



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

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A CALL FOR C.A.P. REPATRIATION

By Teddy Taylor M.P.

Can anything be done to sort out the Common Market's monstrous and costly agricultural policy? The Prime Minister recently set off for yet another Common Market Summit determined to reform the CAP, but she must have known that it could be her most difficult challenge yet. Nothing can be changed unless every member state agrees. And legal limits on spending have proved to be rather worthless as new devices are constantly found to side step them.

Mrs. Thatcher will be well aware that two years ago she faced the same situation. The Common Market was effectively bankrupt. Farm spending was rocketing. Food destruction programmes were breaking all records. And she launched a rescue plan. Member States, led by Britain, agreed to permit the EEC to draw an extra 40 per cent in contributions over a period of years subject to strict spending controls being applied and farm spending being curbed. So called "binding limits" on spending were fixed. But within twelve months the cash had all been spent. Farm policy remained unreformed. The mountains continued to grow. And now we are back at square one with the EEC being so bankrupt that spending of thousands of millions this year is not backed by any cash at all.

Where is all the money going? On this at least everyone is agreed. 70p in every pound of EEC spending is on farm policy. And most of that spending goes directly on the storing, dumping, and destruction of huge food mountains and wine lakes.

The amounts of cash involved are unbelievable. Bob Geldorf captured the world's imagination by raising over £100,000,000 to help the world's poor. It was a fantastic effort. It's a little wonder that he lost his cool when he visited the EEC, because the Common Market is now spending more than £200,000,000 every week on food surplus storage, food dumping or food destruction. Several millions are spent weekly on the sole task of employing people and machines to crunch up or otherwise destroy huge amounts of food – oranges, apples, cauliflowers, lemons etc at the rate of over a million tons per year.

Most agonising for those who took part in the Geldorf appeal is the fact that much of the cash is spent on dumping food at crazy prices on the world market, thereby depriving the poorest nations in the Third World of a decent price for their food production.

While the Third World suffers, the main beneficiaries of EEC dumping are the Soviet Union and East Europe. The amount of cheap food and wine exported by the Common Market to Russia has increased 11 times since Mrs. Thatcher entered Downing Street as Prime Minister, and she finds it difficult at times to restrain her anger in Parliament about so much cash being spent on this purpose. The other week, the EEC agreed to sell 181,000 tons of butter to Russia at 10p per pound. The Brussels bureaucrats had, however, spent about £1 per pound to buy this butter and a lot more on its temporary storage. That little lot cost the taxpayer £370 millions in subsidy. It's only one of a whole series of non stop sales. Beef at 11p per pound. Sugar at 5p per pound. Wine at 6p per litre. And vast quantities of cereals at near give away prices.

Somehow it would not be so bad if the Soviet housewives were to get their food at these bargain basement prices. But they actually pay more for food in the Moscow

supermarkets than we do in Britain! The difference between the Common Market price and the sale price is retained by the Soviet State Boards. So it means that the average taxpayer in Britain is not only paying vast sums in tax to pay for rockets, bombs and tanks to defend ourselves against the Russians – they are also paying through their taxes for the Soviet War machine as well!

But why is all the food being produced within the EEC? The answer is simple. Farmers in the EEC have not only a guarantee of price – sometimes five or six times the world price – but also a guarantee that their produce will be bought at a high price whether any consumer wants it or not. So the farmers produce more and more and more. Chemical fertilisers are used to boost cereal production to such a degree that the scientists are worried about the extent to which public water supplies are being polluted by the residue. Vast prairies are being carved out of our landscape to produce more and more food. The mountains of unsold food grow. We spend more and more on dumping them.

To the average family in Britain and Europe the extra cost is substantial. The influential Adam Smith Institute calculated that the CAP costs the average family £11.50 per week. Last year the EEC's own consumer unit suggested that £13 per week was nearer the mark.

But is reform not round the corner? Some argue that the milk quotas were a sign of change. But sadly these quotas still mean that we are producing a fifth more milk than we can consume and farmers who were given golden handshakes to stop producing milk have just switched the land to producing other items in surplus.

Are prices not being curbed? It's true that the official EEC prices for food have risen less fast than other prices, but each member state in turn has changed the so-called "green pound", which means that the consumer pays more. And the gap between our food prices and world food prices has grown.

Are the frauds and scandals being curbed? Sadly again, the signs are that more is going on fraud than ever before. The latest example was a massive payment to the Mafia organisation for the "delivery" of huge amounts of fruit juice to NATO headquarters in Sicily. The problem is that the fruit juice never existed, and was never delivered, but the EEC cash was paid all the same – 17 million lire!

So why do the EEC states not agree to reforms? Many would like to but find themselves under pressure from farm lobbies. In addition, it is almost impossible to find any reform plan which does not favour one country more than others – so unanimity is virtually impossible.

Everyone calls for reform, but privately they simply let things carry on as before and seek new devices to get round the legal spending limits. The latest device which was condemned as unlawful by the Court of Auditors, was for member states to agree to finance their own butter dumping in exchange for Brussels IOUs repayable in 1989 or thereafter!

But whether the Ministers in Brussels want it or not, I believe that there is a rising tide of anger amongst ordinary families in Britain and in Europe about this scandalous abuse and misuse of money.

Having won so many battles which others were unwilling even to fight, I am in no doubt that Mrs. Thatcher is determined to break through the deadlock. She may find that the best answer of all is to wind up the Common Agricultural Policy and let each member state handle their own farm policy. It would almost certainly lead to more sensible decision making. And it could enable the Common Market to start dealing with more pressing problems.

TWO NATIONS AND REFLATION

By N.D.P. Carn.

