and to recognise that increases in many types of current spending would be detrimental to the Government's economic strategy but selective increases in capital spending would not.

Note- The full text of Mr de Boer's speech has been reprinted and is available from the ERC (send Stamps to cover postage)

ELECTRICITY - THE FUTURE

By T.P. Jones CB, Chairman of the Electricity Council. Speech to Economic Research Council, Wednesday, March 13, 1985.

As with most industries our functions are easy enough to define but very much more difficult to carry out. Our main task, of course, is to see that we are in a position to supply electricity to our customers at the lowest possible cost, in the right quantities and at the right times to meet their requirements. In doing this we obviously have to make the best use we can of the resources available to us - our human resources, our hardware and research facilities and the primary fuels and other materials we buy in. This much is common ground with any supplier whether he is producing cornflakes or cosmetics, cars or any other goods. But when it comes to supplying electricity these objectives have to be met rather differently than for most other products.

An obvious difference between electricity and other products is that for most practical purposes electricity cannot be stored. Unlike, say, a car manufacturer we cannot build up supplies of our product ready to meet peaks in demand. We have to take our peaks more or less in full, head on. To do this we have to invest heavily and pretty well exclusively in plant whereas most other suppliers are able to achieve a more balanced spread of investment between capital equipment and stocks. Naturally we try and keep our capital investment as small as possible, and there are ways of doing this which I will deal with later on, but even when we have done all we can in this area we are still left with a very large stock of capital. Our assets amount to some £35 billion with a turnover of about £10 billion.

The merit order in which we run our power stations under normal conditions starts with the lowest generation costs and runs to the highest. As we approach peak demand each day, progressively more expensive generation costs are incurred. In other words, stations compete to generate at the lowest cost for the grid.

Three Main Markets

On the Sales side there are Three Main Markets for electricity- Domestic, industrial and comercial. Growth in all of these markets is linked to the nations' prosperity or , more specifically, to increases in Gross Domestic Product. Improved national output feeds through more or less directly in terms of electricity sales to industry and commerce whilst rising living standards ultimately lead to the more widespread and intensive use of electrical appliances, which underpin electricity consumption in the home.

We compete with other fuels in all our markets in areas where one fuel can readily be substituted for another which means that we mostly compete for sales for heating purposes - space, water heating, catering in the home and in commercial premises, along with industrial heating applications. Elsewhere electricity is the only energy source, or the only viable source in, for example, some chemical processes, electronics and, of course, lighting. New technical developments such as robots in industry or the advances which we are seeing in the technology of office equipment offer us further opportunities for sales in applications for which other fuels cannot compete.

When we come to look at the industry's sales outlook therefore, we have to take account of the prospective development of the economy, the kind of technical developments which I have described and our likely competitive position with gas where the two fuels can both do the same job and - at the risk of provoking anybody here from the gas industry - I can say that the balance of advantage is changing, or to be more up to date has already changed, in electricity's favour.

On generation fuels the uncertainties of the fossil fuel market and particularly those of oil, the price leader, are considerable. Against this background nuclear energy and coal have become the cornerstones of the industry's strategy with oil, in a sense, being treated as a contingency reserve. By the end of this century, on the basis of a "middle of the road" view, we could expect nuclear to account for about 30 per cent of our capacity with coal of the order of 60 per cent or more, and hydro and oil filling in the rest. At the moment coal burning plant represents just under 70 per cent of the total. In some 20 years' time there will still be room for a very large coal burn.

The Coal Industry

As the Coal Board's biggest customer we are directly concerned that there should be a healthy coal industry, capable of producing coal economically, and supplying it at competitive prices.

What the coal dispute certainly demonstrated was the need for flexibility in the fuels we use. We were able to substitute oil for coal because we had oil burning capacity available. Who knows, at some future date we may have cause to continue to be thankful for our nuclear and coal capacity because of renewed pressure on the supply and price of oil. Flexibility *is* important and we wish to develop it further.

