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AND OUR ROLE IN OVERSEAS TRADE AND PAYMENTS

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CAN UNEMPLOYMENT BE CURED?

Summary of a talk by Sir Fred Atkinson, formerly chief economic adviser to the Departments of Trade and Industry, Energy and H.M. Treasury, to members of the Economic Research Council on 3rd December 1987.

There has been a rapid fall in the numbers recorded as unemployed during the past year. This has been due to a 4% rise in output, special measures such as the government's training schemes and to stronger screening of those entitled to receive unemployment assistance. Nonetheless, unemployment remains high at around 10% and although it should fall somewhat further is likely to remain high in view of the current prospects which involve an expected slowdown in the growth of Gross Domestic Product.

Whilst therefore the Government can find some grounds for optimism in recent trends, there remains a need to tackle unemployment – especially in the north.

The origins of the present high level of unemployment really date from the recession of 1980-81. At the time there was a 5% drop in Gross Domestic Product, a rise in the exchange rate and a collapse of manufacturing. Today, expansion in the economy of between 4% and 7% is needed to bring down unemployment because we have to take into account both a growth in the labour force (more people will come forward to work if jobs are available) and productivity rises of 2% or more per year.

Unfortunately, there can be no question of a rapid or easy return to the rates of unemployment typical of the post war years to 1980 if only because an outright boom would destroy confidence and bring about a collapse of the exchange rate. The best that we can realistically hope for is of obtaining some years – not necessarily consecutive – of 4% to 5% growth.

Now whilst doctrinaire monetarism has been abandoned, monetary constraints remain because there are a number of important obstacles for the Government. The first of these is the question of 'City views' where the institutions view government borrowing with distrust. There is a need to change City views about the Public Sector Borrowing Requirement – just as views have changed about using M3 growth as a guide for policy. Governments are limited by market pressures despite the fact that Government debt is now at its lowest level for many years in relation to national income.

Secondly there is the Balance of Payments. This is becoming a serious impediment because of the link between the Balance of Payments and the exchange rate. With confidence, deficits can be easily financed, though there may have to be interest rate differentials to avoid a flow of funds out of the country. Against such a background it is possible to concentrate expenditures within the U.K. on low import content, high employment items, such as the health service.

Thirdly there is the question of inflation and consequent industrial unrest. Inflation would result from rapid exchange rate depreciation long before there is any reaction to tightening conditions in the labour market. Hence my second and third constraints are closely linked to the first – as we saw in 1976 and in Mitterand's France. It is interesting however to note that the Americans did succeed for some years but they overdid their budget deficits and today their main trouble is the trade deficit. At the same time, calls to

Germany and to Japan to expand have been to some extent successful which implies that demand management can still be effective.

My conclusion is that unemployment can be reduced,at least up to a point, depending upon circumstances and it is still important that the reduction of unemployment should be a major government aim.

In answering questions from members Sir Fred Atkinson touched on many diverse aspects of the problem. He broadly agreed that monetary policy remains linked to the rate of unemployment and that there is scope currently for further interest rate reductions. He saw little prospect however for reducing unemployment through work sharing – pointing out that workers, whilst being prepared perhaps to share work are less than keen to share pay!

IF YOU CAN KEEP YOUR HEAD......

By James Bourlet

A wit once remarked that "If you can keep your head when all about you are loosing theirs – then you don't understand the problem!" On October 19th – 'Black Monday' when the world's equity markets spectacularly began their decline many who stood calmly by were in just that position.

The immediate causes of the stock market crash are clear enough. Some 'bad' U.S. trade figures had been released and the markets were caught in a gloomy mood by the announcement by Salomon Brothers of redundencies and an announcement to clients suggesting that they should move funds out of equities and into bonds. This led to sufficient selling on the following Monday morning to trigger chartist sales – and the crash had begun.

There need be little doubt that the primary focus of our attention in seeking further explanation should be policy making in the U.S.. Prosperity, such as it has been during the last 4 to 7 years in most of the free market economies around the world has been closely linked to expansion in America. In Britain, the 'swing of the pendulum' from excessive money supply policies in the 1960s and early 1970s to conservative monetarism since 1976 would have caused a far greater contraction than has in fact occurred if exports to the U.S. had been less buoyant.

The 'Reagan prosperity years' however, have been marred by a remarkable conflict in the U.S. between the Administration and the Federal Reserve – between an expansionist fiscal stance and a restrictive monetary policy. The Federal Reserve Board consists of appointees from the banking community and enjoys a constitutional status of independence from the elected Administration and legislature – President and Congress. The Administration has pursued policies involving government deficits which have lifted American employment but at the same time the Federal Reserve has fought a rearguard action to restrict money supply growth. The result has been prosperity but with consistantly high 'real' interest rates, a consequent inflow of foreign capital attracted by this investment opportunity, and an overvalued dollar in international markets leading to a massive U.S. trade deficit. Amongst many economists, William Keegan in the 'Sunday

Observer' (15/11/87) has claimed that the U.S. Government deficits "have done more good than harm". I would argue however that in these circumstances U.S. Federal Reserve policies "have done more harm than good". But of course it is somewhat more complicated than that.

The Post Mortem Debate in the Financial Times

A most interesting series of articles and letters has been published by The Financial Times in debating the cause of 'Black Monday'. During the early days after the crash leader writers and governments alike called for policies to avert an economic downturn following the financial turmoil – and one theme seemed common to all prescriptions – the call for a major reduction in the U.S. government deficit.