US calls for reflation by her trading partners – last heard at the IMF/World Bank meetings, but likely to be a *leitmotif* of Reagan's last two years in office – ignore the question of how that reflation is to be achieved. This is not irrelevant. Indeed, it is at the core of the problem of "targetting" economic policy, which has so exercised the United Kingdom and which is the policy issue around which the "two nations" debate rages.

Since the bottom of the last cycle, growth in most of the OECD economies has been characterised by a marked disparity in economic performance between different geographical regions within single nations. This has resulted in sharply different degrees of wealth accumulation and patterns of consumption. Consequently, different regions have had a quite different response to changes in interest rates or fiscal policy. This is the United Kingdom's dilemma. The measures which are demanded from the government to resuscitate depressed areas of the country, for example lower interest rates, would only serve further to stimulate the economy in prosperous areas such as the South East – which, with soaring house prices, high levels of consumer credit and high real wage rises, is already showing signs of overheating. Nor is the problem confined to the UK. Germany faces similar problems, with skilled labour shortages in Bavaria combined with high unemployment in the north. The same has long been recognized in Italy, where investment in the *Mezzogiorno* has done little more than create jobs in Turin. In all these cases, monetary or fiscal stimulus at the macro level will inevitably tend to impact most directly those areas where activity is already high and consumer confidence is buoyant.

We can thank old statistical series and the national aggregation of statistics for disguising the problem and for misleading policy-makers about the necessity of targetting policy initiatives.

On paper, there is every argument for fiscal and monetary reflation. What, after all, are the risks? Commodity prices remain depressed, unemployment high and spare capacity ample. Unfortunately, it is not as simple as that. The concept of "two nations" may have become a commonplace in political terms but its implications for economic policy form the basis for German reluctance to reflate – because a public issue of social justice would be seen by Europe's right-wing governments to play into the hands of the opposition.

In a sense, every consumer has his own index of inflation – the rise in price of those goods and services on which he spends his money. What has happened now, however, is that there has been such a divergence between the patterns of consumption amongst the "rich" and the "poor" that the first group is, in many cases, experiencing fairly high inflation, whereas the other continues to live in a disinflationary environment.

Europe and Japan's prosperous bourgeoisies are essentially saturated markets for the basic manufactured products which typically make up the goods component of the CPI or RPI. Instead, as these groups have become richer in absolute terms, their consumption of services and "positional" (eg Housing) goods, poorly represented in inflation statistics, has increased. Neither depressed commodity prices, spare capacity in manufacturing industry nor high blue collar unemployment have any dampening effect on this demand-led inflation in what is essentially the services sector. Moreover, the legacy of very high personal taxation has been the replacement of the artisan by DIY, and the channelling of ever-higher levels of discretionary spending into services (frequently provided by other prosperous bourgeoisies).

The effects are all too apparent; very high wage rises in those sectors, high inflation in services, and secondary effects like the spilling over of liquidity from this sector into massive price rises of "preferred" assets like residential property in Central London.

Japan's dilemma is similar, but more widely spread. In Japan, very high domestic liquidity, combined with a shortage of investment opportunities in the manufacturing sector, has spilled over into a massive appreciation of domestic assets – notably Tokyo real estate and an increasingly speculative stock market. Both these effects – and particularly the pricing of real estate above any kind of economic value – only serve to impede the transition of the economy to one led by domestic demand.

The problem for Japan (as for the European economies) is not how to increase aggregate demand, but how to increase demand solely in those areas where it is slack. Calls for generalized reflation ignore the structural problems caused by the lopsided nature of the economic recovery.

The optimists, amongst whom one must number the Americans, would maintain that the results of further reflation would eventually "trickle down" to the depressed sectors of the economy. Certainly, that is born out by the American experience, where a buoyant blue collar service sector has been a major provider of employment. But even in the US, the suburban affluence of States like Connecticut or Massachusetts contrasts starkly with the problems of the farm and energy belts. In Europe the problem is more acute. By and large, Europe has failed to create a large blue collar work force in the service sector – and, to the extent that it does exist, it tends to be informal, casual or temporary. Andy Warhol once pointed out that an airline hostess is a glamorous job because of its New World connotations, whereas a waitress, with its Old World overtones of domestic service, is an undesirable occupation. Given the dismal record of regional policies, perhaps Europeans now need to recognise that there is as much dignity in labouring in the rich man's garden as in his solicitor's offices.

THE CURIOUS "CASE" OF WHISKY IN JAPAN

By James Bourlet (with apologies to Sir Arthur Conan-Doyle)

[Editor's Note: This account arose from letters published in The Times (6/7/87) from the ERC and others. Given the difficulty of portraying the information in an interesting way, an unusual, and hopefully acceptable, format has been adopted.]

*"A standard bottle of Scotch in Japan will normally be marketed at around \$100 (£62), de luxe variants for much more At present the European Community is just beginning to flex its muscles in the GATT. We welcome that process"**

Doctor Watson "Outside your usual interest I daresay Holmes, but here we have a simple case, shortly to be heard at the 'court' of GATT where the guilty party is obvious from the start. Evidence of motive, weapon and crime are all to hand."

Holmes "Interesting Watson, to what do you refer?"

Watson "Whisky Holmes, those artful Japanese sell us everything from raw fish and micro-chips, to motor cars by the million but stop us selling our Scotch whisky freely there. Damned impudence, I would say. It's all here in this newspaper report. The Japanese are out to protect their own whisky producers who produce inferior whisky at a higher cost than ourselves. The weapon is to tax whiskies according to their quality so that our 'good' stuff carries much more tax than their products which they judge 'poor'. All contain the same amount of alcohol so the tax should be the same, but is isn't. Taxes on Scotch are 5 times higher than on their product, a bottle of Scotch in Tokyo then costs £40 to £60 plus and our chaps don't stand a chance. So that's the motive. The weapon and the crime are self evident, Scotch Whisky has only 7% of the market in Japan. Just think of that Holmes, a product with no rational economic reason to protect it and in which we are clearly the world's best suppliers, treated outrageously. Not much doubt what the GATT will say about that Eh Holmes?"