On the technology of producing and transmitting electricity, the industry has a long standing association with what economists call the economies of scale. The national grid, indispensable to large scale electricity production, was, of course, first set up in the period between the two world wars and subsequently reinforced and extended as electricity consumption rose. The large power stations of about 2000 MW capacity were first introduced in the 1960's and, of course, the development of nuclear power stations has its beginning even further back in the mid 1950's. These advances have established a framework in which our manpower requirements have fallen and labour productivity in the industry has improved considerably thus helping to keep down the cost of electricity to the customer in spite of what has been happening to oil and other primary fuel prices. Between 1973, the year of the first oil price explosion, and 1983 labour productivity in generation rose at the rate of 3 per cent pa compared with a little over 2 per cent pa for UK industry as a whole.

The industry's strategy on the generation and transmission side, it is to keep fuel costs as low as possible and to make for a secure primary fuel supply by concentrating principally on nuclear and coal as opposed to oil burning plant.

In distributing electricity - which means the twelve area boards at what you can call the sharp end of selling our product - the overall aim is to minimise "add on" costs by way of managerial efficiency and the technicalities of providing a supply to the customer. There are, however, other requirements on the boards and these include providing an adequate standard of service and fulfilling certain social obligations. At the end of the day, - and this is perhaps the most difficult task of all - the area boards have to strike the right balance between purely commercial and other commitments.

As with generation, labour productivity in the distribution of electricity compares favourably with productivity in UK industry as a whole. Over the ten years 1973-1983 which I referred to earlier, area board productivity increased by 2.7 per cent pa compared with nearly 2.1 per cent pa for industry generally.

Markets in more detail

When it comes to marketing electricity a problem we have in common with other large concerns is that of achieving a match between sales in markets which, in part at least, are uncertain and productive capacity which cannot be quickly or readily changed. I mentioned previously the link between growth in Gross Domestic Product and electricity sales but the rate at which GDP will increase is, of course, only one of several areas of uncertainty about the economy which we, along with other producers, have to take into account.

Of these areas of doubt two of the most difficult to make judgements about are the nation's future industrial structure and the likely rate of growth in industrial production. Partly as a result of the recession, and partly because of competition from abroad our old staple industries - engineering, shipbuilding, steelmaking, even cars - are not a strong as they were, if not actually in decline. The question therefore arises, what new industries will come in their place? Obviously no one can tell for certain, but the new technology industries and particularly telecommunications are clear candidates for growth.

The future level of UK industrial output is naturally going to be influenced through trade and other connections by the performance of other countries abroad, particularly the United States, but a further important consideration is the prodction of oil from the North Sea. This is probably just about at its peak and until more exploration and development work has been undertaken it is not clear to what extent and for how long we shall have a surplus to sell abroad. To the extent that we no longer have surplus for export, or become substantial net importers again, we shall either be worse off or have to find other ways of making good the shortfall. Since one way of doing this could be to increase industrial production, the amount of oil we produce and use ourselves could ultimately have implications for our level of industrial activity.

In the longer term changes in social attitudes could also have implications for electricity supply. I have referred to the new technology industries - electronics, computers and above all telecommunications. In their way these and other developments represent a new industrial revolution which, like the old, offers people the opportunity of achieving much more in less time and with less effort. What you might call enforced leisure time is already prevalent in the form of high unemployment and may well become more so with technological advance. Ultimately the advanced nation, including the UK, will have to try to find more socially acceptable ways of deploying free time among their populations than is possible now, and to the extent that they succeed, markets could develop for electricity and other goods and services for use in free time activities.

If I could deal lastly under this present heading of market uncertainties with fuel prices, these could remain fairly slack in the present decade and be subject to increases thereafter, led by oil. Markets should remain competitive - both in terms of price and in other respects - and there is the prospect that, in this country at least, coal and oil will continune to lose ground. UK gas prices seem more likely to increase as development moves towards the more difficult North Sea areas.

Coping with market uncertainties

As those of you familiar with the Sizewell Inquiry will know, the industry uses scenarios in its approach to the market and other uncertainties which I have described. These have the advantage of setting out the range of possibilities and exploring them in some depth, thus providing a disciplined framework within which decisions can be taken. Naturally, flexibility is maintained for as long as possible, both in commitments and in planning, with the scenarios themselves being brought up to date in the light of developments which have a bearing on them.

