



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

Spring 1988

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Summary of a talk by Mr Christopher Harding, Chairman, British Nuclear Fuels plc, to members of the Economic Research Council on 25th February 1988.

Of course all managers face common commercial challenges — those of identifying and satisfying a market, of producing new products to meet challenging needs, of competition and of making a profit to provide for future investment and for shareholder returns — and much else besides. Success is judged by the way in which these challenges are faced, met and overcome but I want to take all that, in a sense, for granted on this occasion and to talk about other, more fundamental challenges of a continuous and unremitting kind faced by Nuclear Fuels plc but which most other industries fortunately never experience.

In our industry there is a challenge to the need for its products and services, a challenge to the safety of its technology and operations, a challenge to its impact on the environment, a challenge to its alleged effect on the health of people today and of generations yet unborn and, indeed, a challenge to its very morality. These and other challenges are faced day in and day out. Other industries may have to face some of them some of the time. I believe that we are unique in having to face all of them all of the time.

I do enjoy working in the nuclear industry, challenges and all, because I believe in nuclear power. I believe Britain needs it as part of a balanced energy economy; I believe we can have it safely and at acceptable cost: I believe that a developing role for nuclear power here in Britain can give my own Company the opportunity to expand its already impressive export performance which makes it a valuable national asset. I am also confident that the case for nuclear power is so strong that we shall be successful in our fight to maintain and enlarge the public support which is crucial to our survival. I came into the nuclear industry 3½ years ago with my eyes open. It is an industry which is constantly being called to account by politicians nationally, internationally and locally; it is under continual scrutiny by Press and television and it is the target of intense campaigning by highly motivated and articulate pressure groups whose declared aim is to shut us down.

The attitude of the public towards nuclear power is regularly tested by opinion researchers and regularly the results show that only about half the population positively approve of nuclear power. About 40 per cent are opposed; the rest either don't know or don't care. Three weeks after I became Chairman of BNFL in April 1986 we had the Chernobyl disaster — the world's worst nuclear accident. Predictably that catastrophe had a marked effect on public opinion. Support for nuclear power took a nosedive here and throughout Europe — to a much lesser extent in the United States and Japan. In one sense the recovery of support came remarkably quickly here and in some — though not all — nuclear countries. In less than a year in the UK it had returned to the pre-Chernobyl level, although more detailed probing of underlying attitudes showed that Chernobyl had aroused many concerns about safety aspects which are likely to be long-lasting, even among supporters of nuclear power. We cannot assume that even our friends are

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uncritical. Our supporters are not prepared to take us on trust. We have to demonstrate the strength of our safety case to sympathisers and critics alike. That is the lasting legacy of Chernobyl.

Information May Not Be Communication

As you would expect the industry's leaders have always done an excellent job of communication with those who share their technical background. The problem is that most politicians, most civil servants, most journalists and indeed most people are not technically qualified. Sadly the nuclear industry over the years has not done a very good job in explaining itself to people for whom reactor physics, fault tree analysis, and probabilistic risk assessment remain permanently closed books. Explanations do not come easily between groups who do not share a common language. On one side of the gulf there are those who are baffled and alienated by the experts' jargon. On the opposite bank stand the experts themselves, willing and anxious to explain but genuinely at a loss to describe their technology in anything but the technical language with which they themselves are so familiar.

The industry has tended to believe that the key to greater public understanding lies in the dissemination of more and more information about nuclear power. But unfortunately most of this information has fallen on ears that are deaf to its complexities and nuances. The result has been not just failure to communicate effectively. To a considerable extent the process has actually proved counter-productive. People assumed that the industry's inability to explain itself in understandable language was a sign of arrogance and disdain for the unenlightened. Even worse, that it was a deliberate ploy to fend off scrutiny by implying that only the technically initiated were qualified and entitled to take an interest in the nuclear industry and attempt to appraise its performance. Despite, or perhaps because of, this comprehension gulf the interest of the public in the nuclear industry has increased, not lessened over the years. So have the concerns. In the industry we may consider that many of the concerns are not really well-founded. But they are nonetheless real for all that. They may be based on misconceptions and misperceptions and not what we see as the reality. But in facing the implications of public opinion in an industry which must ultimately depend on public support for its survival, what people believe to be true is just as important as the truth itself. Indeed it is more important because it is by what people believe to be true that we shall be judged.

The Lessons of Trawsfynydd

We have had a very good example recently of the influence of public opinion and the way in which mass feeling on a particular issue can build up, more or less regardless of the facts of the matter, to the extent that rational judgment has to be abandoned, sensible decisions overturned and well-laid plans set aside — all because of public perceptions that are at odds with reality. I refer to the case of the Trawsfynydd reactor cooling test proposed by the CEBG. This was planned by

the CEBG as a demonstration of an important safety characteristic of the Magnox reactor in an assessment by the Nuclear Installations Inspectorate, the regulatory body, of the safety case for the extension of the operating life of the Magnox power stations to at least 30 years.

The plan was to shut the reactor down in the normal way and then to switch off the cooling fans which dissipate the heat in the reactor core. The objective was to demonstrate that the reactor would cool down by natural circulation. What happened? When news of the planned demonstration became public there was a great outcry. People's lack of understanding of technical issues was fanned by those individuals and organisations who let no opportunity pass by to attack any aspect of nuclear power. Totally misleading comparisons were drawn with the unauthorised experiment that was a contributory factor in the Chernobyl disaster. The circumstances in fact were entirely different. The Chernobyl experiment was done without the knowledge of safety experts and involved the deliberate overriding of built-in safety systems. At Trawsfynydd the demonstration was designed by safety engineers at the instigation of the independent safety regulating authority, and was to be carried out with all the safety mechanisms fully active. The Chernobyl experiment was conducted with the reactor in operation. At Trawsfynydd the demonstration would not begin until after the reactor was shut down. At Chernobyl there was no recovery route possible once the experiment started to go wrong. At Trawsfynydd if the natural cooling had not proved effective as predicted the situation could have been returned to normal by the simple process of switching the cooling fans back on.

Unfortunately none of the explanations proffered by the CEBG and the NII had the slightest effect on the build-up of a totally hostile climate of opinion. The public outcry proved overwhelming. The matter was raised in Parliament. The Irish Government protested. So did members of the European Parliament. Local Authorities in Wales and England joined in. The plan was denounced from pulpits in church and chapel. In greater Manchester a full-scale nuclear emergency alert was prepared. Local schools arranged to shut-down, whole village communities decided on mass evacuation from what they saw as a danger zone. The Press, radio and television gave extensive coverage to what they regarded as a very good story. As usual the media proved more effective at transmitting and magnifying the public's concerns than at communicating the purpose of the demonstration and the Generating Board's explanation of its inherent safety. The outcome was all too predictable. The CEBG were forced to the conclusion that it would be impossible to proceed with the demonstration in the face of such implacable opposition. The Board were apprehensive about the effects of the hysteria that would undoubtedly have broken out if the plan had gone ahead. So the demonstration was called off. When feelings have cooled down — by natural circulation no doubt — the CEBG intend to propose a new test, not necessarily at Trawsfynydd, with, and I quote: "A full presentation of what is proposed well in advance of the test taking place."