But the debate in the Financial Times took a fresh turn on November 11th when Paul Craig Roberts, a Washington economist wrote that "Undue concern about the U.S. Budget deficit is not justified by the facts.... in relation to National Income, U.S. budget deficits are similar in scale to those of France and the U.K., half those of Canada and a quarter those of Italy." Roberts directed readers attention then to U.S. monetary policy pointing out that "Prior to the global stock market crash, U.S. interest rates had risen 42% this year" and that "During 1987 money supply growth in the U.S. abruptly slowed and practically halted. Astonishingly, the subsequent rise in interest rates was *misinterpreted* (italics mine) by the Federal Reserve officials as a sign of rising inflation expectations. This mistake led to another. In September the Federal reserve raised the discount rate believing that this action would reassure the markets and stabilise, if not reduce long term interest rates. Instead, interest rates moved up sharply. Confronted with an increasingly tight monetary policy, the stock market forecast recession and sold off."

The following day Samuel Brittan wrote "The more one examines the evidence, the more dubious the proposition that the U.S. budget deficit was the cause – either proximate *or ultimate* (italics mine) – of the Wall Street crash. On this Milton Friedman and Paul Graig Roberts are right." He added that "The balanced budget is a useful myth; but the last time we want to resurrect it is when the world is faced with a one-in-three chance of a major recession, bordering on slump". Samuel Brittan referred to the rise in U.S. interest rates by saying that "bond yields had been sharply rising thus putting all the strain of adjustment on equity yields which are, of course, the reciprocal of equity prices" but he then left the subject of U.S. monetary policy preferring to criticise U.S. fiscal policy on the grounds that, in contrast to other countries, U.S. savings are inadequate to finance large budget deficits. In adding that in any case the "Washington talks have assumed symbolic importance" attention was returned to fiscal rather than monetary policies.

Five days later, a letter from Professor James Meade was published under the heading 'a Keynesian analysis may be helpful'. Meade pointed out that, prior to the crash, the sensible policy mix for the U.S. would have been a gradual reduction in interest rates (he refers to this as a "cheap money policy") which, as it brought about a lowered $ value and inflationary pressures in the U.S. would need to be accompanied by reductions in the U.S. Government deficit. He went on to say that the current uncertainties brought about by the stock market crash "in no way modifies the need for a depreciation of the dollar". All this has been made necessary because "For a number of years the U.S. has been running a spendthrift economy with inadequate savings to finance its domestic capital requirements. This has *necessitated* (italics mine) a strict monetary policy with high interest rates to damp down the domestic demand for capital funds and to attract additional capital funds from abroad. The inflow of foreign funds so attracted led to an appreciation of the dollar which cheapened U.S. imports and made U.S. exports expensive to the foreigner, thus encouraging imports and restricting exports. Thus, for a number of years the USA has been absorbing more than its income, rělying on the inflow of foreign goods to make up the balance." Meade called for "flexible use of monetary policies" (but was no more specific than that) and ended his letter with a warning against an over hasty big reduction in the U.S. government deficit.

The next day, on the 20th November Peter Oppenheimer of Christ Church, Oxford gave the debate a useful time framework, pointing out that "Before 1984 or so, the US budget deficit was not a problem but a useful stimulous to economic activity in the United States and abroad. It became a problem subsequently because it *outstayed its welcome* ... In 1987 the deficit was responsible for the rise in U.S. interest rates because foreign and US investors alike had become reluctant to add further to their holdings of US government debt." But this contribution had taken the debate away again from the crucial question of U.S. monetary policy.

Two days later, Simon Taylor from the London School of Economics wrote criticising Paul Craig Roberts' views concluding that "the US can only import savings from the rest of the world if the rest of the world is able and willing to lend them". Again the debate had moved further away from a discussion of US monetary policies and Simon Taylor's letter was followed by an amusing contribution from Mr Alan Bartlett claiming that the whole thing is a crafty conspiracy dreamt up by the gnomes of Tokyo. On December 8th a letter from the *Economic Research Council* headed 'The alternatives are a measure of US inflation – or a depression' refocussed attention on US monetary policy as developed below. It will be interesting to see whether further correspondence develops.

Face the Problem – There Seems No Middle Way for U.S. Monetary Policy Now.

The reasoning developed in The Financial Times is representative of the understanding developed by most economists so far but this has been limited by an unwillingness to challenge the wisdom of US *monetary* policy during the last 3 three years. Put another way, given that the Federal Reserve has no power to prevent the US Administration from running excessive budget deficits, was it wise to continue with a relatively restrictive monetary policy?

Consider, for a moment, another country – Italy, which has been running far larger government deficits in the face of inadequate domestic cash savings but which has avoided incurring large foreign debts. Italy has achieved this through an accommodating monetary policy which has led to inflation thus forcing the necessary reduction in domestic private consumption which has made high government consumption possible without generating a massive trade deficit.

To spell the point out bluntly, governments can spen excessively to fi. ance particular ambitions such as military arsenals or capital infrastructure reconstruction, or social program spending or to maintain general prosperity and still avoid foreign indebtedness IF their banking institutions simultaneously issue credit sufficient to finance the required bonds (or if their mint prints extra notes). Inflation follows and domestic savings are forcibly augmented.

The position of the US today bears comparison with Britain in 1973 when the 'Heath-Barber' boom had laid the foundations for inflation. At that time a prices and incomes policy was being canvassed but Professor Alan Walters counselled that since inflation was now inevitable "the least damaging option was to proceed with the inflation as quickly as possible and get it over". The 'damage' in the U.K. then, and in the U.S. now, has *already been done.*

By living well beyond its means durng the last three years, but temporarily avoiding the inflationary consequences through an importation of foreign capital and goods (brought about by the high interest rate policies of the Federal reserve), the US has now again laid the foundations for inflation – or slump. There are only two ways in which the US can cut domestic consumption to generate the savings necessary to return the US economy to balance AND repay (or evade) foreign loans. One is to undertake the inflation which *should* have accompanied the Federal Government excesses of the past three years and the other is to allow a major recession which will force lower consumption (and a great deal of hardship) on the US – and on its trading partners.