The industry's forward planning is not a mechanical process. We aim to seek and exploit opportunities in all our markets irrespective of whether general economic conditions are good or bad. For instance in industrial markets we can often help firms to cut costs if they will switch to electricity intensive processes -whatever their reasons for wanting to change. They may be struggling to keep going in a tight situation or simply trying to better their efficiency.

Another area in which we are interested is the design and insulation of homes and other buildings so that they can be heated more efficiently. We rightly hear about the importance of energy efficiency. But, to use the jargon, minimum energy input buildings are, again of practical importance to people not only because they avoid wasting fuel but, perhaps more importantly, because they cut down on fuel bills! In addition to these two examples our other promising commitments in the same vein include heat pumps, electro-chemical processes and processes for the efficient use of energy and pollution control in industry.

If I could bore you with some figures for a moment, we would expect between now and the early 1990's to be increasing our sales in the domestic off-peak market at the rate of nearly 4 per cent pa. In the commercial market sales overall should grow at nearly 2 per cent pa, and within this figure sales for air conditioning will probably increase by about 4 per cent pa. The industrial market is, as I have mentioned, the most uncertain of all because of its strong links with economic growth and industrial structure but here we expect sales to improve by a little over 1 per cent pa.

Conclusion

We are developing markets for electricity for two main reasons:-

First, we cannot build up stocks of electricity so we have to have sufficient capital equipment to cover the highest level of demand each day, - which typically occurs at 5-5.30pm - and particularly the peak winter demand, the highest of all. This means that at times other than peaks we have capacity available which ought to be (and is) used to improve the economics of the industry and hence to help keep down the costs of electricity to our customers.

Second concerns the fuels we use to generate electricity which, as I have said, are mainly nuclear and coal. It is, I believe, in the nation's interest that electricity, based on these two fuels, should win a larger share of the energy market in preference to oil and gas whose supplies are less plentiful, and which will be needed for uses such as transport and petrochemicals for which our fuels cannot readily be substituted.

None of this, however, relieves us of the obligation to be economical in the capital equipment we employ. One of the ways of doing this is by transferring demand which would have contributed to our peaks to a time of day or night when our production capacity is under less pressure. We have in fact been doing this for a long time. In the domestic and commercial markets storage radiators and lagged water cylinders have made it possible for customers to store heat for space and water heating purposes and hence to benefit from cheap off-peak electricity. In industry, load management inducements have achieved the same end of shifting some of the demand on our system away from the peaks to times when it can be met more economically.

The present, fairly rapid, progress in metering technology calls for careful development of the industry's thinking on load management and tariff policy. At the moment we are in the experimental stage and a number of difficult questions are involved before we can go further. To what extent, and how fast, should we move? Would the customer be prepared to accept greater control of his consumption in return for a lower price or, for example, should we look for more pumped storage to cope with variations in customer requirements? How far will our customers go along with us if we make metering and tariffs more complicated and will they respond to the messages given in such tariffs? Certainly we know that our large industrial customers respond because we can achieve a cutback in their demand of about 20 per cent. Obviously, satisfactory answers to these and other related questions are not going to come overnight. All we can say now is that, if exploited properly, the new developments in metering could have a marked effect on both the generation and distribution side of the industry with consequent possibilties of significant cost savings.

The future outlook offers bright prospects for the electricity supply industry. Potential exists for improved penetration of electricity in all our markets, but to take full advantage of it we shall have to seek the most competitive prices available for the fuels we use, and we shall have to continue to make administration and technical economics in our operations. That's what we intend to do.

REFORM OF U.S. BANKING.

Extract from Waterloo Economic Series No 135 by Professor John H. Hotson of University of Waterloo, Ontario, Canada.

The most thorough going, and most beneficial, reform of U.S. banking would be for the Federal Reserve to buy back from the commercial banks all federal debt they hold, plus sufficient other assets to equal 100% of their demand deposits (M_{1a}) liabilities, and then require them hence forth to maintain 100% reserves against all deposits transferable by check. At one stroke this reform would end our present fractional reserve or "private mints system" by which the banks create 90% of the money we use as they make loans. The Federal Reserve or the Department of Finance, if this were desired, would then become the sole creator of money and the private banks would be reduced to their proper role of re-lending savings deposited with them without money creation.