Holmes "Newspaper report you say Watson. Where from may I ask?"

Watson "Surely you have seen as many as I have Holmes. They come from staff reporters based in Tokyo. One title I saw recently came from the *Daily Telegraph* with a heading 'E.E.C. Battles for Scotch in Japan' It's the E.E.C. office in Tokyo that uncovered all this and has spilled the beans in their press releases and regular press briefings, which is more than our own fellows ever got around to at the British Embassy. Of course the information was available all along – the Scotch Whisky Association has known about it for years, but only the E.E.C. has been tough enough to commission a detailed report (from P.A. Consultants) and then set about making darn sure the whole world hears about it."

Holmes "But what next Watson?"

* From pages 28 and 60 of 'Righting the Balance' by Anthony Teasdale, an official of the E.E.C. Commission and James Moorhouse MEP, published by Conservative Political Centre on 13th August 1987. A full review of this booklet will be published in the Winter 1987 edition of 'Britain and Overseas'.

Watson "Why, I suppose the Japanese will have to reduce their taxes on our whisky or face us doing the same thing to their videos, cars and typewriters. Pity to stir up such a lot of bad feeling over a bit of economics though".

Holmes "Quite so Watson, and its for just that reason that I happen to have taken some interest in this case. There is a little bit more to it, I would say."

Watson "Oh?"

Holmes "The story begins a very long time ago – before whisky was known in Japan. The Japanese devised a system of taxation for sake, a brew made from rice which has about as much alcohol as sherry. This was given a least 4 different grades and taxes on the highest grade were established far above the tax on the common product. The idea was to tax richer consumers more than poorer ones and also to ensure the survival of the many small producers who only make the ordinary drink. I daresay this also discouraged home or 'illegal' production since that would only be up to the standards of the poorest grade.

Then a number of Japanese companies – notably *Suntory* and *Nikka* decided that something like whisky could be popularised. They made a cheap product using some barley – but an awful lot of other and frankly rather disagreeable alcohol (to my way of thinking) which they called 'whisky' and persuaded customers to drink it – but with a great deal of added ice and water rather as you and I drink orange squash. This isn't such a bad idea though, given Japan's hot Summers (very different to Scotland's!) and the Japanese love of spending hours talking in bars without getting too drunk. Funny thing, you know, the Japanese can't take as much alcohol as we can – they seem to get inebriated about twice as fast as Europeans. Anyway, the Japanese fell for it and that is why whisky is popular in Japan – which otherwise might seem surprising since many other Eastern nations drink very little of it.

It wasn't long, of course before richer Japanese were ready to buy better stuff and Suntory and Nikka started producing a '1st grade' and then a 'special grade' drink. The 'special grade' whiskies are much the same as Scotch whisky and include both blended and malt whiskies. The sake tax system was applied – for rather similar reasons and the smaller producers of cheap whisky remain in business whilst ordinary workers can afford their watery mixture, known as *mizuwari*. With a taste for high quality whisky of course, imports of Scotch entered the market as prestigious gifts and a superior drink for special guests. Following the custom you will be horrified to know that this also is mixed with far too much water! They were taxed as 'special grade' (it would have been insulting to call them anything else) and the local producers were protected by a small import duty and an 'ad valorem' tax imposed when the cost on arrival in Japan (including transport and the import duty) exceeded a 'threshold'. The 'ad valorem' or 'according to value' tax on a percentage basis amounted, until recently, to about £1.20 per bottle. The result is a tax system for whisky unmatched in complexity anywhere in the world.

But you see Watson, the Japanese are a race characterised by a wish to achieve *consensus* amongst interest groups and a wish to be *logical*. This system is more logical than ours because by taxing according only to alcoholic content we make the retail price differential between good and poor alcoholic drinks so small as to practically drive the cheaper products out of the market. Our system discriminates in favour of high quality.

Imagine suggesting such a system for other products – say motor cars. I am sure that Rolls Royce would love a tax of £100,000 per car to be applied rather than (to raise the same revenue) a tax of 500% of cost – which would no doubt be preferred by Ford. At the same time all the producers (and all the Japanese *Diet* members from constituencies where alcohol is brewed) have found the existing system acceptable. The Finance ministry has raised vast revenues and, until recently, the importers of Scotch have acquiesced in the system.”

Watson “That is an interesting history Holmes but hardly excuses Scotch taking only 7% of today’s market and being forced to retail at £40 or more a bottle.”

Holmes “Ah Watson, we must be wary of statistics. Selected information can be misleading and even incontrovertible facts can be presented in different ways.”

Watson “Disraeli’s point I seem to remember.”

Holmes “Exactly Watson, and we can be sure that if one is listening to the facts as presented by only one party to a dispute, misleading impressions through the statistics will always, where possible, be given.”

Watson “But Scotch in Japan either costs £40 or it doesn’t.”