To put the position in yet another way. One might say that U.S. citizens have made their plans, extended their borrowing and invested in businesses *on the assumption* that expansion will continue. Individually they are blameless but the aggregate of their actions, if expansion continues, will bring some inflation. If now however, those plans are frustrated by relatively tight monetary conditions, the resulting disruptions and anxieties will lead to depression. Seen in this light, the stock market crash may be seen as a scream of anguish upon the realisation that protectionism and G5 meetings have undermined President Regan's ability to pursue expansion beyond that level advocated by the Federal Reserve.

Or, to draw yet another analogy, after exceptional war-like expenditures, a country should adopt a flexible low interest rate monetary policy for continued full employment (as we did in 1945) rather than a restrictive policy leading to deflation (as we did in 1920).

At present, policy makers are quite simply attempting to 'duck' the issue by attempting to arrange co-ordinated measures to 'support the $' and by calling on Germany and Japan to follow inflationary policies in the the hope that the US burden can be shared. In the US, Congress increasingly is turning to protectionism for a cosmetic solution of the US Trade deficit. Supporters of the Federal Reserve constantly make optimistic pronouncements about the prospects for US economic growth; fan the fears of inflation; call for tax increases and blame problems on the government deficit. This line of development will lead via the highest politically possible interest rates to deep recession, first in Europe and Japan and then later in the US.

Supporters of the US Federal government – and this now includes a most curious mixture of economists ranging from the predictable John Kenneth Galbraith, through

Lester C Thurow to Milton Friedman himself, argue that there is now greater danger than benefit in any early major reduction in the U.S. government deficit, that protectionism should be avoided and that monetary policy should be more flexible.

With painful slowness, the underlying conflict and the source of the current dilemma is becoming clear. No country can run monetary policies which conflict with fiscal policies without courting disaster. This is as true of the US today as it was of Princes who borrowed from foreigners in the gold money days of yesteryear. The outstanding question, therefore, is whether the disaster is to take the form of a measure of inflation – or depression.

Two points at least are clear about this dangerous and long running battle between the Federal Reserve and the Federal government. One is that since the Federal government has the legitimacy of democratic election, it has a right to make the final choice. The second is that if conservative banking interests prevail through the Federal Reserve, if through a major recession inflation is prevented in the US and the $ held high then through inflation elsewhere and protectionism in the US, the rest of us will suffer first. Can it really therefore make sense for our Chancellor of the Exchequer and the EEC to be urging US government deficit reductions and internation defence for the $? Surely, on the contrary, the US should change course to an expansionary monetary policy with major reductions from current (historically high) real interest rates? – and face squarely the consequences of a measure of increased inflation and a falling $, leaving the rest of us to determine economic policies in the light of our own priorities.

SOLVING THE INTERNATIONAL DEBT CRISIS

By Kevin Goldstein-Jackson

Brazil is heavily in debt. It owes well over $80 billion to other countries. Many other nations in Central and South America are also deeply in debt and the USA, too, has borrowed billions from abroad.

If an individual defaults on his bank mortgage repayments the bank will repossess the house. Why shouldn't the same apply to countries?

There have been limited debt-equity swaps, such as the 1987 exchange of $25 million of Brazilian debt for a shareholding in a Brazilian pulp and paper company, but many more such deals need to be done. The debtor countries should try to pay off as much debt as possible in the form of equity participations in many of their agricultural and industrial businesses. But why stop there?

Why not swap debt for part of the country itself? If protection of the Amazon rain forest is important, why not sell the forest to Japan, Britain and the USA in order to cancel a large part of Brazil's debts? Or even sell other parts of the country and create foreign-owned enclaves?

After all, the US bought Alaska from the Russians for $7.2 million as recently as 1867. Spain ceded Florida and claims to parts of Oregon for $5 million in 1819; and Louisiana was sold to the US by France in 1803, and the inhabitants of those States have

hardly clamoured since to be reunited with Russia, Spain and France! As late as 1917 the US purchased some of the Virgin Islands from Denmark.

Thus, even the recent history of nations has involved the sale and purchase of vast areas of land.

Mexico is heavily in debt to the USA and as there are already over two million people from Mexico living in the US, with most Americans using Spanish as their "second language," surely a large part of Mexico could become part of the USA in return for the cancellation of Mexico's debts to America? The huge number of illegal immigrants from Mexico caught each year in the US and sent back to Mexico surely demonstrates how popular such a suggestion might be amongst many ordinary Mexicans.

Similarly, the US is heavily in debt to Japan. Many Japanese live in Hawaii and run many profitable businesses in that area, so why not exchange some of the smaller Hawaiian islands for the cancellation of US debt to Japan.

What better way is there to solve the international debt crisis than by the exchange of businesses and land for the cancellation of debt?

If the debtor countries like Brazil and Mexico were miraculously able to increase their exports to such an extent as to be anywhere near repaying even one tenth of their foreign debt, then the USA and other countries would almost certainly start complaining about the need to protect their own local industries against Brazilian and Mexican imports and would impose punishing import quotas. It is therefore highly unlikely that the major debtor nations will ever be able to export their way out of debt.

Equity and territory swaps for debts are the only lasting solution to the problem and at least such actions would make people think more carefully before they voted for politicians who promoted living on borrowed money as they would know that within perhaps fifty years they could be part of another country.