This reform is not a new idea. It was pushed hard by a group of famous University of Chicago economists during the 1930's and by the great Irving Fisher of Yale. It was, and still is, endorsed by Milton Friedman, but is, as yet, carried out by no nation.

I suspect that this reform, or some partial approach to it, may soon, however, have a second chance of becoming an "idea whose time has come."

It is highly probable that the world's bankers will soon present the governments of the rich countries with the following choice: "Either bail us out of our bad debts in Latin America and Africa or watch the collapse of the international financial system." For our major banks are bankrupt two times over with more bad debts in Mexico, Argentina and Brazil alone than their capital stock and surplus. As part of the process of rescuing the banks and their debtors from this mess, should not governments insist on major reforms of national and extra national "xenocurrency" creation of bad money?

INFLATION ACCOUNTING: HAVE WE THE RIGHT TARGET IN OUR SIGHTS? By Laurence Trimby FCA.

In October 1984 Sir Douglas Morpeth said that, even after 14 years of effort to find a solution to accounting for inflation, there was still no consensus on how it should be done. Now it is being said that too much attention has been concentrated on the question 'which system': current purchasing power, current cost accounting or a hybrid; and that we may usefully start from a world in which general inflation by reference to changes in the general price level is complete.

But surely we must challenge (and should have done years ago when Sir Douglas started his work) any acceptance of the inevitability of inflation and further erosion of the purchasing power of the pound. Otherwise we can only be faced with a serious situation.

Let us rather start from the observed fact that the movement in price levels coincides with the volume of money in circulation. The higher the volume, the higher the price levels generally, and vice versa. The apparent logic of these observations is that, if public sector expenditure is cut back and wage levels reduced all will be well and inflation steadied.

Control of National Cashflow

But as we now know these are misleading observations. Indeed, with respect to the economists, the first question which an accountant might ask is: 'From what source is this cashflow coming?' This, it is suggested, is the key to the solution of our problem. The UK economy can be divided domestically into three main sectors: personal , corporate and public (including nationalised industries, central and local government).

Each has its own method of operation, which is crucially important to the argument. The personal or household sector functions generated from a money supply generated from income, whose source can be employment, self-employment or state benefits. When a household or individual spends more than is earned bankruptcy is inevitable.

As far as private sector companies are concerned, similar rules apply, though in a different context. If a company fails to make profits, it will eventually face liquidation. In each of these two sectors there is a legal bar which stops over-spending in perpetuity.

Unfortunately, no such constraint exists in the public sector. The 1984 edition of the **United Kingdom National Accounts** summarises the general government financial position at 31 December as shown in Table 1.

Table 1 shows that current receipts have failed to cover debt interest and the annual financial deficit continues to grow.

From 1973 (let alone earlier Years) to the end of the calendar year 1983, deficits totalled £57.8 billion. Unfortunately general government debt information is not available at 31 December, but the gravity of our national financial position is reflected in the value of the £, which over the same period, taking 100p in 1973 had falled to 28p by 1983 (**British Economy in Figures 1984: Lloyds Bank**).

This heavy annual deficit in which spending is far in excess of receipts by general government would logically appear to be the main course of inflation.

There appear to bo two alternative courses to take.

The first, which attacks the government machine and benefits, is to reduce expenses of running the machine and cut benefits flowing from it. This, as now witnessed, produces political dangers for any administration involved. The second, which, with the exception of the nationalised industries, has scarcely been tackled, is to use the government machine in partnership with the private sector, particularly where social services are concerned.

Table 1: United Kindom National Accounts

£ million	1980	1981	1982	1983
Excess of receipts over expenditure before charging debt interest	2810	5470	7988	4234
Debt interest	11363	13292	14474	14658
Financial deficit	8553	7822	6486	10334
Cumulative financial deficits from 1973	34987	43540	51362	57848
	43540	51362	57848	68182

If we look at the structure of general government expenditure for 1983 totalling £128,-100 million, on current account for £93,300 million (of 73% of the total):

		£ million
1	Social security benefits	33,100
2	Military defence	15,700
3	National Health Service	15,700
4	Education	14,800
5	Debt interest	14,600
		93,300

Items 1 and 3 : Both these items are distinguishable as insurable risks, affecting every new born child. Why not have a compulsory insurance policy at birth for every child, issued by the state?