Holmes “Well now, if you visit, as I have had many a pleasurable occasion to do, an intimate bar in Tokyo, a bottle of Scotch can cost over £40. Alternatively, if you go to an international hotel or a central area gift shop, you will pay the ‘recommended retail price’, which, for a bottle of top grade whisky such as ‘Chivas Regal’ or ‘Glenlivet’ would be ¥10,000 or about £40. But if you decide to buy a bottle of ‘Suntory Royal’, the top local product, the price will be very similar. Furthermore, if in those same places you want to buy an ordinary bottle of Scotch, say the current best selling imported whisky ‘Cutty Sark’ or perhaps a ‘Johnny Walker Red Label’, you will pay only ¥4,000 or about £16. This again is very similar to a comparable grade Japanese product such as ‘Suntory Old’. But these are only the recommended prices and in practice, the prices charged in ordinary liquor shops in residential areas are much lower – by some 25%. During a recent visit I found that ordinary Japanese purchasers were paying only £25.50 for Chivas Regal and under £12 for Cutty Sark and Johnny Walker Red Label. It seems that up to one third of all Scotch imported into Japan finds its way there via third countries, bypassing the sole importers and these prices presumably reflect the lower margins of profit which these ‘unofficial’ importers take, together with the cut pricing which the ‘official’ importers must undertake to avoid losing market share. So, dear Watson, you could say that a bottle of Scotch in Japan costs £40 or you could say that it costs £12. If you choose to accept the lower figure, as I am inclined to do, you will have to admit that such a price is hardly out of line with the price you had to pay only last week for such a bottle in New York. And, you may be interested to know, that although an ordinary bottle of Scotch in England costs about £8, £12 is about the price you will have to pay here for a bottle of imported Suntory ‘Old’.”

Watson “In that case Holmes, why does Scotch account for only 7% of whisky sales in Japan?”

Holmes “I trust that your newspaper reports have made it clear that this ‘7%’ is based

on the *volume* proportion of *total* whisky sales *inside* Japan. Total sales of whisky inside Japan are about 30 million cases per year. About 1 and a half million cases of Scotch are imported by the appointed sole import agents and a further half million come in via third countries – the so called ‘parallel imports’. All these imports pay the same taxes and you can see that the 2 million or so cases of imported Scotch amount to 7% of 30 million.”

Watson “Well, the newspaper reports didn’t give the figures but 7% is correct then.

⁶Holmes “Indeed Watson, but misleading. You must be patient for a moment. Whereas in most countries travellers are only allowed to take in duty free 1 litre for each trip, those entering Japan can take three bottles of 75cils – but they mostly get away with three 1 litre bottles and Scotch is a very popular item for this purpose. We go abroad so often that one bottle per trip is reasonable allowance here, but the Japanese mostly have to travel very long distances for overseas holidays and therefore a 3 bottle allowance is reasonable for them.”

Watson “Another example of the Japanese being different but logical I suppose.”

Holmes “Quite so Watson and at least another half million cases of Scotch arrive in Japan with the 5 million Japanese tourists and 2 million non Japanese arrivals each year. Since these imports are drunk in place of bottles which otherwise would be bought inside Japan we must add the figures together showing the proportion by volume of the total Japanese whisky market as something closer to 9%.

Next we should note that Scotch is comparable only to the Japanese ‘special’ grade whiskies like Suntory ‘Old’ and Suntory ‘Royal’. The rest, you will recall, is more like a sort of whisky flavoured alcoholic orange squash. Sales of ‘special’ grade whisky account for only about half of the total, or some 15 million cases – and so the proportion of special grade sales made by Scotch is around 17%.”

Watson “But Holmes, even 17% is not very impressive.”

Holmes “True enough Watson, but I must go further. You must remember that I have spoken only of *volume*. ‘Special’ grades includes both de luxe whiskies such as ‘Chivas Regal’ and whiskies such as ‘Cutty Sark’. Scotch does very well in the deluxe whisky sales and so the proportion of sales by *value* rather than by volume is not 17% but 30% and so, roughly speaking one could say that Scotch holds about one third of the ‘real’ whisky market in Japan! And, incidentally, since the ‘liberalisation’ of whisky imports into Japan in 1971 (when taxes on imports were brought more or less into line with taxes on domestic brews) the rate of *increase* of Scotch sales has been faster than that of the local product.”

Watson “I see your point Holmes but to give the figure of “one third” would also be somewhat misleading if the other figures are ignored.”

Holmes “Right again Watson, any opinion should be based on the full picture but you can see that there are great opportunities here to select only the figures that suit your case and mislead those who only read newspaper articles based on the information supplied by either side. In this instance you were misled by reports based on reports using E.E.C. press release information.”

Watson "Holmes, its not *just* newspaper reports. How about this letter in The Times from Colonel Bewsher (6/7/87), Director General of the Scotch Whisky Association, who says that even if the international Yen value rises, the price of Scotch in Japan is hardly affected because Japan's liquor tax plus import duty is levied in Yen, not pounds (and is currently about £7.00) and this accounts for 70% of the retail price."

Holmes "Well now Watson, the Scotch Whisky Association generally argues for a liquor tax in Japan based on alcoholic content – and that would be a sum fixed in Yen, of course, per bottle. If, however, there is to be a variable tax based on the import cost (which would be lower in Yen if the exchange rate rises) then that would amount to taxation according to cost rather than according to the alcoholic content. I don't think one can 'have it both ways'. As for the claim that tax amounts to 70% of the retail price we should clearly need to ask the Colonel for more details since this appears to be quite wrong. For example, a £7.00 tax on a bottle of Chivas Regal retailing at £26 would be 27% or a £7.00 tax on a bottle of Johnny Walker 'Red Label' retailing at £12 would be 58%.

But in my opinion Colonel Bewsher is right to complain about the *size* of the jumps in taxation between grades. If the taxes were strictly related to costs of production the difference in taxation between 'special' grade and '2nd' grade would be much smaller."

Watson "If the Japanese 'special' grade covers everything that we normally know of as whisky, why have not the Scottish producers taken a yet higher proportion of *that* half of the Japanese market?"