Many of the countries that are heavily in debt also have thriving currency black markets. Much illegal trading in drugs and other commodities is also largely funded by "laundered" US currency transactions. If the USA redesigned all its bank notes and called in all the existing notes for replacement within three months at specified banks, it would probably find that many overseas US currency holders would be unable to satisfactorily explain to those banks where they first obtained the currency and so the currency exchange would not take place, thus rendering such people's old US currency worthless. This could do wonders for the US money supply!

Finally, to help protect the US and Britain from Japanese imports, each country should establish a Copyright Commission. When the "normal" period of copyright in inventions, pharmaceuticals and literary works expires, the copyright should belong, in perpetuity, to the native country of the inventor or company concerned, with the copyright being vested in the Copyright Commissions.

These Commissions could then either refuse to re-licence certain products to Japanese and other foreign companies or impose heavy royalty obligations on such companies. Any country breaching any of the copyrights of another country would automatically have all its imports banned. The Commissions would use the monies gained from licences and royalties to fund further research and generally encourage creative endeavour.

This would do wonders for the balance of payments of Britain, the USA and a number of European countries. Why should the country which nurtured and encouraged a particular creative act not reap a suitable reward?

The present international debt crisis is growing at such an horrendous rate that it threatens the whole world economy. Equity and territory swaps for debts; a redesigned US currency; and the establishment of Copyright Commissions could fairly rapidly help resolve the situation before it is too late.

ENTERING THE HYPER-INDUSTRIAL ERA

By Malise Graham

A Need to Defend Manufacturing

Since the excitement – or despair over the stock market collapse, consideration of the future of the real economy has been overshadowed by worries for the future of City institutions. When industry is mentioned, it is simply to say that Britain's economy is growing faster than that of her major trading partners.

The complacency however, is unjustified. Manufacturing output has only now reached 1979 levels. Output for September (on the 1980 = 100 base) was 111.2 against 111.8 in August and between those two same months export volume declined from index 134.6 to 132.4. Responsible projections have indicated a manufactured goods deficit in 1990 of close to £20bn – higher, in proportion than those deficits we have all worried about so much in the USA. However rosy a picture is painted for the future of services and invisible exports, the fact is that Britain's real economy is not growing – it has merely recovered.

Furthermore, if complacency over manufacturing output is unjustified, placing our hopes on the service sector for our future prosperity is unrealistic. Lord Aldington addressed this point for members of the ERC last year and the report of the House of Lords Select Committee on Industry spelt it out in detail. Among the reasons for this are the low proportion of services that are tradeable and the lower 'value added' content of services. The recent *Bow Group* paper which drew attention to the 35% decline in Britain's Merchant Marine fleet over recent years, is also a reminder that internationally traded services are especially vulnerable to recession. In the 1930s, it was shipping, insurance and overseas earnings that were the hardest hit.

As import penetration grows and North Sea oil revenues decline the re-establishment of Britain's once prosperous manufacturing base must become the nation's priority task. Other business sectors simply cannot match manufacturing in creating jobs and economic growth. If further evidence for this is asked for, we can consider the experience of the USA. Between 1961 and 1973 the index of manufacturing production doubled, 23 million jobs were created – and 4 million of these were in manufacturing – an increase of 25%. Real wages *rose* by 20%. Compare that with the record between 1974 and 1986 when manufacturing rose by a mere 37%, only 13 million jobs were created and manufacturing employment declined by 1 million. Real wages *fell* by 16%.

The Means to Defend – And to Expand Manufacturing

There need be little doubt that the House of Lords Committee recommendation that Britain's manufacturing industries should be supported is a view shared by the overwhelming majority of voters in this country. I was personally involved in a *Gallup* poll conducted during April 1987 which established quite clearly the support of voters (by a 7 to 1 majority!) for a policy of industrial support matching that of our main competitors. So what can be done?

Detailed suggestions for positive support were given in the House of Lords Committee report – which has since been supported by such organisations as the Associated Chambers of Commerce and the CBI. But beyond that Britain should get away from the deflationary pressures of the past few years which, through high interest rates, have added over £1bn in costs to British industry compared to their 5% interest paying competitors. Britain should get away from those deflationary pressures which have led to an uncompetitively high exchange rate. Britain should get away from those deflationary pressures which have caused shortsighted cuts in R & D expenditure by both private firms and the government. With America now obliged to limit its dependence on foreign capital and the consequent tendency for the £/$ exchange rate to rise, an ideal opportunity now exists for such a radical change in monetary policy.

Funds for investment are clearly available. Money has chased share values up to 5 times their 1980 prices, houses and other assets have similarly been bid up and Britain has experienced record capital exports as fund managers search desparately for investment opportunities. Bank of England statistics now show the Britain's overseas assets exceed that of *any* other nation! (See *The Times* 12th November 1987, which showed Britain's net external assets as $186bn as against $179bn for Japan, $114bn for West Germany and −$275bn for the USA). Furthermore, both money supply and loans to city institutions grew at an astonishing rate before the stock market crash.

The problem quite clearly is that the massive funds available tend not to be channelled into industry. The solution is to move away from the doctrines of monetarism, to return to a 'Bretton Woods' style international exchange rate system, giving industry a stable environment and reasonable borrowing costs. To complement this we need a system of 'fair trade' to avoid 'dumping' by foreign competitors and a reconsideration of all forms of industrial subsidy including that given to foreign companies wishing to set up subsidiaries here.