Here then is an outstanding example of the way in which the leaders of the nuclear industry are required to manage under challenge. Here is an example of a

challenge so powerful that management was forced to back down. A challenge that was based on a total misunderstanding of what was involved. But ill-founded though the concerns were, they were no less real for that. And though there were a few anti-nuclear activists who encouraged the protests knowing that there was no valid justification for them, most of the people who protested were absolutely sincere, as the CEGB publicly acknowledged. It is of course paradoxical that a safety exercise should be perceived as irresponsible and foolhardy and that the serious and responsible process of safety assurance should be subjected to set-back by the very fears it is designed to allay.

But there are practical lessons to be learned from this affair. The CEGB has learned them the hard way. But BNFL itself has also learned a valuable lesson from the CEGB's painful experience, and so I imagine has the South of Scotland Electricity Board, for reasons I had better explain. The CEGB ran into trouble at Trawsfynydd because of the way in which news of the planned demonstration became public. It was not announced by the Board. News leaked out from the power station staff and the explanation when it came was neither fast enough nor unfortunately convincing enough to arrest the build-up of concern. The irony is that this was not the first test planned to demonstrate the safety of this passive reactor cooling capability. Two earlier tests were planned and carried out entirely uneventfully and successfully at other Magnox nuclear power stations. One was at Calder Hall, the oldest Magnox station, which is run by my own Company. The second was at Hunterston in Scotland, operated by the SSEB. Neither test attracted any public attention whatsoever. Like the CEGB at Trawsfynydd BNFL made no advance public statement about its intentions. As it happens in our case news of the test never leaked out. If it had done we might very well have faced exactly the same situation. With hindsight it is easy to say that we were wrong in 1986 to make no public statement about the Calder Hall test. The fact that it did not become an issue does not mean that we were right to say nothing. It means that we were lucky to get away with it.

The lesson is clear. It has been learned before but sometimes it gets forgotten by those who are in charge of operations, to whom the facts are always so clear and so obvious, the case so convincing, that an adverse, critical reaction is something literally unthinkable and so remains unthought. This is the lesson all of us in the nuclear industry have to do our best never to forget again. It's really four lessons rolled into one.

- Lesson number one:* Unless you announce your plans you are likely to be accused of secrecy.
- Lesson number two:* Any suggestion of secrecy or cover-up, however ill-founded, breeds suspicion and distrust.
- Lesson number three:* Once the public gets it wrong it's usually too late to try to put it right.
- So lesson four must be:* When in doubt, publish — and get your version out first.

This is the policy we are following these days over the reporting of incidents at our plants. The public is naturally and rightly concerned about safety in the nuclear industry. Since commercial nuclear power first developed out of the atomic weapons programme there has always been a requirement on the industry to report nuclear incidents to the Nuclear Installations Inspectorate. Accidents with serious implications or the potential for serious consequences have been reported publicly. In this way the public interest has been served in a responsible manner, far more exacting than the requirements imposed on other industries.

The Success of 'Revelatory Overkill'

Experience showed, however, that these well-established procedures were not sufficient to meet the case and particularly the propensity shown by all sections of the public, plus the media and many politicians, to get hold of the wrong end of the stick at the slightest opportunity where the nuclear industry is concerned. The official procedure for reporting accidents and incidents naturally involves a system of categorisation. Each incident is assessed under precise criteria according to whether or not it caused harm, or might have caused harm to the public or the workforce, whether it involved radioactive contamination, and if so of what kind, whether by its very occurrence it showed up some weakness in procedures or managerial control. In such cases appropriate action is taken and monitored by the regulatory authority. Of course, when such criteria are applied many incidents, upon evaluation, will be found insufficiently important, altogether too trivial, to warrant reporting under this formal procedure. Unfortunately this proved in practice to be an area where the nuclear industry was altogether too vulnerable to misrepresentation, thanks to the close — you might say obsessive — interest of the Press, the motivation of anti-nuclear pressure groups and the readiness of many people to put the worst possible interpretation on any situation involving the industry. News of these trivial incidents, below the official reporting threshold, became public from time to time — sometimes from deliberate leaks, more often probably from common or garden gossip coming to the ears of local reporters.

It is only too easy to represent any incident which has not been officially reported as having been the subject of an official cover-up. When this happens, attempts by official industry spokesmen to put matters in perspective by the use of words such as "insignificant" or "trivial" sound evasive. More precise attempts to put quantification on triviality by the use of such measurements as becquerels per cubic metre or micro-sieverts per hour are naturally entirely counter-productive. Faced with banner headlines and major television news items about events of total insignificance and mauled by allegations of secrecy and cover-up, the nuclear industry opted for a policy of revelatory overkill.

Each nuclear site now produces regular newsletters which go out to the local community, particularly to councillors, to the Press and to leaders of local opinion generally. The newsletter produced by our BNFL site at Sellafield is published weekly. Smaller sites publish fortnightly. In these newsletters, as well as a lot of

outline information of a social nature about people at the site, and its visitors, management changes and so on, we give details about any and every incident which has taken place there — including those which are so minor they don't fall into any official reporting category. This has proved to be a very successful policy. The trivial incidents are now being recognised for what they are. Boredom has set in with the media as we hoped it would. In general minor incidents are getting minor coverage, often no coverage at all.

NIREX versus NIMBY

I have dwelt at some length on this matter of incidents because I think it is a good example of the way in which we in nuclear power are subject to particular pressures of a kind which do not normally trouble managers in more conventional industries. It is also a good example to demonstrate that these special challenges can often be met, and met successfully, by special responses. By way of contrast let me single out a major challenge which the nuclear industry has so far failed to meet — though not for want of trying. The problem concerns waste disposal. I appreciate that many industries have problems disposing of their wastes: the chemical industry, for example whose wastes are often highly toxic.

Their difficulties, however, pale into insignificance when compared with the problems of identifying acceptable disposal routes for radioactive waste. It can be high-level waste, intermediate waste or waste of such low levels of radioactivity that it's barely contaminated at all. It hardly makes any difference. Radioactive waste is radioactive waste to most people and the question of how radioactive, how great or small the hazard, matters little. Nobody wants to have anything to do with it whatever the level. There are really no technical problems associated with the disposal of any sort of radioactive waste that cannot be solved by the application of geological knowledge and straightforward well-proven engineering techniques. The real problems that so far we have wrestled with unsuccessfully, have to do with public and political acceptance.