Holmes "Partly it is a matter of time. Until 1971 Japanese producers were heavily protected by high tariffs and Scotch could only make headway by posing as a very superior product at a very high price. This was very profitable even on the modest sales achieved and to take a much larger market share now may well involve giving Scotch a more commonplace image with lower unit profits. Secondly, the big Japanese companies have built up strong links with distributors and retail outlets – especially those small bars we spoke of. Often by extending trade credit or making loans or helping a small bar through a difficult period they have built up loyalties to their products which would be hard to override. You might understand this a little better by thinking of the number of pubs in Britain which sell mainly one brewer's beer or the number of petrol stations which sell only one make of petrol. Something similar often happens in Japan but I have no precise figures to give you. Thirdly of course, many Japanese (though this is not necessarily typical) prefer to buy Japanese products partly out of sentiment and partly because the Japanese whisky producers have tried to make their whisky suit precisely the Japanese taste – to me, Suntory 'Old' for instance has just a hint of the texture and taste of *Sake* about it. Thirdly, the 'ad valorem' tax has, even since 1971, ensured that the top grade Scotch whiskies are priced above the equivalent Japanese products. So that although whisky costs less to produce in Scotland than in Japan, by the time transport costs, an approximately 50p import duty and an ad valorem tax of £1.20 or thereabouts is added then, even though basic whisky tax after that is the same for both imported and domestic products, the prices of malt whisky end up a few pounds above the local competition in bars, hotels or in ordinary shops. That has changed recently however and there is a certain irony in this because the rise in the value of the Yen has put top Scotch whisky *below*

the ad valorem threshold while Suntory's top product – Suntory 'Royal' – is now within it and thus pays about 60p *more* in total tax than its import rival!"

Watson "You have almost lost me Holmes. At any rate one third of the market sounds a little different especially since it is rising and since no other imported product holds such a high share of any market in Japan."

Holmes "I am not too sure of your last point Watson but we must stick to whisky for now."

Watson "Alright, but why don't the Scottish producers make a poor quality product and compete in the 'other half' of the Japanese market – the so called '1st' and '2nd' grades? They would then qualify for the lower tax level. Surely there is a great opportunity there?"

Holmes "Yes there may well be but this would involve associating the name 'Scotch' with a lower quality product and the Scottish producers say that they are not interested in doing this. It may well affect the profit margins that they can obtain on their existing sales and so the 'Special Grade' prefer to stick to the standards laid down for the *British* market in the U.K. Finance Act 1969 which stipulates precisely the ingredients that must be used for anything sold here.

However, that is not to say that such a product *cannot* be produced here for export. You may be interested to know that a type of whisky which would, in Japan, be classified as low quality '1st' grade is made here and sold in France under 'own label' brands by French supermarkets – taking 6 or 7% of the French market in whisky. What is more, some of this poor whisky actually finds its way, via France to Japan where it is accorded the lower tax rate, but the sales are small and cannot count significantly towards our total market share there."

Watson "Fascinating Holmes, so tell me more about this 'second half' of the market in Japan, the low quality so called whiskies which are classified as '1st' and as '2nd' grade."

Holmes "Well examples of '1st' grade are Nikka 'Black 50' and Suntory 'Red' which sell in ordinary shops for around £6 and an example of a '2nd' grade whisky is Suntory 'White' selling in those same shops in large bottles which work out at around £4 per ordinary sized bottle. Despite the inferior quality of this stuff there is actually a name given by the Japanese for buyers of the very cheap stuff – they are called the "tsu" people, meaning "those who know that the cheap stuff is the best really and think that others pay high prices for better whisky out of simple snobbish ignorance"! But I doubt if these are the most important purchasers. Such 'whisky' is typically drunk by students or by bored housewives at home or by gatherings of lower paid company employees during their seemingly obligatory daily social evenings. And just a little even finds its way into cake making which is sometimes sold as 'scotch-cake'. And it is as well to note that Suntory, which alone holds nearly 60% of the total market, is a very heavy advertiser. My impression was that the biggest part of this advertising is for Suntory 'White'."

Watson "And is this the cheapest form of alcohol available in Japan?"

Holmes "Not at all. I should tell you that there is a low grade form of Vodka known as

'shochu' which is taxed even less than '2nd' grade whisky. This has traditionally been seen as a very poor man's drink but recently through clever packaging and advertising has become very popular. In fact it has taken a major slice of the whisky market and thrown total whisky sales into decline. Meanwhile, imported Vodka is taxed heavily and barely competes at all. I fancy that if there is a clear complaint to be made at all, it is the Vodka manufacturers who should be making it! But to return to whisky, you may wonder whether the Japanese whisky makers have turned their hand to making shochu and it is another interesting insight on the Japanese way of things to note that they would very much like to but, since the makers of shochu are many and small and scattered throughout many key L.D.P. (the ruling political party) constituencies, the Ministry has 'asked' the whisky makers not take up shochu production. And so, despite declining sales, they have not attempted to do so. Meanwhile the whisky makers can only look on as a whole young generation of drinkers develop a strong taste for fruit juice and cheap Vodka, casting whisky into a future role as merely the 'out of date' drink."

Watson "I have not been to Japan Holmes and we are now discussing social changes and habits. Are there many 'pubs' in Japan?"

Holmes "Not many pubs as we know them Watson, but an amazing number and variety of bars, mini night-clubs, bar restaurants, hot bath-houses with in-house drinking, fraw fish restaurant-bars, hotel bars and every other sort of alcohol-serving institution you can think of. Every little side street seems to contain countless bars and in the central city areas bars exist on numerous floors of high rise buildings. A great many of these bars are run by ladies who chat up and flatter their customers, know each of them by their first names and, I have often thought, act as a kind of 'pretend mamma' to businessmen who enjoy rekindling their childhood feelings."

Watson "Holmes, you make Japan sound like a 'nation of alcoholics living in barmaids' clutches'."

Holmes "You must be careful Watson, that kind of phrase is apt to catch the headlines and in any case, is far from the truth. Certainly the Japanese enjoy their drink and often appear somewhat drunk late in the evening. But they play a kind of game when employees and their boss are together (as is so often the case) whereby under the 'influence' they can talk very frankly about their work grievances (and even be quite insulting) because there is a convention that such utterances must not be 'remembered' the next day. This does a great deal to improve industrial relations and then, once colleagues part company and set off for home, they get onto trains where they read or just sit quietly showing clearly that they are hardly drunk at all."