Past Lessons – And the Future

If we are not to be condemned to repeat the errors of 1979 or 1929 we must learn from history and look forward to the future with vision. In 1924 the Federation of British Industry forecast precisely the consequences of a return to the gold standard at pre-war parity – which involved a high bank rate and an uncompetitive exchange rate. The FBI was ignored but today the 'bare knuckle fighters' of the CBI must make sure that their case is accepted. The future for Britain is one of advanced industry rather than of services and recession. If we succeed in this we can enter a liberating era of hyper-industrialisation rather than a mythical yet decrepit era of post-industrialisation.

JAPAN — MYTH AND REALITY

Summary of a talk given by Mr Jon Woronoff, author and economist from Washington D.C. to members of the Economic Research Council on the 24th September 1987.

Most Westerners regard Japan as having a "strong" economy with an "affluent" society, "high" per capita income, "low" inflation and "low unemployment". I have lived in Japan for over a decade and had a chance to observe the situation closely as a business-man, journalist and writer and I have become convinced that such impressions of Japan are more illusion than reality.

Economic Slowdown

The best starting point is in economic history. Japan did indeed have an impressively growing economy during the 1950s and through the 1960s up to around 1971. But trends then reversed and the oil crisis of 1973 led to a progressively worse performance. The statistics show this clearly – growth rates of 10% to 12% during the 1960s, of 6% to 7% during the 1970s and to around 3% today. The period of high growth is already 15 years behind us and now the Japanese economy is not much more vigorous than many OECD countries and is much less so than those of the East Asian NICs. Japan, in fact had the *worst deceleration* of all the OECD members.

There are two sets of explanations for this slowdown. The first set are those which are *not* Japan's fault and, perhaps for that reason, are most often mentioned. This set involves the natural 'maturation' of the Japanese economy and the well known 'external' troubles.

The natural maturation of the Japanese economy has led to fewer new products, fewer new markets, fewer new technologies, an ageing workforce and the change to a younger generation of workers who are less dynamic and dedicated than their parents. The external troubles include the oil crises of 1973 and 1979, the rising costs of raw materials, worldwide recessions and the steep revaluations of the Yen.

The second set of explanations are problems *within* Japan that could be avoided but which the Japanese have failed to tackle, and tend to gloss over in their own literature – but which are no less decisive in bringing about a weaker economy. I would like to list three areas within this set for detailed attention. They are the 'lopsided' nature of Japan's dual economy, the inadequacies of Japanese government policies and social shortcomings.

The lopsided nature of the Japanese economy is seen in the dual structure which has become apparent. Manufacturing has been reinforced whilst agriculture, distribution and services have been neglected – non manufacturing represents some 70% of the economy. So called 'modern' sectors involving high technology has been promoted whilst 'backward' ones have been ignored. Similarly, large firms have been favoured whilst small ones have been neglected. This has meant that something of the order of 1% of firms employing 30% of the workers have been helped whilst the other 99% of firms employing the remaining 70% of workers are unassisted. Furthermore exports have been promoted with subsidies (and the domestic market for these products protected) – and this represents some 12% of GNP.

Now this organisation of the economy was indeed purposeful in the early years of reconstruction, but it is absurd today. Excessive exports have now led to protectionist reactions abroad.

Government policies have become inadequate – if indeed they were ever very helpful. Japan's 'five year plans' have been only on paper because there was no real implementation (a *Times* editorial once compared French *indicative* planning to Japanese *decorative* planning!). Targets were usually surpassed during the years of fast expansion and have not been achieved since. Japan's macro-economic policies have been mediocre involving 'stops' and go's' and absurd efforts like the Tanaka plan to "remodel the Japanese archipelago". There has been no real policy to shift from old priorities to new ones – from an export-led to a domestic-led economy, despite the clear recognition of the need to do so as stated, for example, in the *Miyazawa* plan. Furthermore, for years now the Japanese government has been running the biggest budget deficits in the OECD. According to Bank of Japan statistics *(Comparative International Statistics 1986)* total government debt (i.e. including local government and government agencies), in 1985 as a ratio to GNP stood at 52.1% whilst it had only been 11.3% in 1973. This compares unfavourably with other leading countries in 1985 and indicates that the *rate of increase* in Japan has been the highest of all. Add to these statistics the fact that Japanese government outlays are smaller than most OECD countries in relation to National Income and one arrives at the alarming fact that Japanese government deficits accounted for as much as 24% of government expenditure in 1985 and that over 20% of government revenues are required just for debt servicing.*

Lastly, under this sad list of government policies there have been only minor budget increases based on the reforms sponsored by Prime Minister Nakasone, the Keidanren (Japanese CBI) or the Ministry of Finance. Plans to boost public works expenditure usually amount to 'front loading' (concentrating expenditure during the first months of the financial year) and much of the money goes on land costs in any case.

When one looks at the social shortcomings, things are even worse. Unemployment is rising due to rationalisation in manufacturing, the failure of services to expand and sub-contracting by Japanese firms to cheap labour countries. Investment in Europe and America as a result of protectionist pressures can only aggravate this position. This is especially serious when one considers that the government has been cutting back on social security, welfare, health insurance and the rest of the social security net despite the knowledge that Japan will have the largest share of aged in the OECD by the 21st century. Money, facilities and personnel are just not ready. As for private provision for personal security, the average person does not have enough money to provide a living in old age (despite high personal savings compared to other countries) and today, personal debt is growing faster than savings in any case.

* Jon Woronoff has provided *Britain and Overseas* with the Bank of Japan tables supporting these statistics and acknowledged that the impression given conflicts with tables published by the OECD whose statistics he has found "repeatedly mistaken".