Item 2: Military defence includes the cost of military equipment. An alternative could be to run this in partnership with the private sector, leasing back on an annual basis. A considerable programme could be mounted by such a method.

Item 4: Education could come under a similàr head, as we already have much experience in providing financial policies for education.

Item 5: Debt interest is one of the basic causes of our annual deficits. But let us ask why government borrows at all when it posseses (at it always has) the sovereign right to issue money? Provided such issues are covered by receipts collectéd by government, there can be no danger of inflation; and the costs of interest cannot arise.

Let a committee of accountants lead examination of these matters, and produce their recommendations when the problem of preventing inflation rather than accounting for it might will be solved? Indeed the time is ripe with the adviser to HM Treasury on Government Accounting Services recently installed, to give a helping hand.

After 14 years of debating accounting methods to record inflation accounting, we are no nearer to fuelling a universally acceptable solution.

Rather than argue about the merits of various methods of recording the phenomenon, we can eliminate the debate on inflation. Accountants should not be reluctant to play their part.

Why not a new approach to the problems facing the national exchequer? □

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WHAT HOUSING PROBLEM

By R.F. Read BA, ARICS

I was born in London's east end in 1930. Over the next 25 years, through depression blitz and the first years of peace, I grew up among relatives and friends until the London County Council, declaring a Comprehensive Development Area, destroyed our extended family. My 35 year working life has been spent in property, ten in the public sector, I would claim to be well qualified to express the opinion that follows.

Despite four decades of massive public projects costing the nation dear in lost alternative investment opportunities (eg Blue Streak, TSR 2, Kidney Dialysis machines, or w.h.y.) I would claim the municipal housing effort has failed, certainly in London, at massive ongoing social, economic and ecological cost to a nation which may have spent the sums squandered on something else and be better housed, enjoy greater more equitably spread prosperity, in a socially balanced and technically more advanced society having a better integrated population largely free from the class based socially divisive problems that today beset the community. The housing problem is worse in social terms today than it has ever been since the mid 19th century because many of the great public housing schemes, and policies, have created more problems than they have solved or may have come about had they not been implemented and the private builder had been allowed to respond to peoples' wants in the years of prosperity following the war.

At the close of hostilities in 1945 circa 2.3m useable housing units had survived the blitz in London, of which around 100,000 had been built by councils in the twenty inter-war years; a period during which private developers' built about 5m units nationally a figure not exceeded by the combined efforts of both sectors in the forty years following the war. This lack of performance I would attribute to planning controls and public programmes interferring in the market rather than to lack of prosperity led demand or capacity in the industry.

Sound Accommodation

In 1945 then London had around 2.2m privately owned dwellings which had appeared, over the previous hundred years or so, in response to peoples need and ability to pay; without public assistance. The quality of the product, mainly small terraced houses, may be judged from the million or so examples which having survived the threat of demolition orders, improved restored neatly kept painted and cherished by proud owners, continue to

offer sound accommodation long after municipal products a quarter their age are considered for demolition; having left their mark on a generation.

In 1945 London housed 8.61m people in circa 2.3m units. Today as the population falls toward 6m there are around 2.8m households. Four million have left the capital since the war's end, two million newcomers, residing largely in council accommodation, have partially filled the vacuum left by their going.

The capital, once a vibrant growing metropolis with a talented population balanced in proportion and making small demand on public funds, is now (apart from an occasional oasis of wealth and areas of middle class resurgence; a renaissance often resisted by local authorities) largely populated by elderly, unskilled and under-privileged people dependent rather than contributors to the public purse. Much of the former population, and their progeny, commute to work in the city's tenuously prosperous heart from recently green acres often unnecessarily developed in response to pressure from the ill-planned capital.

Indications are that London, with nearing 5m sq ft of empty office space and circa 30m sq ft of silent factories, has declined from the effects of Industrial Development Certificates, Office Development permits, New Town and Expanding Town and Overspill policies.