We have a national policy for radioactive waste disposal, agreed with government and approved by Parliament. We have an agency set up to implement this policy in the form of a company called NIREX — the Nuclear Industry Radioactive Waste Executive — owned jointly by the two nuclear generating Boards, CEGB and SSEB, the Atomic Energy Authority and BNFL. NIREX has been trying to implement the national radioactive waste disposal policy for the last six years. Sadly no disposal site has yet been agreed as a result. The original plan was to conduct a geological search to identify the best potential site, and then to descend on the local community concerned to explain why their locality had been singled out for this role. This approach unfortunately didn't work. Nor did a modified approach in which a number of possible sites were announced simultaneously with the declared intention of eventually choosing just one to take to public enquiry. National policies in general terms can seem remarkably uncontroversial. When specific siting proposals are advanced the NIMBY syndrome raises its head — "Not in my back yard."

Experts in social, rather than civil, engineering told the nuclear industry where it was going wrong. The House of Commons Select Committee on the Environment, in a detailed report, advised NIREX to revise its approach to informing the public, to be more open in all its affairs, and in particular to involve the public at local and national level in its decisions. NIREX has taken this advice very much to heart. Having abandoned all its proposed disposal sites it has started again — with a totally new approach. It has launched a nationwide exercise in public consultation — taking decision-making to the people — explaining what it is seeking to do, and inviting the public's help, and that of local authorities, in identifying a site that will be not only technically suitable but also hopefully hassle-free.

It really is very difficult to win sometimes in the nuclear industry. On the very day it launched this new programme of consultation, NIREX was admonished by a group of MPs who came along to a briefing. They accused it of shrugging off its responsibilities by trying to put the onus of decision-making on the public. NIREX, they said, should announce a preferred site and be prepared to justify it. In other words, back to square one.

My NIREX colleagues, to their credit, took this circular argument with good humoured resignation. Such experiences lend substance to the view some people hold that the disposal of radioactive waste is a problem to which there can be no acceptable solution, and which could eventually bring about the demise of the nuclear industry. You will not be surprised to know that I do not accept this diagnosis. I do not believe that radioactive waste disposal is a no-win situation although I readily accept that we haven't produced the winning formula yet. I believe that there is a prospect, quite a good prospect, that we may be able to do so at Sellafield itself, where there is a local community with a better understanding of the subject than anywhere else, and with a strong vested interest for developing a solution.

The Main Job?

Waste disposal is an example of a major challenge facing the nuclear industry, crucial to its very survival let alone its success, and calling for massive deployment of effort and resources to pursue, to promote and to achieve a solution. The challenge comes from all quarters and has to be met simultaneously at international, national and local level. The arguments have to be pursued at the Palace of Westminster. (Incidentally I was there only on Tuesday of this week, with a senior colleague, giving evidence to a Lords Committee enquiring into this very subject of waste management.) The arguments have to be pursued in Brussels and in Strasbourg, at county halls, town halls and in parish rooms. They have to be pursued in the Press and on radio and television. The task of explanation and persuasion is too great, too all pervasive, to be left to a small group of specialist and professional communicators. Every director and senior manager has to be involved and play his part. In the nuclear industry these activities cannot be regarded as an unwelcome distraction from the main job in hand. They are part and parcel of that main job. Indeed for some of us it sometimes seems that they *are* the main job and that the task of actually running the business is something of a side-show.

I have so far managed to avoid using the term "the nuclear debate" because it has tended to become a little hackneyed, and also because it is often applied by the media to discussions about nuclear weapons and nuclear disarmament issues, which are an entirely different topic. "The nuclear debate" is nevertheless a very useful and very apt phrase to describe the ceaseless process of discussion, of questioning and challenge in which the nuclear industry is involved.

There are some aspects in which the two sides in this debate do not compete on equal terms. The anti-nuclear pressure groups and environmental organisations claim, with some truth, that they do not have the same financial resources as the nuclear industry and thus have to campaign on a shoe-string while the industry can afford to allocate multi-million pound budgets to their public relations departments. On the other hand anti-nuclear interests have ready access to the print and broadcasting media. The challenges to the nuclear industry that come from its critics, challenges about safety, about environmental pollution, about links with cancer, proliferation of nuclear technology, make better copy for the journalist than do reassurances and official statements from the industry itself. The typical nuclear story in a newspaper is seventy five per cent challenge from the critics and twenty five per cent — the last twenty five per cent — response from the industry. The headline, needless to say, is based on the challenge, not the reply.

There is another, even more important respect in which the nuclear debate imposes different criteria on the two opposing sides. The industry has to ensure, as far as is humanly possible, that everything it says is accurate in every detail and capable of withstanding the most rigorous analysis. We dare not run the risk of accusations of misrepresentation or of misleading the public. The need to check and double check and check again everything we say obviously does not help in meeting that objective of getting our story out first. Nor does it help in achieving prompt responses to damaging allegations. I have spoken of mistakes made by the industry in the past when it tried to explain itself to the public in complex, jargon-ridden technicalities. We try to do better today. We recognise the importance of avoiding technicalities, of banishing jargon, and simplifying the arguments. But simplification brings its dangers too. Even the most simple statement by the nuclear industry must be capable of justification. General statements that are 99 per cent right but one per cent wrong, the sort of sweeping generalisations that we all make every day, are potentially hazardous for us because of course it will be on that one per cent that our critics will seize.

Those who oppose us can afford to take more liberties with the facts. They have little to lose if they are proved wrong. All they do is shift their sights, aim at another target and hope for better luck next time. As an example I can cite in evidence three advertisements by Greenpeace which appeared recently in the national Press making a number of allegations about the environmental and health effects of our Sellafield site — allegations we regard as unfounded. The same kind of statements have been made in a thousand speeches by Greenpeace officials

and their supporters. In a country where speech is free there is little we can do about that.

When it comes to advertising, however, the situation is different. The advertising industry has its own watchdog called the Advertising Standards Authority which aims to prevent the public being misled by false advertising claims. The body is usually called in when claims about the quality of goods and services are being challenged. But the requirement that factual claims in advertisements should be capable of justification holds good for advertisements about issues as well as those for motor cars and package holidays. We formally challenged the accuracy of the Greenpeace advertisements about Sellafield with our own documentary evidence. The initial response from the ASA was that they were disposed to uphold our complaints because Greenpeace had failed to come forward with any convincing justification of their claims. We have now heard that Greenpeace have filed a last-minute defence of their advertisements. We don't yet know what view the ASA will take of that response. If the Authority does uphold our complaint then further advertisements featuring the same statements will not be allowed. Unfortunately there would then be absolutely nothing to prevent Greenpeace going on to make the same unsubstantiated statements elsewhere.

Greenpeace despite its name and its Rainbow Warrior symbolism, tends to see things in black and white. It views BNFL in much the same way as it views those who club baby seals to death or risk hunting whales to extinction. It simply wants to stop what we do by shutting us down. The call to shut the nuclear industry down has come from other and more worrying quarters. In 1986, after Chernobyl, a weight of anti-nuclear feeling built up in the trade union movement and carried over into the Labour Party to such effect that the Party adopted as part of its official policy the aim of phasing out nuclear power.

Here was one more challenge we had to resist. We were aided in our response by some extremely effective lobbying by our own workforce and their trade union representatives who reinforced our own efforts. That particular threat has faded, if not disappeared, but we have grown accustomed to the thought that there are always new challenges waiting around the corner.