Poor Quality of Life

And so, when one considers these two sets of factors, the idea of Japan as a country with a vigorous, balanced economy, is nonsense. But this is by no means the end of the story because 'strength' of the economy is only one measure of success. One must also consider the quality of life and fairness within society. It is senseless to create an economy to produce wonderful exports but not equally good domestic products. It is senseless to sell exports cheap and not to enrich the producers. It is senseless to neglect the goal of a better life for the people – and on all these aspects there has been little improvement during the last two decades. Wages and incomes have stagnated, hours have remained long and the cliche that Japan is a 'nation of workaholics living in rabbit hutches' is sadly appropriate. I would like to elaborate on these points. Firstly, hours worked have not decreased in Japan whilst they have fallen sharply throughout the OECD. The Japanese still work 200 to 400 hours more a year than people in the West. The Japanese have little or no summer vacation, generally work Saturdays and have little time to spend with friends, relatives or family.

Secondly, housing conditions are lousy. Houses and apartments are small and of rickety construction. Costs are high and homes are far from work-places. Owing to land speculation, the prices of homes are out of the reach of many in the younger generation. Generally people lead quite modest lives, not eating lavishly or having much clothing. Second cars or homes are unusual and there is relatively little tourism. About the only compensation is some modern gadgets – downsized for small accommodation.

When one turns to fairness and equality a similar sorry picture emerges. Big companies do offer lifetime employment with perks, better wages, shorter hours and nicer working conditions but smaller companies fire at will, work employees harder and pay them less. In this situation, the bigger companies are a minority and so this forms an elite whilst many of the smaller companies are exploited as subcontractors. Meanwhile, women are treated worst of all. They are generally fired at marriage or childbirth and then only taken back as part timers on low pay with little chance of promotion. Wages for women in Japan are, on average only 55% of that for men – and this is the lowest percentage in the OECD, and the *only* country where this gap has been increasing. Meanwhile management perks are substantial – often including housing, meals, chauffeur-driven cars and company share allocations. At the same time a great deal of income is derived from other sources such as land, or stock and bond investment. During recent years these assets have given returns of 50% to 100% – whilst salarimen have been receiving only 2% to 3% on their savings in the bak. Thus the wealth divisions in society have been growing much larger.

Why the Illusions Persist

Thus the reality is very different from the illusions and we should ask ourselves why the illusions persist. One reason is that the official statistics are systematically misleading – unemployment for example is by Western methods of calculation 2 or 3 times higher than Japanese figures suggest – and inflation is higher. A second is the absurd impression given by quoting Japanese wages at current exchange rates. It is true that the Japanese now earn more than Americans in $ terms – but prices in Japan are very much higher. In reality I would suggest that the Japanese are only about half as well off as Americans – and most Europeans. A third is the fact that we generally only see Japanese exports rather than goods sold in Japan – which are often mediocre – and we know little of life in the smaller firms or in ordinary domestic surroundings. A fourth is the predisposition of westerners to be fascinated with the East – the land of the rising sun – and an economic miracle. We like to compare them with a 'decadent' West and we dislike, by comparison, our 'lazy' workers and 'incompetent' managers. Lastly there are many in the Japanese government – and they are joined by westerners impressed by 'things Japanese' who simply are prepared to portray, for the West, an illusory Japan.

It is therefore not surprising that most Westerners believe the myths (and tend to think the truth is jealous lies or bitter grapes and that those who spread the truth are crackpots – like myself). I once thought the myths could be dispelled. I no longer believe that. But I do my duty of at least trying to rectify the situation and convey the other side of the picture.

Editor's note

This talk provoked a vigorous debate with members expressing the view that Jon Woronoff had unfairly ignored many laudable aspects of the Japanese situation whilst making unjustified underlying assumptions about the quality of life in the West. His statistics, some members felt, were also open to challenge, but all agreed that his comments were exceptionally stimulating.

A TRIBUTE TO M.A. ("ARCHIE") CAMERON, MEMBER OF THE EXECUTIVE COMMITTEE UNTIL HIS DEATH IN FEBRUARY 1987

By His Daughter, Mrs Francis Colquhoun.

My father was born in 1904, of Scottish parents, in Lucknow, India, where my grandfather was Vice Chancellor of the University. He was educated at St Mary's School, Melrose and graduated with First Class Honours from Fette's College, Edinburgh in 1926. In 1930, he married Dorathy Grace Sinclair.

His working career began as a management trainee in 1926 with the London and North Eastern Railway and he became Assistant District Passenger Manager in 1936 then District Passenger Manager in Leeds *en route* to becoming Assistant Passenger Manager on Southern Region in London in 1939. The war years were spent at the L.N.E.R. Emergency headquarters near Welwyn Garden City and in 1948 he became Principal Traffic Officer for the newly set-up British Transport Commission – and a member of the British Transport Commission's Central Committee, the statutory body set up in 1947 to act as a public watchdog on the activities of the B.T.C. At this time he led the British team, selected to prepare, with the French Railways, detailed plans for the Channel Tunnel.

My father's interests were always wide ranging. he took a strong interest in the formation of the EEC, was a long time supporter of the Westminster Theatre (which is dedicated to the cause of Moral Rearmament) and served for many years on the executive Committee of the ERC. Amongst his many publications he would perhaps like to think that his statement of moral beliefs contained in "One Candle Lit" might be the most enduring.

But his work with the transport industry took him to surprising horizons. In 1963 he was in Malaysia as Advisor on railways with the United Nations. In 1965-57 he was a member of the Survey team in Eastern India (Calcutta) under the World Bank, and in 1967-8 was an advisor to the OECD in Maribor, Yugoslavia. 1970 saw him in Lahore, Pakistan as a member of the Harvard University Advisory Service.

Retirement took him to Haywards Heath where he was a local authority councillor and an active school governor.