On the basis of comparable statistics (1945 to 85; persons per dwelling, per room, per bath, per WC, average age of property etc:), the basis by which public housing programmes were planned, London does not have a housing problem. Why then do pressures still exist to squander yet more precious national capital on housing. Even given explanations advanced eg., changing family patterns, greater expectations, new legislation etc., it surely should not be so unless something other than mere quantitative shortfall is involved making much of the public housing stock, all built in this century, most since the war, the majority in the last 25 years, unfit.

A Management Problem

The explanation is apparent to anyone prepared to walk round the inner city; while the private sector restores ancient houses, many thousands of council dwelling stand vacant, boarded up, vandalised, derelict, wasted. The capital does not in numerical terms have a problem; quantitively and by original specification its stock of dwelling are largely adequate, even given the more esoteric type of tenants who are allocated accomodation or appear as statistics on today's waiting lists. What London does have is a management problem of great magnitude; a lack of serious commitment and discipline at every level of staff and tenant management. Politically the illogical is so often proposed in attempts to fulfill non-viable goals that failure is accepted as a matter of course with procedural correctness the written report and ineffective notice substituted for effective action. Too often lack of staff is advanced as an explanation for shortcomings when in effect the problem is too many poorly managed.

This view of management failure is reinforced when the many vacant boarded up houses and acres of sites cleared of housing standing behind miles of corrugated fencing are viewed. Awaiting schemes most could have provided short term homes, all represent static wasted capital and lost income. Indications are the market would quickly build for sale, or even to let if the Rent Acts (themselves responsible for removing the private landlord), (good with the typical bad) were rationalised.

Comprehensive Development Area Schemes cleared and blighted vast areas of the capital, destroying through arbitrary and mainly remedial defect criteria, good houses along with the minority bad and with them vast extended families, communities that had made little call on the state and seldom wanted the action in hand. Having exported one, substantially imagined problem to the green belt, Council's quickly created another very real one.

Smaller Organisations

The private sector lobby is today pressing parliament to release green belt land the nation can ill afford to sacrifice to development. The same developer in response to a population willing to live in an urban environment, lacking the easier provincial opportunity, are increasingly active in the GLC area, including the inner city. If pressure to pump funds into public housing is resisted and publicly owned property, including blocks considered unmanageable, are released for private initiative the capital will repopulate, it's social imbalance disappear and along with other problems the immediate pressure on the green belt.

So far as the public sector is concerned the organisations designed to aquire demolish and rebuild London must be rationalised into a far smaller organisation which ensures that the housing stock retained does the job it was designed for. A firm disciplined management hand, transferring resources from desk to site, must ensure that tenants' respect, and are rewarded for respecting, the public assets they occupy.

Depression elsewhere appears to be pushing people and firms toward the capital, London must be allowed to return to prosperity for a healthy heart is the best guarantee of recovery for the rest of the nation.

SIR ARTHUR BRYANT, CH, CBE.

It was with profound regret that we heard of the death of Sir Arthur Bryant, who has been a good friend of the Council for many years. When we produced our report on 'Government Debt & Credit Creation' Sir Arthur wrote -

"As a historian I feel that the Economic Research Council's report on Government Debt & Credit Creation may well have the same effect on the children's Welfare Commission of 1842. For it shows beyond question that the Treasury's present persistence in financing our damaged and sagging economy by borrowing at impossibly high interest rates can only end in the ruin of industry and ultimate national bankrupcy".

'The Times' in its obituary made no reference to Sir Arthur's interest in the question of monetary policy and the best tribute we can pay Sir Arthur is to quote his views stated in his column 'Our Notebook' published in 'The Illustrated News'. In an article entitled 'Restoring honesty to the economy' Sir Arthur wrote

"What seems required, as I have earlier suggested on this page, is a public body, removed and divorced from political pressure, staffed by expert Treasury officials, invested by Parliament with the duty of creating, free of interest, as much money for necessary government purposes as the country at any given time should, in their considered judgment, need to ensure the maximum possible employment of its productive resources. The amount of interest-free new currency of credit brought into existence would have to be based on a carefully calculated estimate by the Government's expert financial advisers of the precise amount of debt-free money which could be safely injected into the economy at any given moment without depreciating the value of the currency already in circulation. Unlike the Treasury's present practice of continually borrowing vast sums - the extent of

which, far from being based on any exact calculation of the country's future ability to pay the interest on them, seems to be dictated solely by the State's hand-to-mouth financial needs - it would be based on considered judgment of how much monetary expansion the economy could safely sustain to promote increased production and employment.