A Business Like Any Other

One day, perhaps, nuclear power will become normalised. Close scrutiny we accept and respect. We are dealing with processes and materials that are potentially highly dangerous, as are so many others in industry. Society will rightly demand of us, as it demands of the petro-chemical industry, or the pharmaceutical industry, or of civil aviation, the highest standards to protect the safety of the public. We hear no calls for all petrol refineries to be shut down, all drugs withdrawn from public use, all airliners grounded. When the call for the nuclear power industry to be shut down is heard no more I shall know that we have succeeded in our aim. Our aim is to be accepted as part of the normal industrial scene, subject to the same kind of controls and supervision and receiving the same kind of public attention, that comparable industries receive — neither more nor less.

In BNFL we are committed to an open information, open door policy. We will tell people anything they want to know about our operations subject only to necessary constraints concerned with protecting national security, necessary commercial and legal confidentiality and personal privacy. We are welcoming people to our plants, particularly Sellafield, in ever increasing numbers. We are building a new visitors centre which will use the latest audio visual techniques to inform our visitors about the nuclear industry in an understandable and we hope entertaining way.

And all the time of course, we must never forget that we are running a business, facing the same objectives as any other — meeting our customers' requirements for product and services at competitive prices, with built-in quality and timely delivery, producing a satisfactory return on our investment and at the end of it all making a profit from which we can pay an adequate dividend to our shareholder, which happens to be the Government.

As I have said I have taken those normal business challenges rather for granted on this occasion. I have set them aside while I talked about these other pressures that overlay them. That is a rare luxury. In the real world it would be fatal for the Company's future to respond to the political and public pressures at the expense of normal business preoccupations. And, of course, vice versa. Both priorities have to be top priorities and that, in a nutshell, is what I mean by "Managing Under Challenge".

DISTRIBUTISM

Increasing interest is being devoted to the economic implications of the distribution of capital in contrast to the familiar concern with the distribution of income. Conservatives favour 'wider share ownership' and a 'property owning democracy'. Liberals have long favoured experiments with employee share ownership and today Bryan Gould and the Labour party is beginning to look seriously at the idea of employee share ownership proposals as an alternative to state ownership. These developments with their profound implications for economic management and development have an interesting history and 'Britain and Overseas' has therefore invited Aiden Mackay of the Wider Share Ownership Campaign to provide us with a brief history of 'Distributism'.

The name Distributism was coined in the early years of this century to express the belief that property and wealth and, therefore, power, had become far too heavily concentrated in few hands, and that justice and liberty demanded the wider distribution of the ownership of land and of productive property. The movement was not economic by design — though, of course, in practice it would have very wide economic consequences. The best-known propagandists of the movement were the writers G.K. Chesterton and Hilaire Belloc, and the original impetus came from the Papal Encyclical of Pope Leo XIII, *Rerum Novarum*, popularly famous as "The Worker's Charter". In it the Pope attacked both monopolistic capitalism

and monolithic State Socialism. He wrote:

By degrees it has come to pass that working men have been surrendered, isolated and helpless, to the hardheartedness of employers and the greed of unchecked competition. The mischief has been increased by rapacious usury which, although more than once condemned by the Church, is nevertheless, under a different guise, but with the like injustice, still practised by covetous and grasping men. To this must be added that the hiring of labour and the conduct of trade are concentrated in the hands of comparatively few, so that a small number of very rich men have been able to lay upon the teeming masses a yoke little better than slavery itself. To remedy these wrongs the Socialists, working on the poor man's envy of the rich, are striving to do away with private property, and contend that individual possessions should become the property of all, to be administered by the State or by Municipal bodies... the remedy they propose is manifestly against justice, for every man has the right to possess property as his own. This is one of the chief points of distinction between man and the animal creation, for the brute has no power of self-direction... Man's needs to not die out, but for ever recur... Nature accordingly must have given to man a source that is stable and remaining always with him, from which he might look to draw continual supplies... Man precedes the State, and possesses, prior to the formation of any State, the right of providing for the sustenance of his body.

In 1895, with Capitalism seemingly impregnable, and Engels, in that same year, publishing his completion of Marx's *Das Kapital*, that was fighting talk. From it Chesterton and Belloc (who coined the word 'Distributism') were later to draw a programme of attack upon the Establishment. For the most part they were wise enough not to attempt any detailed political programme, but concentrated on moral and philosophical principles. The unit of the State is not the individual, but the family, and all social and political thought must start with people as spiritual as well as material beings, with souls to save, and who must build a social order which offers the most fruitful soil for rounded growth.

This would appear to make Distributism an almost exclusively Christian movement, but in fact the League (The League for the Restoration of Liberty by the Distribution of Property) always attracted a good number of others. Some, like Sir Thomas Beecham and the lawyer-writer E.S.P. Haynes, warmly supported the attacks on corruption in government made by the journals — The Eye-Witness, the New Witness and, later, G.K.'s Weekly — which supported the League. Others welcomed the League's defence of the poor against the activities of the Eugenists and the Social workers of the day, who saw (as sometimes is the case today) the poor as being suitable objects for social experimentation and perpetual regulation.

Others again, like H.J. Massingham, aligned themselves with the movement because they were appalled by what they saw as the destruction of the land by the linked evils of depopulation and 'factory-farming'. The League insisted that good

use of land, particularly by the intensive organic husbandry which is possible only by smallholders and the family farm, was an essential condition of the well-being and integrity of national life.

During the greater part of its active life, the Distributist movement appeared to be almost entirely ineffectual. Its leaders were mostly literary and philosophical thinkers, rather than men of practical experience. Chesterton and Belloc had very many followers, and their meetings and the great debates with George Bernard Shaw and others (Shaw remained convinced that Distributism and Socialism were one and the same) constantly filled London's larger halls – but did not lead to fruitful, positive action. Again, it was a time in which the natural resources of the world seemed inexhaustible, and warnings to the contrary went very largely unheeded, especially in political circles.

One important and entirely practical measure was, however, devised by the Birmingham branch of the League, which had members of considerable sagacity and experience in matters of land-use and food production. Land was secured with the object of helping some of the many among the unemployed who wished to settle, with their families, in smallholdings. All aspects were researched, and careful and accurate costing carried out. Volunteers heavily outnumbered places immediately available, and there was little dispute about the value and probable success of what came to be known as The Birmingham Land Scheme. However, the government of the day decreed that as soon as spade was put to earth, all unemployment benefit would cease, and they refused to provide any alternative form of support during the time until the first returns in crops and stocks became available. The scheme was, therefore, strangled at birth.

It is only since the last war that people have gradually come to realise that Distributism, by whatever name we choose to call it, represents economic and social sanity. Fritz Schumacher, the founder-philosopher of the new conservationist and decentralist movement, often acknowledged his debt to Chesterton. Indeed, his most famous book *Small is Beautiful* grew out of an essay which he titled *Chestertonian Economics*.