I would like to conclude this brief account with a comment from a fellow member of the ERC Executive Committee – Mrs D.J. McKenzie. "Archie was a most loyal and useful member of the Committee, frequently serving as Chairman. His strong religious beliefs were widely respected. He always tried to find out not *who* was right but *what* was right. He was a gentle and generous person with a great care for people."

THE EDWARD HOLLOWAY COLLECTION REVIEW

100% Money

by Irving Fisher, Professor Emeritus of Economics at Yale University.
Published by: Adelphi, New York 1936 (second edition).

The name Irving Fisher survives in the modern text books on economics under the heading of "The Fisher Equation". This is one of the key concepts which all students are expected to grasp along a route which for many, lead to a belief in "Monetarism" as the key for controlling inflation. The equation quite simply states that the existing amount of money multiplied by the number of times it circulates is equal to the number of purchases made times the prices charged. Clearly if the speed with which money circulates is constant and the amount of goods available do not increase, then any increase in the amount of money in circulation must result in inflation. The students then move on to discuss Milton Friedman – and the rest.

But Irving Fisher had much more than this to say. The subtitle of *100% Money* reads "Designed to keep checking banks 100% liquid; to prevent inflation and deflation; largely to cure or prevent depressions; and to wipe out much of the National Debt". Perhaps someone should send President Reagan a copy! Indeed, in reading this book one is reminded that all the great books on economics have been designed to influence the public policies of their day, rather than for students alone. This was true of Adam Smith's "Wealth of Nations" and of J.M. Keynes "The General Theory" to name but two.

100% Money puts forward a program for monetary reform, which would restore

to governments the right to control and to fully benefit from the creation of new money –in today's world, 'credit creation'. The program for bringing bank credit creators from being effectively "a mob of private mints" into organisations privately dealing in money created solely by the state is laid out and its practical implications explained. Fisher then went on to detail the effects of this program in relation to varying economic conditions and insisted that the nation would derive huge and lasting benefits from its implementation.

Fisher sounded out opinion from all quarters – this was no lightly written text and the style is clear and logical. The preface, written by a leading U.S. banker is fascinating reading alone. Five appendices contain an extensive bibliography, further bankers comment and comment on banking legislation in the U.S. The second edition, published in 1936 states that the most important change was to "make clearer the fact that the proposed reform is essentially like that adopted for bank notes by the Bank of England under the Bank Act of 1844 promoted by Sir Robert Peel".

Of course the war and then the post war period of world wide expansion led many to ignore and then to forget Fisher's proposals. But the problems of the 1930s are returning to haunt us and a major reconsideration of this book is surely called for — as is another economist of equal repute and courage to write it anew for todays changed gloss.

J.B.

LETTERS

A Response to *'A Call for C.A.P. Repatriation'* by Teddy Taylor,
from Mr W. James B. Taylor

Sir,
I cannot in all fairness to many of my colleagues and myself who have gone through one of the 'more difficult' agricultural years – let Teddy Taylor's attack on the CAP go without some response. The difficulty I find myself in is that I am no 'Holmes', so am unable in such eloquent terms do for farming, what he achieved for whisky! In fact it is the very mix and paradox of articles in the Autumn publication which are of such interest and prompt this letter!

Teddy Taylor does not address himself to the social problems of agriculture – the fact that many have left the countryside over the past 40 years (and before); the traditional industries which absorbed so much labour have gone and as your journal comments in *Have we the Leaders?* by A.M. Wade – the policy of his own party has not progressed any of us very far. The whole question of future leisure is one of great interest to me. I, at this very time, am working to provide accommodation and sport on the farm – one cottage this year, a mill and house next........ but will there be people with time and money? Agriculture is a long term business. For the first time in history we have the means – the errors of which he is so loud in preaching, are the fault of Teddy Taylor and his kind, not the farmer and grower. Would he be so loud if he was one of the hungry?

I love the country I work in and the people who turn out all the year round to do jobs of an often hard and dirty nature. We are fully aware of the problems that face us and the agricultural journals make sure that every detail is widely known. There are members of

Parliament – even in Teddy Taylor's party, who are only too aware of the difficulties and the costs. More help (and by this I do not mean money!) and less spleen is the answer.

W.J.B. Taylor,
Home Farm,
Abberton,
Pershore.

TWO LETTERS FROM THE ERC TO THE FINANCIAL TIMES ... THE FIRST WAS PUBLISHED AND THE SECOND WAS NOT

Dear Sir,

The 'excess' savings and 'surplus' exports problem of the Japanese economy seems to present economists with an irresistable opportunity for prescription. Each is convinced his cure will work. Pity the poor Japanese who receive so many different instructions about the problem they themselves have a far beter chance of understanding!

It may, however, be worth listing just some of prescriptions given:

i) Diarmid McLaughlin of the Brookings Institution (1/10/87) advocates "higher wages, better distribution and lower land costs" so that the Japanese will consume more private goods.

ii) Martin Wolf (24/9/87) argues that in the context of the total world economy there really isn't a 'problem' at all.

iii) Marxist economists argue that 'capitalism' is prone to just this kind of crisis, that Japan is merely a virulent and advanced capitalist economy manifesting problems which will soon beset us all. Their cure, presumably, involves a major reform of the entire system.

iv) Some City economists argue that Japan needs to increase both Taxation (via a VAT) and government expenditure thus achieving an increase in public sector consumption at the expense of private savings. One imagines that J.M. Keynes would have had much sympathy with this 'cure'.

v) Senator Danforth of the U.S.A. argues that Japan should simply reduce savings levels by reducing the rewards for so doing – rewards such as the tax free post office savings scheme for small savers (a scheme unhappily marred by its widespread abuse through multiple accounts).

vi) The 'G5' agreement argues for a higher Yen, lower Japanese interest rates and a higher rate of money supply growth in Japan. Listened to at length this seems very convincing – but it is hard to avoid the uncomfortable feeling that one is a pot calling the kettle black.