Watson "So what time do the bars close?"

Holmes "Really Watson, such a question can only come from a 'gaijin' (non Japanese). There is no 'closing time' as we know it. Everyone just stays out as late as they wish and this, to my mind explains why Japanese shopping areas are more or less deserted until at least 10.00 in the mornings, why the night bars are filled by executives taking 'morning service' breakfasts between 9.00 and 11.00 and why industrial workers need to do those famous exercises before they can start a day's work."

Watson "When we have time Holmes I must ask you to explain more about social life in Japan but you have certainly shown me that drinking habits play a major part in life and the question of taxes on whisky is no mere detail about a luxury of little political significance. So what changes exactly, are we asking the Japanese government to undertake on whisky taxation?"

Holmes "Well first of all I should explain who 'we' are in this context. There is the Scotch Whisky Association which speaks on behalf of Scotch Whisky exporters; there is the British Government and there is the European Economic Community Commission and Council of Foreign Ministers with an 'embassy style' office in Tokyo.

Each of these institutions have different reasons for being interested in Japanese whisky tax policies. The Scotch Whisky Association quite properly wants any change that will increase their sales and they have made a variety of requests including the abolition of the import duty (about 50p per bottle), the abolition of the 'ad valorem' tax (which now, it seems is no longer applicable) and the abolition of the grading system in favour of a system based simply on alcohol content (the system that is applied here), which would of course effectively discriminate in favour of higher quality products.

The British Government certainly wants to back British exporters including whisky exporters, but at the moment parliamentary opinion is happy to build up a number of issues 'against' the Japanese to strengthen the government's hand over the prospects for more realistic 'concessions' such as the entry of Cable and Wireless Ltd into the Japanese market or to rub in their displeasure over a British consortium losing the Bosphorus Bridge contract to a Japanese rival. Successive British governments have been quietly pressing the whisky tax issue for 15 years now and would like to see a change in the tax laws.

The European Economic Community's office in Tokyo is interested in justifying its existence and has a brief from Brussels to portray through its influence on the press, a Japan which is something of a threat in economic terms to European countries individually so that the need for European unity is demonstrated here. The whisky issue has proved an ideal and symbolic subject for this purpose.

Whilst therefore a realistic Government here ought to be happy to see a reform in Tokyo which simply put imports on a strictly equal footing with domestic products (and this would involve little more than the abolition of the import duty) leaving the grading system as a matter for the Japanese alone, the E.E.C. has demanded at a *political* level full acceptance of the changes which the Scotch Whisky Association has, from a normal *economic* viewpoint, seen as favouring them. In the process Watson, I fear that they have raised expectations beyond realistic changes and left no policy option open to the Japanese Government which can succeed.

If the Japanese Government were to abolish the grading system altogether by imposing an alcohol level tax, Japan's 'orange squash whisky' would be driven out of the market which would upset both consumers and producers of 2nd grade whisky in Japan, but if they do anything less, then public opinion in Europe will be further rallied against Japan. Perhaps the only logical solution from this 'political snooker' is to abolish *all* taxation on whisky in Japan! A 'zero option!'. 2nd grade sales could continue but no-one would have any basis for complaint."

Watson "Your solution sounds amusing Holmes and rather reminds me of the way that Johnny Walker Ltd reacted a few years ago to the E.E.C's demand that it's 'Red Label' product should be reduced in price on the continent to match the lower prices in Britain's shops. The company surprised everyone by simply withdrawing the product from the British market so that the comparison could no longer be made. But the 'zero option' would surely reduce Japanese Government revenues and lead people to drink more."

Holmes "On the revenue side you are right Watson and they would have to make up for that by increased taxation elsewhere – perhaps on those soaring property values. But I rather fancy that not much more would be drunk. For a variety of reasons it seems to me that the demand for alcohol is rather price inelastic."

Watson "So are you saying that it wouldn't much matter if Scotch *did* cost £40 a bottle?"

Holmes "You have jumped to the other extreme, Watson but as a matter of fact, provided that all whisky and other alcoholic drinks were increased substantially in one move then I doubt if total sales would be much reduced. And this does raise again the issue of those 'parallel imports'. As you might expect, the Scotch Whisky Association stand by their sole import agents in denouncing these parallel imports. More interestingly though, there is a difference of view between Britain's Governmental attitude on this matter and the stand taken by the Japanese Economic Planning Agency. The British authorities can see that parallel imports reduce prices and can increase sales in the short term, but argue that an importer of a highly advertised and expensively promoted product is *entitled* to control his market in his own branded goods. They argue that the parallel importers are getting a sort of 'free ride' and furthermore, that the consequent price reductions can actually damage the brand image and thus *reduce* sales. Johnny Walker 'Red Label' sales have simply fallen in volume the more that prices have been cut. Producers always see price as an important part of brand image and wish to promote their products in a highly controlled and organised way. Japanese companies feel the same way in marketing their products here, and are upset when we allow, for example, Sony TVs to come in 'unofficially' from Germany. On the other hand, the Japanese Economic Planning Agency argues that the Japanese consumer has benefitted from the lower prices and that it would be against the principles of free trade to stop this activity. It really is a classic case of 'free trade' versus 'fair trade' but the issue has hardly been raised in general public debate – I suppose because it is of little interest to the E.E.C. which is, after all, making the running on the publicity side."

Watson "But arising out of all this Holmes, just what is the position to date?"