The most detailed statement of the principles of Distributism to be expressed in economic terms is to be found in Hilaire Belloc's book, *Economics for Helen*. (Arrowsmith, 1924 – several times reprinted). After defining and considering the 'Elements', wealth, land, Labour, capital, production, money, exchange, Free Trade, etc., Belloc treats of the political applications found in various systems, – the Servile state, Capitalism, Socialism, and the Distributist State, in which as many people as possible are encouraged in genuine ownership. (Distributists do not accept as genuine ownership the system whereby housing is effectively owned by a bank or Building Society and the 'owner', who is really little more than tenant, is tied by a punishing debt.)

In one of the pamphlets issued by the League, G.K. Chesterton expressed the main aim of the Distributist movement:

It has become clear... that the commercial and industrial progress which began by professing individualism has ended with the complete swamping of the individual. The concentration of capital in large heaps belonging to

little groups has become equally obvious to those who defend it and to those who deplore it. But even those who deplore it seldom try to reverse it. This problem of centralised wealth has produced a great many interesting things. It has produced proposals that what is thus centralised should be used for good instead of evil; that what is centralised should be simplified, or that it should be centralised even more in a new national centre. But it has not until now produced the perfectly simple proposal that what is over-centralised should be de-centralised. It has not until now produced a single political party or political programme based on the idea that if property is in too few hands it ought to be passed into many more hands. This truism has been left for us to defend, and we have been obliged to defend it like a paradox.

It is my own impression that very many more people would now support that case than ever before. Because Distributism rejects the extremes of both Capitalism and Socialism, whilst recognising that there must be some degree of both public ownership and large private business, there is no valid reason why the programme should not be espoused by any of our present major political parties. I believe that the party which does so will find a very large measure of support in the country.

THE CRUX OF THE MATTER

By James Bourlet

I recall that in 1974 I happened to ask John Biffin what he thought had *really* happened which had caused the start of the extraordinary rise in money supply, and his answer, whilst paying due heed to the PSBR and to banking policy emphasized the notion that "somehow we have mishandled the foreign exchanges". The question now is whether we are repeating that exercise.

Now although both points are certainly debateable, let us accept for the moment the propositions that a modest rate of inflation is desirable but must be prevented from rising and that interest rate policy is the sole means to that end. Perhaps (with apologies to Richard Nixon) we can say that 'we are all monetarists now' insofar as a major increase in money supply is accepted now as an important indicator of likely future inflation – the supply of money, that is, which is actually made available for spending in the U.K. In order therefore to contain the rise in such money supply should interest rates be higher – or lower? An interesting difference of views is emerging on this point.

The background is that 'real' U.K. interest rates have been maintained at a high level in an effort to curb borrowing within the U.K. Many advocate a yet higher level. But that has made U.K. investment very attractive to foreigners who have therefore bought pounds in large quantities. This in turn has bid up the international value of sterling and in order to hold down sterling to a rate (Dm3.00) which enables U.K. industry to remain competitive, the Bank of England has 'created' £14.5 bn during the past year with which it has bought \$20 bn. Now,

however, this effort has been abandoned and the pound's international value has been allowed to rise.

The point at issue is whether this £14.5 bn amounts to an inflationary threat – or not. If it does, then it should have been offset by extra sales of gilt edge securities to withdraw an equivalent sum from U.K. circulation (so-called 'sterilisation') whilst if it does not, why there is no need to worry and we can continue to pursue a high interest rate policy to dissuade U.K. residents from borrowing too much. The difference of opinion was neatly put in *The Sunday Times* on the 13th March and *The Financial Times* on the 10th March.

Writing in *The Sunday Times*, Brian Reading stated:

"The Bank (of England) could have sterilised the effects of intervention on the money supply by selling an extra £14.5 bn of gilt edge securities. Some day it may dawn upon the simple folk in Downing Street and Whitehall that high interest rates perversely caused the money supply to run out of control."

Writing in *The Financial Times*, Samuel Brittan stated:

"When there is a run into a currency, it means that the demand to hold it has also risen. So long as this extra demand is there, more money can be issued without an inflationary effect, so one does not have to get bogged down in arguments about whether intervention can be sterilised by gilt-edged sales."

If the first view is correct, we have inflation in store and 'next time around' must avoid high interest rates, whilst if the second is correct relative price stability is in prospect.

WHAT PRICE AN INCOMES POLICY?

By John Hatherley

If the British economy continues to improve, sooner or later the cry will arise for an incomes policy to curb pay increases.

The history of incomes policy in Britain has features which its advocates conveniently ignore. One such is that it started as a *prices* and incomes policy, but before long the prices aspect was quietly dropped. Was that because it is generally easier to clobber pay than prices? Management does not want higher prices that reduce profits and competitiveness; workers do not want living standards (i.e. pay) eroded by higher prices, so they put in for higher wages; but to blame workers and punish them for the phenomenon of inflation which has been virtually worldwide is as bizarre as it would be to blame them for the pre-war depression. Perhaps, just perhaps, the origins of inflation lie elsewhere than in the wage packet.

Some incomes policy advocates link high pay with unemployment. Reduce wages, they say, and managers will take on more workers. Does this mean that the

lower the wage, the more *in* employment? Reason would seem to indicate that there is an appropriate limit to the number of workers needed to achieve any one firm's output, beyond which no more people will be employed, whatever the wage rate. Furthermore, experience in the 1930's does not bear out the low wage theory – low wages then did not bring higher employment. Nor does our experience in the 1980's, when we have known higher unemployment than any other advanced nation – with lower wages!

I suggest that those economists, let alone politicians, who propose an incomes policy, have limited horizons. In fact, economics as a discipline has, all too often, narrow horizons. Economic activity takes place in a wide context, stretching back at least as far as the culture or civilization in which it occurs: I believe that there is not much whisky distilling in some Middle Eastern countries.

It is obvious that a worker's immediate context of employment includes management and capital equipment and the firm's geographical situation. By analogy, a farmer near a good market, with good soil, equipment and effort will produce more than a farmer with good effort, using out-of-date equipment on poor soil – so a worker under a first-class entrepreneur in a well-equipped firm will produce more than he would in the general level of British firms, which 'The Times' in 1886-7 exposed as inefficient by any acceptable criteria.

Workers in such firms, understandably encouraged in such an environment, work better and seek an increased share of the profits. Enlightened management will gladly concede this. *At a blow, an incomes policy hits such firms* and sustains the inefficient ones which cannot afford higher pay.

Perhaps the most damning indictment of the narrow horizons of incomes policy is the failure to understand that pay and purchasing power are opposite sides of the same coin. The higher the worker's pay, the more they have to spend, that is, to stimulate production and employment. Is it not possible that British workers' low pay (by some European and by American standards) allied to second-rate management and equipment (adding up to low productivity) have been at least partly responsible for Britain's slow recovery from the days when our national income per head was on a par with that of Italy and Greenland?

But what of inflation – since this is the fear behind advocacy of an incomes policy? And what of trades unions demanding excessive pay rises?