This would be no irresponsible resort to printing paper money unbalanced by any potential and realizable production of real wealth, like the deliberate and reckless hyperinflation of the German currency in 1922-23, which has been the bugbear ever since of any suggestion that the creation of interest-free money based on a country's potential production and employment than perpetually borrowing on the never-never. Yet, why should it be considered more inflationary to issue a carefully calculated amount of money with no interest-bearing debt attached to it, than to print an unlimited amount of money charged with heavy interest rates payable in future taxation, forcing the manufacturer and public services to keep raising their prices?

The exercise of the right inherent in every sovereign state of creating and issuing a sufficiency of money to make financially possible what is physically possible and morally desirable, would enable as much real wealth to be brought into existence as, with its immense inventive and scientific potentialities, the nation is capable of making. It would give Government a freedom of action which its present dependence on borrowed money denies it anticipating a corresponding and carefully calculated reduction to be made in the taxation which would otherwise be needed to pay the interest on further Government borrowing, it would allow industry to stabilize, instead of having to raise, its prices. And wherever Government wished to help an industry or Public Utility by doing so in the form of an interest free loan, that industry or public utility would no longer have to raise the price of its products or services in order to pay interest. It would make it possible for Government both to lower taxation and the rate of inflation simultaneously, and, by reducing both taxes and prices, to control the money supply.

I am not suggesting that all this could be done at once. It could only be done gradually without damaging the existing commercial institutions of the country. And it would require the active co-operation of our highly efficient banking system which at present, in order to help its hard-presed private clients in a time of recession by exercising the Governments's historic monopoly of creating not only cash but credit, is injecting vast sums of debt-laden credit into the economy without Government being able to check and control it. But I believe that, with a general election approaching which may well decide our future as a free country, the time may presently prove ripe for a far-sighted and forward-looking Prime Minister to crown her four years' heroic struggle to restore honesty to the economy, by indicating a way in which, little by little, underproduction and unemployment may be eradicated from the economy and the life of our people."

WHICH WAY?

Some years ago Sir Winston Churchill said that mankind was faced with a choice – on the one hand "Measureless Reward" and on the other "Supreme Disaster". His words were prophetic. For today we witness the final struggle between these two alternatives. Either we accept all the benefits which flow from man's inventiveness and technological progress, or we sink into increasing chaos and disaster. As we approach the 21st century, enormous problems loom which will take all our efforts to solve. They can only be solved, however, if we have a really "honest" money system which reflects real facts on which to base our economic life. Today there is a misconception about money which is wrongly regarded as wealth itself instead of as a claim to wealth e.g. goods and services of all kinds. We have learnt to worship money, and in doing so we worship, ignorantly and harmfully, a man-made idol. It is well said that the love of money is the root of all evil.

The struggle to achieve an honest money system has gone on for many years. Abraham Lincoln was very specific on this – "The privilege of creating and issuing money is not only the supreme prerogative of Govrnment, but it is the Government's greatest opportunity". (U.S. Senate Document No.23). Over the years there have been many pronouncements by leading statesmen, scientists and economists who have supported this view. Today there are lively movements in many parts of the world trying to enlighten public opinion and thereby influence governments in their own country. This is particularly true in the United States where groups such as "Truth in Money" are very active. There is also an increasing awareness on the part of academics in U.S. Universities who have given their support to the need for reform. In Canada, in Australia and in New Zealand there are groups of people beavering away in an attempt to overcome the silence which surrounds the subject in the press and other organs of the media.

The "Measureless Reward" to which Sir Winston referred springs from the revolution which is taking place in the sphere of the production of wealth. Aided by the technological revolution mankind can be progressively freed from the need to work so hard to provide for a full life. In his "Essays in Persuasion" (1963) Lord Keynes summarises the position which arises – **"Thus for the first time since his creation man will be faced with his real, his permanent problem – how to use his freedom from pressing economic cares, how to occupy his leisure, which science and compound interest have won for him, to live wisely, agreeably and well".**

Although in 1985 there are many tasks requiring urgent attention in the immediate future, we can look forward to establishing an 'Age of Leisure' when mankind can devote itself and its creative capacity to enhance the environment, to encourage the pursuit of beauty and craftmanship which enable previous generations to build cathedrals and other buildings of architectural excellence, to enable people to live "wisely, agreeably and well" and to banish the friction which causes nations to quarrel.