Holmes "Well, the Japanese government has responded to the pressures by proposing a compromise. They have suggested abolishing the '1st' grade category and taxing *that* whisky as 'special' grade thus moving towards a system of taxation based solely on alcoholic content. At the same time they have proposed that '2nd' grade whisky should be called simply 'spirits' instead of 'whisky' and continue to be taxed at a rate which will not disadvantage poorer consumers. All this was proposed as part of a larger tax reform package which met with stiff resistance by the Diet (Parliament) and as you might expect was treated with great suspicion by the Scotch Whisky Association and the E.E.C.

which views such a change as merely cosmetic. Thus the present position is that everyone agrees that some reform is in order but nobody can agree on just what to do. Meanwhile the whole 'case' of whisky in Japan is coming before the 'court' of GATT."

Watson "My mind is somewhat overwhelmed Holmes, just what is the crime and who has committed it?"

Holmes "Watson, you originally pointed out that this is outside my normal interest and this is no ordinary 'case' to be solved in that fashion. Simplistic publicity has certainly been mischievous and international politics have complicated the issue. We are certainly arrogant, if nothing else, if we think that any system of taxation is right simply because it is *our* system, but at the same time Japanese producer interests have bedevilled public policy making at every stage there. Meanwhile, if the Scotch whisky makers were to make a greater effort and investment in developing the Japanese market, great opportunities exist. I personally hope that the changes already proposed will be implemented and that we will accept that gracefully, pressing in time for other changes in a general spirit of encouragement for more open trade and increased consumer benefit."

Watson "I feel exhausted, what do you suggest we can now do?"

Holmes "I think it would be appropriate to open that bottle of Chivas Regal that has been sitting in our cupboard for some time."

Watson "A brilliant idea."

Holmes "Alimentary my dear Watson."

HAVE WE THE LEADERS TO FACE "THE CRISIS"

By A.M. Wade

For three generations the writers of economic thought have urged the need for a change of course because adherence to the old ideas has not been producing positive results. The alternations of war and slumps and the deepening crisis of unemployment speak loudly enough of hidden faults in current capitalist organisation which has created ever more wealth and power for a minority whilst many suffer continued poverty.

Technical progress is indeed impressive, but the fear of unemployment which is spreading through society spells disaster if nothing original and fundamental is done to correct this trend.

Mrs Thatcher's Government has resolutely adhered to the policies supported by financial interests which have promised that prosperity will follow from little more than the discipline of lower wages and higher productivity. It has, however, done nothing towards a basic reform of money supply organisation and little in reality, notwithstanding 'privatisation', to promote wider wealth ownership. Meanwhile, increased automation has reduced the demand for workers and high interest rates have been maintained which has attracted mainly short term foreign investment.

If the country were driven to this situation by inescapable laws of nature we would have to accept it. But, if blindness has taken us along this road whilst there are viable, honest and truly democratic alternatives available which are sensitive to human consideration and in harmony with ethical beliefs in the protection of the poor and the curbing of exploitation, then those who have claimed that 'there is no alternative' hardly deserve our support.

I believe that if the Conservative party had been willing to listen to the arguments expounded by reformers during the inter-war years of the 20s and 30s they could have built new foundations rather than a Keynesian camouflage for a just society.

Today, industry uses robots and computers, automation and mini-components in place of human beings. But unless those displaced can continue to provide a market for the goods produced, these developments cannot create general prosperity. If manufacturers reduce their wage bills, the nation still has the dismissed workers on its books. Typically, economists today argue that provided that money supply and thus overall spending power is increased in line with increased production, all is well and there can be an increase in leisure as part of a rising standard of living. There is of course some merit in this argument but it overlooks the fact that the increased spending power tends to accrue mainly to those with jobs and those who own shares or other rights to profit-sharing whilst those without work or in fringe and part-time employment suffer deprivation because, under good conditions, work itself is enjoyable, psychologically beneficial and conducive to a harmonious society.

For the last dozen years the profits of financial houses have soared whilst British industry has increasingly invested abroad. At the same time, under the pretext that there is insufficient money, standards of public education, health services, housing and entertainment, have been allowed to fall. We are two nations growing wider apart and it is hard to see the merit of economic doctrines which take no account of preserving high moral standards, turn a blind eye to the corruption of children and the crime related

debasement of literature, films and many T.V. programmes. What right, in these circumstances have our politicians to object to the intervention of 'outsiders' such as the Bishop of Durham?

During the 20s and 30s, many economic issues were debated – economic planning, public ownership, the welfare state, land ownership and taxation and so on. These continue to be debated but two fundamental issues, much discussed during that time, are seldom mentioned today but must come to the fore again.

Firstly, now that it is recognised that the creation of bank credit is effectively the creation of money, we should be debating how the benefits of this process can be returned to the state in order to reduce the burdens of taxation. And the control over the rate of increase in the money supply should be placed, as the Economic Reform Club urged in the 30s, in the hands of an independent Currency Commission.

Secondly, given the reduced need for human work in an age when machines can produce an abundance of goods we should be debating, as the 'Distributionists' did in the 30s, how everyone in society can become stakeholders in capital via share ownership in order at first to supplement falling wages and eventually to provide dividend income levels that might even make wages look like mere pocket money.

Suppression of disorder is necessary, but peace and progress can only follow from justice in political economy. These two 'forgotten debates' must return to guide reform because, if capitalism cannot be developed along these lines it will degenerate and become discredited. Our politicians seem blind to this. But thank goodness we have some wide awake Bishops!

APOCALYPSE 2000: Economic Breakdown and the Suicide of Democracy 1989-2000.