There is undoubtedly an element of danger in the latter. Pre-war and post-1945 history illustrates the fact that trades unions are as strong as the economy allows them to be, so, with rising output (and possibly, labour shortage in time) the power of unions to compel wage increases would grow, as they play their traditional role of attempting to ensure that labour, one of the factors of production, receives as soon as possible its share of the increased proceeds which it has helped to produce.

However, certain organs of the press, and the popular mind, have exaggerated the power of trades unions in general to grab excessively higher wages, although the power does reside in a very few hands. Our trades union leaders are mostly realistic men of restraint – the nation has been ungratefully fortunate in this respect. As Tom Chapman, a trades unionist and former industrial adviser to the

Archbishop of Canterbury pointed out to me, it took union leaders to the close of the 1960's to end their practice of negotiating merely to catch up with the inflation of the previous year: belatedly realising that inflation was here to stay, they then began to negotiate for anticipated inflation for the coming year – hence the heavy wage demands of the late 1960's and early 1970's which so alarmed the public.

Tom Chapman's explanation points to another aspect: whilst settlements for higher pay doubtless fuel inflation, they are not the cause of it. Inflation is beyond the power of workers to initiate, even when they band together with others in unions. Those who use an incomes policy to combat inflation must look beyond pay increases: who printed postwar inflationary money, and according to what prevailing theory of promoting prosperity?

Improving the efficiency of management and of capital equipment (along with a favourable rate of exchange for sterling) so enabling workers to improve productivity and request a due share of the higher revenue, will do more to keep wages below inflationary levels than incomes policies, which have proved notoriously short-lived, containing an inbuilt damming-up effect leading to an outburst of high wage demands. Behind this, money supply must be sensitively monitored.

Part of the context in which workers view their jobs is the price of one of the most fundamental of all requisites – accommodation. In the south-east of England, the cost of housing in 1987 rose by at least five times the rate of inflation and of pay increases. This inhibits the movement of workers from other areas, creating labour shortages which restrict output and must lead to unnecessarily high wages. Also the cost of accommodation for young married couples must soon cause their departure from the London area, possibly overseas as world recession fades.

Instead of trying to curb wages, will economists and government turn attention to *this* increase – a massive haemorrhage of consumer purchasing power which is the lifeblood of production, investment and employment?

THE COMMUNITY CHARGE RECONSIDERED

By J.F. Standish

That the present rating system is inequitable and indefensible is a matter that few would dispute. As the system now stands, probably not more than half the number of people qualified to vote in Local Government elections pay domestic rates; therein lies the inequity. The other half of the electorate is entitled to vote without making any contribution whatever to the costs of services which they enjoy; therein lies the indefensibility. These anomalies in domestic rating are further aggravated by the fact that a household comprising one person only is charged at the same rate as if that household constituted a number of people.

The rating of property and hereditaments has had a chequered history, but it was finally codified in 1925 by the passing of the Rating and Valuation Act, which

in later years has been further modified. Thus rating, as it now stands, is of fairly recent origin and cannot claim to have been sanctified by time immemorial.

At present, Local Government funding comes from three main sources. Half of the total comes from Westminster in the form of grants which derive from income tax and other general taxes on spending. Just over a quarter comes from business (non-domestic) rates, while the balance of slightly less than a quarter comes from the domestic ratepayers. Thus we see that central Government funding is already the major source of Local Government revenue.

It cannot reasonably be claimed that people voting at local elections do so as taxpayers since their taxpaying contributions constitute a minor part of the funding, as seen above, while they are not concerned with the major part. Nor, as noted, is every voter a ratepayer.

The present proposals for a Community Charge to replace domestic rates is a step in the right direction, but it is argued that it is not the right step. It is the mechanism of local taxation that needs to be reviewed. First of all, it is now proposed by the Government to levy a flat rate upon every adult irrespective of means, although there is a proposal to ameliorate this in certain instances by rebates. Taking with one hand and giving back with the other is a defective way of collecting money; it also implies a form of local means test which would not be welcomed by many. It might also be open to abuses. Nor is it clear that every adult will be scooped into the net since the opportunities for evasion by those who are not property owners will be many, while if the system is to be rigidly controlled by methods such as invigilating doctors' registers, public library records, and the like, then the suspicion that "Big Brother" is at work might not be without foundation.

The simplest form of funding, and one that necessitates the minimum of administration and costing, is that of income tax. This implies that everyone liable to pay income tax will then be charged according to his means in order to contribute towards the financing of Local Government. That is equitable, conforming with national theory and practice. It also offers the least number of possibilities of evasion while bringing out into full relief the taxpayers' choice at the time of local elections.

Who, then, would collect this tax? Assuredly, not the authorities of Local Government; that would be piling Pelion on Ossa and would gravely augment the administrative costs of collection. It would also be difficult to administer. Since already half of Local Government funding comes mainly from income tax, it would be simple and less expensive to add to this the quarter of funding now raised by domestic rates so that three quarters of the total would be centrally raised. The other quarter, or whatever the residual proportion might be, would derive from business rates which, as in the proposed new legislation, would reflect a national rate of poundage throughout the country. The Chancellor need not shrink from facing the fact that this would increase the present rate of income tax since the total amount to be payable comprising present income tax and present rates would be much the same.

It might be objected that this method would tend to reduce the powers of Local

Government authorities to raise their finances and make them in fact clients of Westminster. That fear would be unfounded if an independent Local Government financial review body, analogous perhaps to the University Grants Commission, were set up to assess and review the needs of local authorities to meet their annual commitments. Thus, as in the case of Government ministries, their estimates would be presented and considered in each autumn for the following financial year. This would free the financial allocations from the taint of being determined by an indifferent or grasping Treasury.

What would then be the basis of the claims of local authorities for revenues to fund their several purposes? Here would be an opportunity to put the Local Government house in order. At present, there appears to be nothing to prevent local bodies from setting up centres for homosexuals, sending delegations to Cuba, being profligate in irresponsible spending, and so on. The introduction of a new method of charging, whatever its name, should be accompanied by suitable amendments to existing legislation whereby the responsibilities of local authorities would be explicitly stated, embracing education, public health, housing, highways, police, and so forth. It should also have the effect of preventing irrelevant and possibly mischievous public spending on matters that could give cause to objection and offence. In short, the local authorities would then concentrate upon the jobs for which those bodies were called into existence.

It will be seen that from such an approach the following would be achieved. Local Government would remain, as now, largely independent of the central Government, the tax levy would be universally and fairly applicable according to means, everyone of voting age would participate, and local elections would acquire a greater significance than they do at present. As with the national Government, local councils should be seen and comprehended as working rationally and equitably on a basis understood by all, and to which each taxpayer contributes a fair share.

THE EDWARD HOLLOWAY COLLECTION REVIEW

Consciousness, Animal Human and Superman

A.R. Orage

Published by the Theosophical Publishing Society 1907

It seems that highly successful authors often have the effect of somehow closing our minds to work on their subject which preceded them. Most students of macro economics today take the trouble to study the ideas of John Maynard Keynes but how many of them are aware of the fact that most of 'his' ideas had been around for a long time – David Hume for example discussed much of Keynes material in the 18th century. Similarly we imagine that Adam Smith invented classical economics but in fact he's better described as the most successful exponent of ideas which were current at his time and which were fast becoming fashionable

after a long journey from Aristotle onwards.