Obviously this is hardly a comprehensive list. The point is that these various prescriptions certainly do not 'all amount to the same thing' and it would be better to compare the advantages of plausible alternatives rather than advocate any one of them.

Sir,

In issuing his statement of guidelines for foreign interests in ownership of the 'big four' U.K. Clearing Banks, the Governor of the Bank of England has rightly pointed out their status as "suppliers of credit". To supply credit and draw interest thereon, where no prior funds existed to back that credit is, as the Ratcliffe report pointed out, to effectively create money itself. In an oligopolistic position and with the British government as ultimate guarantor, this ability to produce the money supply is indeed a privilege – and one that some would call a subsidy.

In theory F.A. Hayek's solution of allowing totally free competition in banking would overcome distortions in the economy thus created – but the Governor is evidently distrustful of such a view.

In practice, other countries have allowed their banks to become integrated in ownership with industrial interests thus in some measure allowing industry to benefit and allowing cross sector stability. During high growth periods when interest rates are low industry tends to be more profitable than banking and during low growth periods when interest rates are high banking profits tend to rise relative to those of industry. Also an industrial firm under the umbrella of a bank has access to funds which can allow spectacular rates of investment. This is a characteristic – and strength of both the Japanese and American economies.

It is perhaps inevitable, but nonetheless sad, that at this stage of development we in Britain must continue with a sharply divided 'city' and industry' set of organisations and interests. But the Governor's statement has at least set the stage for a more enlightened debate on how exactly the Nation, through the Chancellor, should retrieve some of the value which it once enjoyed in full from the issuance of new money.

NEW EUROPEAN

The first issue of a new journal – the "New European" is of considerable interest and promises to be a significant influence on future debate. The editor has most generously made available copies for subscribers to "Britain and Overseas" and whilst the ERC should not be regarded as giving any endorsement to the views presented, the Council has pleasure in enclosing a complimentary copy.

A THOUGHT TO CONJURE WITH....

A charming little book by one Bernard Capes entitled *Lake of Wine* was published in 1915 and distributed free to British troops serving in the war. The cover is emblazoned with a large red swastica with the explanation "This ancient sign stands for good luck ... what better sign can be imprinted on the good books which are being sent so freely to cheer our soldiers and sailors, to refresh the wounded in hospitals, or to relieve the weariness of a long imprisonment?"

ADVANTAGE B & O

On *Wall Street World*, U.S. T.V.'s most respected money programme, Louis Rukeyser (November 20) reported that "following the crashette of October 19th, *The Great Depression of 1990* is now this year's best-selling book". Britain & Overseas reviewed this book way back in the summer edition.

The interesting question now is not so much what the book recommends but what will be the effect of millions of Americans reading those recommendations, which are:

1) spend less, save more now;
2) invest in non-speculative stocks and bonds;
3) avoid real estate and, until 1989, gold, unless its price falls close to $200 per ounce;
4) sell all stocks and real estate in 1989, but keep bonds of extremely sound companies, especially those that lived through the depression of the 1930's;
5) After 1989, save in the form of cash, gold and safe bonds.

The October 19 crash appears to have been two years premature!

NEW MEMBERS

The Council, as always, needs new members so that it can continue to serve the purposes for which it was formed; meet its obligations to existing members; and extend the benefits of membership to others.

Members may propose persons for membership at any time. The only requirement is that applicants should be sympathetic with the objects of the Council.

OBJECTS

i) To promote education in the science of economics with particular reference to monetary practice.

ii) To devote sympathetic and detailed study to presentations on monetary and economic subjects submitted by members and others, reporting thereon in the light of knowledge and experience.

iii) To explore with other bodies the fields of monetary and economic thought in order progressively to secure a maximum of common ground for purposes of public enlightenment.

iv) To take all necessary steps to increase the interest of the general public in the objects of the Council, by making known the results of study and research.

v) To publish reports and other documents embodying the results of study and research.

vi) To encourage the estalishment by other countries of bodies having aims similar to those of the Council, and to collaborate with such bodies to the public advantage.

vii) To do such other things as may be incidental or conducive to the attainment of the aforesaid objects.

BENEFITS

Members are entitled to attend, with guests, normally 6 to 8 talks and discussions a year in London, at no additional cost with the option of dining beforehand (for which a charge is made). Members receive the journal 'Britain and Overseas' and Occasional Papers. Members may submit papers for consideration with a view to issue as Occasional Papers. The Council runs study-lectures and publishes pamphlets, for both of which a small charge is made. From time to time the Council carries out research projects.

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APPLICATION

Prospective members should send application forms, supported by the proposing member or members to the Honorary Secretary. Applications are considered at each meeting of the Executive Committee.

APPLICATION FORM

To the Honorary Secretary
Economic Research Council
1 Old Burlington Street.
LONDON W1X 2AX

Date........................

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I am/We are in sympathy with the objects of the Economic Research Council and hereby apply for membership.

This application is for
Individual membership*
Corporate membership**
Associate membership***
(delete those non-applicable)

NAME...
(If Corporate membership, give name of individual to whom correspondence should be addressed)

NAME OF ORGANISATION (if corporate) ....

ADDRESS...

....

....

PROFESSION OR BUSINESS ....

REMITTANCE HEREWITH ....

* £12 per year
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*** £7per year

SIGNATURE OF APPLICANT ....

NAME OF PROPOSER (in block letters)......................................

AND SIGNATURE OF PROPOSER...