*Peter Jay & Michael Stewart.
Sidgwick & Jackson £12.95.*

The intention may have been laudable. Was it to write a political, social and economic disaster scenario for the West on the assumption of a continuation of present policies? The blurb in the jacket implies this, describing the book as a future history based on thinking ahead to where the world might be in fifteen years' time if drastic social, economic and political steps are not taken. Certainly archetypal unfavourable scenarios are permitted by those who advocate scenarios as an aid to strategic planning. Scenarios are not forecasts of what their authors believe will happen anyway, but of what they believe would be likely to happen if stated underlying assumptions held good. The benefit of including a plausible disaster scenario in a set of scenarios is that all concerned may then plan to avoid its occurrence.

But Apocalypse 2000 is written as though it were history and the events described had taken place. It is not clear, therefore, how the authors were permitted to write it and the publishers to publish it, given the repressive regime they postulate; scenarios, if they are to be credible, must be internally consistent. So how seriously is this book meant to be taken? In the last chapter the authors say something about their philosophy of history.

They reject determinism and the 'great man' theory and assert their faith that the destiny of nations is under the control of the people who live in them – which seems to be another way of saying that nations get the governments they deserve.

The unfolding of this history is boring and tedious. There is not much news as such, but mainly commentary, couched mainly in general and unconvincing terms and about as exciting as Keesing's Contemporary Archives. Mrs Thatcher, Mr Reagan and various other leaders are named – but not their successors except for the new Messiah of the Europe First Movement, the fictitious Mr De Rith. He first gives teeth to the European Parliament so that it can take over the running of Europe, and then, we must suppose, draws those teeth so that Mr De Rith and the Party rule unchallenged. When real people are named in a book we can inject some human interest for ourselves if an author does not oblige; when a book is written for the most part impersonally, like a series of communiqués going on for page after page, it is difficult to sustain the interest. The fictitious De Rith is not sufficiently developed as a person to relieve the monotony: and it would be difficult to take the whole thing seriously even if plausible.

There are references to real history, or in at least one instance, to deliberately or carelessly distorted real history – Australia, New Zealand and Canada are described as having stood at the side of Britain and the United States fighting dictatorships in two world wars, which discounts the years in both wars when the United States were not numbered among the Allies; and some half-hearted attempts, or so it seems, to inject some vaguely benign, liberalish political ideas of the authors. There is economics, too, but so unconvincing that it would be hard to think of recommending this book as a guide to economic analysis and policy. An overall verdict is that the book is shallow and superficial, and lacking the discipline, brevity and wit that could have turned a moderately interesting idea into a convincing – and worrying normative scenario.

M.H.C.

FORTY SEVEN YEARS AGO.....

The E.R.C. took over the work of the Economic Reform Club, founded in 1936. Sir Reginald Rowe, President of the Club, wrote about its work in a book 'The Root of All Evil' published in 1939. As a matter for reflection page 153 notes "The following is a brief account of the Economic Reform Club's history. It is taken from a note given me, at my request, by Mr E.A. Holloway, its Directing Secretary, who spends great ability and his limited spare time in voluntary service of a cause which he thinks, as I think, of supreme importance." Further on, on page 189, after outlining proposals for reform of the international monetary system he notes "if a country, e.g. Japan, came out of equilibrium with the rest of the world by lowering her general price level, her traders would export more but would import less. Under the system advocated there would be no point in Japan dropping her general price level, forcing down her standard of living, depreciating her exchanges and using subsidies, because all she would achieve would be to make presents of her goods to the rest of the world. She would not even get the other nations into debt to her. How long would the Japanese be prepared to work ten and twelve hours a day – men, women and children – in order to make presents of their products to the rest of the world?"

THE EDWARD HOLLOWAY COLLECTION REVIEW

After a lifetime involved in the exploration ideas and efforts to promote valued concepts and publications, Edward Holloway left in his home, not a vast mountain of books and pamphlets, good and bad, but a very small collection of important, and sometimes unusual books. This collection has been most kindly made available to "Britain and Overseas" and the intention is to review one book in each issue. Some of the books are clearly directly related to issues familiar to readers of this journal, others are more wide ranging. In an age when there is a pathetic tendency to regard anything published prior to last week as of no interest or merit this, it is hoped, will be a stimulating and useful challenge.

1) The Clue to History by John MacMurray

Published in 1938 and given to Edward Holloway in 1941 this book not only lives up to its title but seeks to comprehend the march of world events by dispassionate analysis during very last moments when this was possible before the blinding fury and emotion of Hitler's war fell upon us. Without reading the entire book the conclusions are hard to grasp, but worth quoting nonetheless. "The achievement of the destruction of civilisation by fascism is itself unreal. It is not civilisation that is being destroyed but only the modern form of Western society and its dualist consciousness. It is the inevitable destiny of fascism to create what it intends to prevent – the commonwealth of the world. The fundamental law of human nature cannot be broken. "He that saveth his life shall lose it. It is the meek who will inherit the earth."

The 1930's was a remarkable period for thought, reflection and theory. In economics John Maynard Keynes' General Theory; in psychology, the work of Freud, Adler and Jung; in political science, the works of Carl Popper and Harold Laski. "The Clue to History" turned out to be, for me at least, a missing link in this series because Professor MacMurray wrote, not as a priest, but as an academic, on the insights of Christ and their relation to the events of his time.

At the same time, the work abounds with simple, personal truths because the whole point of this book is to show the need for human beings to realise their true nature through their work in society. Speaking of equality he shows the irony of apparent dependence of the poor upon the rich. "Masters must always depend on their servants. An upper class must always depend on its working class. A wife who is subordinated to her husband is always the mistress of the situation. In a capitalist economy the capitalists, in D.H. Lawrence's phrase, are 'so helpless unless worked for'."

J.B.

NO PUN INTENDED?

Reporting the rival claims before the French courts of the effectiveness of baby's nappies made by Proctor and Gamble and by Peadouce, the Financial Times (14/7/87) solemnly stated "The Pampers lawsuit looks likely to prove one the most *absorbing* cases to come before a French court in many years".

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