Surely something of this sort has occurred with the work of Sigmund Freud. Most of us today are but dimly aware of his near equal contemporaries – Jung and Adler and still less are we aware of the interest and discussion that took place during the late 19th century and early 20th century of such concepts as the 'ego', the 'subconscious', the 'self' etc. which we now associate exclusively with Freud. And one can go further because important writers tend also to sweep up the ideas scattered around amongst those interested and bundle them into a professionalised package which in time through jargonised obscurantism become the preserve of the professional beyond the apparent understanding of the intelligent laity. Medicine has long since passed along this road, the concept of 'Common Law' fights a rear-guard action and economics will be relegated to the dustbin unless it gives up its pretensions. But what of psychology?

Orage's superb little book prepared many years before Freud is a window on ideas current at that time. The style is scholarly but anyone capable of enjoying Jane Austen could readily understand A.R. Orage. The ideas are not obscure but they *are* profound and no short review can do justice to them.

Consciousness is conceived as an 'awareness' most simply understood in terms of the mind receiving signals from the eyes, the ears and other senses. In this way even plants have consciousness if they sense change around them. In animals awareness exists but not a someone who is aware. Animals, he says "feel without knowing that they feel and reason without knowing that they reason". Thus their simple consciousness is 'one plane' – it allows no reflection. We human beings experience something of this when, for example, in slow recovery from a dangerous illness one just lives the life of the body, following instincts and abandoning cares – resigning oneself to a pleasant identification with the progress of ones bodily life.

Similarly if we wake at night and sense danger we strain to hear and to see and find ourselves in a state of complete preparedness in relation to our outer senses alone.

But human consciousness has developed a 'folding' of the flat paper of 'one plane' consciousness. We have an 'inner' as well as an 'outer' awareness and can 'see in the mind's eye' and 'hear in the mind's ear'. A musician who has with his outer awareness heard some music can play it back to himself inwardly and indeed compare a new performance with his personal recording. The inner is the child of the outer – at least initially, but later it is the creativity of the inner which is the more important stimulus in life. Thus animal consciousness is seen as an early stage through which humans have passed via their reflective capacity to a middle stage (Orage is clearly influenced by Darwin in his concepts) where unlike the animal which sees itself *as* its body, we see the ego as existing *inside a perceived* body.

But Orage sees human development going at least one stage further – to what he calls 'superman' consciousness. Just as human consciousness has come about through a folding of one plane consciousness – the ability to reflect and compare, so superman consciousness will come about through an additional folding to ena-

ble us to reflect upon not just reality past and present, but upon imagination itself. Many of us reach such ecstasy more by accident than design – just occasionally – but a few experience this more or less at will. Orage refers to the mystics and great men of all religions, and tells us that the tried and tested routes are through love, art, religion, nature and the presence of great men themselves. Superman is the transcendental self and its relationship to the ego is as mother to child. Thus we are influenced by but only dimly aware of its presence.

Orage concludes “as man is only an intensified animal, an ecstatic animal, if you will, superman is no more than an intensified man. Therefore it is that superman is not the contradiction but the fulfilment of man; and he who hopes to become superman by becoming less human instead of more human, has set his foot on a path that leads to strange places – into the desert where mirages are ringed about with human bones.”

Jung speaking of ‘individuation’ or Freud of ‘fulfilment’ could not have put it better.

J.B.

The Elliot Wave Principle; Key to Stockmarket Profits (5th Edition)

By A.J. Frost, and R.R. Prechter.

Pub. Gainsville, Georgia: New Classics Library, 1985

The many theories to explain and thus predict stock market trends include: (a) the Random Walk theory that a sufficient explanation is to be found in randomness, hence making prediction impossible; (b) psychological theories such as Pigou’s human equation suggesting that pendulum-like swings in the market are caused by cycles in human optimism and pessimism, and Baruch’s theory that investors in trying to read the market will react to events in characteristic human ways, and (c) empirically derived models such as Dow’s, which has been likened to the movement of the sea (with tides, waves and ripples).

In pointing out that none of the theories provide an adequate explanation, Frost and Prechter argue that the best strategy must be an empirical one involving an historical analysis of stock market prices. Their own very detailed analysis is claimed to show that Elliott’s empirically derived set of rules is more promising than the famous waves and cycles described by Kondratieff and Dewey. This book which describes Elliott’s model and conclusions is of special interest since it was Prechter who accurately predicted (presumably using Elliott’s model) the timing of the October 1987 crash.

The first half of the book gives an account of Elliott’s wave model in which the basic pattern is a three up and two down (correction) movement. This parallels Dow’s basic observation of three upward swings (rebound, improvement and over-valuation) followed by a reverse which cancels three-eighths or more of the previous swing. Elliott’s contribution, however, is based on a much closer analysis involving all manner of technical names and elaboration. In the context of noting

that stock selection is of secondary importance to timing, the authors devote the second half of their book to the application of Elliott’s model to forecasting.

Critical evaluation of this book must highlight the paucity of evidence provided to support the conclusions offered. Apart from citing selected examples, the authors make no attempt to show how closely Elliott’s model corresponds to reality. In my opinion they have missed a golden opportunity to convince their readership that Elliott’s model is any more accurate than rival ones. To have the assurance of the authors, even with Prechter’s very impressive record of forecasting, is not enough in any scientific sense. What is urgently needed is a statistical comparison of the different models tested against stock market movements over different periods of time. This would tell us if Elliott’s model is significantly better than chance (a random walk model) and, if so, how it compares with each of the other models. Hopefully this will be forthcoming in the next edition of the book!

D.N.

The Just Enterprise

By George Goyder (Foreword by Sir Peter Parker.)

Pub. Andre Deutsch, 1987.

Mr George Goyder has been writing for forty years about the need for changes in company law to achieve greater social justice; and his latest book *The Just Enterprise* is a forceful and convincing presentation of the case for reform. It is to be hoped that the political parties will pay due attention to his new book. After all, they all say that they are in favour of changes in which industry is organised – and industry has been built upon the limited company.

The Conservatives have been talking about a nationwide property owning democracy and partnership in industry for forty years; and the present Conservative Government has done something to extend employee shareholding. The Liberals have been talking about workers’ ownership since the Liberal yellow book in 1928, Elliott Bodds’ book on a more equitable distribution of property in 1938 and the “Ownership for All” report in 1949. Indeed one might say since John Stuart Mill’s *Principles of Political Economy* in 1848 although at that time Mill was increasingly inclined to regard himself as a socialist. And the Labour Party is committed by its constitution to the replacement of conventional capitalist ownership by “common ownership” although over the last seventy years it has done very little to clarify the implications of its constitution. This has resulted in a decline in support for the party as many people continue to associate the word “socialism” with an extension of state ownership and control even though Clause Four of the Labour Party constitution makes no mention of nationalisation or of state ownership or control.