The remaining years of the 20th century will decide whether we choose the "Measureless Reward" or its grim alternative. We all have a responsibility in deciding which path to follow.

FARMING FOR FARMERS?

By Richard W. Howarth

If Mr Phil Drabble, presenter of the T.V. series "One Man and His Dog" can claim in his book "What Price the Countryside" that farm policies have caused havoc amounting to 'ministry vandalism', and if Richard Body M.P. can claim in "Farming in the Clouds" that most farmers have been hurt by the very policies designed to subsidise them, it is surely time for a complete analysis, a seminal work from these agricultural economists to set this record, be it true of false, in full context.

Such a work has now been provided by Richard Howarth of the University College of North Wales in "Farming for Farmers?". In 142 pages of intense reading, one is taken step by step through the tortuous arguments for and against each policy and through the generally undecipherable machinations of the Common Agricultural Policy. The many

disparate pieces of research published over recent years on support costs, price implications, supply elasticities, land values, lobby expenditure and much else is here welded into a composite and highly credible library of subsidy understanding and in formation.

Howarth develops and substantiates a history of pressure group political decisions with awful but entirely predictable results. Support for farmers now comes in many forms - grants, tax reliefs, research assistance, subsidized input services, artificially raised prices...... The result today he finds is that the gains to U.K. producers from such supports actually exceeds total farmers incomes! The extent of this excess plus that income which farmers would otherwise make therefore represents a sum which has been dissipated into land values and gains to ancilliary industries. Farm rents, which amounted to 19.8% of net farm income in 1952, took 63.8% by 1981. Farmers who owned their land enjoyed a real capital gain of 50% in the first 10 years of E.E.C. membership. Meanwhile, since 1947 the number of farmers in Britain has actually increased despite a substantial fall in the number of farm employees, who, though enjoying an important increase in relative wages, have been displaced by over-investment in subsidized machinery and other technology inputs.

If the aim of farm subsidy is to raise farmer's incomes, the policy has simply failed and Howarth comments "So long as there are large numbers of people willing to farm for apparently low relative cash incomes, the 'farm problem' will not disappear because it is not a problem". But if world food prices could obtain in the U.K. today farm gate prices would be reduced by 25% - with annual per capita savings for consumers of £68..... Given the known supply and land value implications, the resulting reduction in output would not jeopardise security.

The C.A.P., he shows, has led to a higher level of support than any individual member country would tolerate, to massive opportunities for fraud, and to major penalties on third world producers.

There is no other logical conclusion from such a litany than that Britain should abandon the C.A.P., closely examine any suggested national policies and, perhaps as Howarth seriously suggests, abolish altogether, the Ministry of Agriculture, Fisheries and Food.

Thus far the case is clear, the logic makes both common and professional sense and the author's position unambiguous.

Unfortunately, those with a close knowledge of EEC affairs have all along known that acceptance of EEC membership implied acceptance of the CAP. Conversely, opposition to the CAP rather than jingoistic nationalism lay behind many who decided to vote 'no' in the 1975 referendum. To many, the choice then was between optimism and realism on the chances for reform. Is the position actually any different today?

Howarth would answer unequivocally "yes". He says "My own view is that membership is basically desirable for Britain - mainly from a political standpoint" but that "If acceptance of the CAP was the price of entry... it has been paid in full". He shows persuasively how farm support costs must rise ever faster to maintain even the pretence of achieving its stated objectives. Ultimately this must become politically insupportable. The entry of Spain and Portugal can only hasten the day of reckoning. Perhaps, the very development of 'Europe' no longer requires the CAP.

He concludes with the main policy recommendation that we "should do everything possible to assist the natural withering-away and/or Breakdown of the CAP" but, I cannot help feeling that, so long as he remains unconditionally committed to U.K. membership, the beneficiaries from the CAP need lose little sleep, well argued though this superb account maybe.

JB

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