Mr Goyder avoids associating himself with any political party; and presents his case firstly for an extension of employee ownership through employee

shareholding and secondly for the redemption of ordinary share capital by the limitation on the return as well as the liability of shareholders so that companies are run in the interests of the workers and the community – including their customers – instead of for the profit of the holders of their ordinary shares. He is thus calling for a very basic change in the way in which companies are organised and it is doubtful whether it could be achieved within 150 years of the introduction of limited liability in 1855. It has been advocated before, as by Archbishop Temple in 1941 and by James Callaghan in 1950; but it is the kind of change that would be likely to take some years to achieve.

All the parties take some interest in employee shareholding; as did the Labour Party in a report on *Social Ownership* in 1986 and as did many trade union leaders at a meeting organised by the Industrial Society and the Unity Trust on April the 8th 1987. In 1987 the Conservative M.P. Mr Nigel Forman was hoping that the Finance Bill would contain amendments to encourage ESOPs or Employee Share Ownership Plans similar to those used in the USA. But Mr Goyder, like many members of the Labour Party, believes that more than employee shareholding is needed.

Mr Goyder devotes a chapter to "The Redemption of Equity Capital". Why ordinary or common shares carrying an unlimited return should be described as "equities" is difficult to understand. Mr Goyder does not think that they are equitable. He argues that historically the return paid on ordinary shares has not been particularly high and that the problem is not that it has been unduly high but that it is in principle unlimited. Berle and Means made the same point in *The Modern Corporation and Private Property* in 1932. "Where", they asked, "is the social advantage in setting aside for the security holder profits in an amount greater than is needed to ensure the continued supplying of capital and taking of risk?"

Mr Goyder suggests that after a period of years the ordinary shares of public companies should be redeemed at their market value or converted into preference stock so that a limit is set on the return as well as the liability of the shareholder. But what kind of limit? Might not companies tend to distribute too much so as to increase the maximum return when a limit is set? Perhaps the maximum return might be related to asset values at the end of the prescribed period in order to encourage companies to plough back earnings and increase asset values.

The experience of the co-operative movement over the last hundred and fifty years suggests that if the return paid on capital is too low an enterprise may have difficulty in raising the capital it needs. It is a co-operative principle that the return paid on capital should be limited; and a few years ago consumers' co-operatives in Britain were paying a return of just 4.3% on share capital. Co-operatives had difficulty in raising sufficient capital and many shops were closed. On the other hand the 1966 report on co-operative principles from the International Co-operative Alliance declared that the rate of return should vary with market conditions and that the whole question of capital availability had to be studied in a much more mobile and dynamic manner if co-operatives were to "blaze new trails and lead the entire economic system."

During the last hundred years industrial or workers' co-operatives have made

very limited progress compared with companies, perhaps partly because of the problem of raising capital. The Mondragon co-operatives in the Basque Provinces of Spain have, however, been particularly successful – perhaps partly because of their capital credits system under which worker members participate in the growth of assets in proportion to work contribution. If Mr Goyder's proposals for setting a limit on the return as well as the liability of ordinary shareholders were to be applied in a prudent way it could, perhaps, do a great deal to create a sense of common purpose in industry.

It would, however, need to be combined with changes in company law about the distribution of residual assets. Mr Goyder notes that in Adam Smith's time two centuries ago a return of 5% on capital was regarded as reasonable and not usurious. When Robert Owen took over the New Lanark Twist Company in 1801 he did his best to convince his employees that the mills were being run in their interest and arranged for the return paid on capital to be limited to 5%. When the mills were sold off to the Walkers in 1825, however, it was Owen and his partners and not the employees who made the substantial capital gains. Jeremy Bentham said that it was the best investment he ever made. But if ordinary shares are converted into preference shares as Mr Goyder suggests, residual assets will be covered as well as the limitation of the return paid on capital.

There have been arguments recently in the Co-operative Development Agency's Working Party on Legislation about whether co-operative law should prohibit the distribution of the residual assets of co-operatives to shareholders in proportion to shareholdings as contrary to the principle of a limited return on capital – in Britain as in many other countries. Between 1929 and 1970 the second preference shares of the John Lewis Partnership were quoted on stock exchanges and the employee Partners shared in the growth of assets in proportion to work contributed in the same kind of way as the worker members of the Mondragon co-operatives. Some co-operators are concerned about the possibility of bids being made for the assets of co-operatives in the same kind of way as bids are made for companies unless changes are made in co-operative legislation on the matter of residual assets. John Spedan Lewis and Ernest Bader of the Scott Bader Commonwealth were rightly concerned about residual assets and the Co-operative Union needs to pay more attention to the matter.

If companies were to be required in due course to convert their ordinary shares into preference shares carrying a limited return and no claim on residual assets it could have a major effect upon share values as well as on industrial relations. Ordinary share values would no longer leap up and down continually to make fortunes for some speculators and losses for others but would behave much more like preference shares and loan stock, offering investors a fair return on their investment. Gaps between share values and asset values would no longer be an incentive for raiders and there would be a decline in merger mania. ESOPs are used in the USA to help protect management from corporate raiders and the incorporation of Mr Goyder's ideas into company law would help to protect management from corporate raiders as well as helping to create a sense of community in industry. It would be likely to be welcomed both by management and by employees.

If his ideas were more widely applied transnational corporations could come to be run in the interests of the world community instead of for the profit of the few. As the Director of the UN Centre on Transnational Corporations said to the International Chamber of Commerce ten years ago "There is no reason why the immense energies and capacities of transnational corporations should not be harnessed for the good of mankind." The fruits of success in surplus earnings could go to some extent to employees, to some extent to customers and suppliers and to some extent to the community. As Mr Goyder points out many company directors already recognise such broader responsibilities. But company law lags behind the best industrial practice. All political parties should support the kind of changes he proposes.

D.N.

OUR FOREFATHERS HAD 'WAYS' OF DEALING WITH A C.A.P....!

18th century mercantalism, like the Common Agricultural Policy today, relied on high tariff barriers against imported food and drink. In contrast to today however 'something' was actually done about it. The following report was given to Lord Shelbourne, Prime Minister in 1782-83:

"On 31st December 1782 three hundred horses fully loaded with smuggled goods, passed through Lindfield on their way to London. At the same time, several hundred more horses were waiting on the beach near Old Shoreham to receive goods from three large smuggling vessels which were lying off the coast. It is estimated that enough tea, coffee, spirits, wines and muslins were landed to load three thousand horses. The customs officer in charge of the area was warned of this operation and was requested to attack a gang of five hundred smugglers all loaded with smuggled goods. Unfortunately, he 'was obliged to decline for want of a sufficient military force to support him'."

Oh for three large container ships from New Zealand.

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

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

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To the Honorary Secretary
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*** £7 per year

SIGNATURE OF APPLICANT

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

AND SIGNATURE OF PROPOSER

