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

Summer 1988 Vol. 18, No. 2

The articles published in this journal do not necessarily reflect the views of
The Economic Research Council

Published quarterly by
The Economic Research Council
1, Old Burlington Street, London W1X 2AX

Price: U.K. £4 Australia $9 Canada $9 New Zealand $11 U.S.A. $7

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JAPAN'S ROLE IN INTERNATIONAL FINANCE

Summary of a talk by Sir Hugh Cortazzi, G.C.M.G., Director of Hill Samuel & Co Ltd and former British Ambassador to Japan, to members of the Economic Research Council on 27th January 1988.

There is a section of opinion in Britain, America and Europe which appears to believe that there is a Japanese conspiracy to dominate world financial markets in much the same way as they have come to dominate world markets for motorcycles, motorcars, electronic goods, etc. I do not myself subscribe to the conspiracy theory; and I am suspicious of over-simplified one-dimensional statements of this kind. However, I do not doubt that Japan's increasing role in international financial markets poses some serious challenges for our financial institutions, as well as difficult problems for government.

I should like to begin by stressing that, in my view, our reactions to the Japanese challenge should not be negative and defensive. For instance, any attempt to limit or exclude the Japanese from parts of the British financial market would damage London's standard as one of the world's leading markets. The London market is not based, as are those of New York and Tokyo, on a major home base; our market exists because it is relatively free, because it is convenient and because it has the necessary infrastructure. It will remain important as long as we continue to make it so by keeping it liberal and active. It follows that our institutions must always be striving to be super-efficient and innovative. A protectionist attitude would be the kiss-of-death for the London market.

Nations can have Surpluses to Invest – Britain, America, OPEC and now Japan

There are a number of quite simple reasons why Japanese financial institutions have grown so important in international finance. The first lies in the post-war success of Japanese industry. Successful Japanese companies have put the emphasis on long-term growth and increasing market share. They have not, of course, forgotten the need for profitability, but they have been willing to postpone the pay-out of profits and to eschew short-term gains in order to achieve greater long-term ones. This has meant that with a loyal, well-trained and hard-working labour force they have been able to increase efficiency and productivity, and to plough back profits. Of course, this generalisation does not apply uniformly to all sectors or companies, e.g. in distribution or agricultural products, but it is true of the giant Japanese companies in the export field. Their dependence on bank finance has vastly decreased and companies like Toyota and Matsushita are now so cash-rich that Toyota has been called "the Toyota Bank". According to fairly recent statistics, but before the latest rise in the value of the yen, Toyoto had 12.5 billion U.S. dollars in cash and marketable securities; Matsushita had 9.4 billion U.S. dollars and Hitachi 6.2 billion. This means that Japanese companies have large sums which they have to use somewhere. There is a limit to what the Japanese market can absorb and therefore increasing sums have to be lent or used abroad in productive investment, in bonds or in equities.

The second factor has been the fall in the dollar and the increasing strength of the yen.

The yen now buys so much more in dollar terms than it did. In the last eighteen months, the value of the yen has roughly doubled in dollar terms. Japanese life companies and other institutions investing in U.S. Treasury bonds have, of course, made high foreign exchange losses on paper and have been reluctant to add to these, but U.S. interest rates and the lack of alternatives have led to continued buying of U.S. bonds and increasing interest in gilt-edged securities; Japan's large export surplus has to be used somewhere. In 1986, Japan had a current account surplus of over 93 billion U.S. dollars, whereas the U.S. had a current account deficit of over £144 billion, giving Japan an overall deficit of over $40 billion.

The third factor is that of savings. Although Japan's savings rate as a percentage of disposable income had fallen from just over 25% in 1974 to under 20% in 1984, the rate is still well above that of France, Britain and West Germany, and way above the meagre U.S. rate of under 5%. The recent ending of the so-called "Maruyu" system, which ensured "small" savings were free of tax, is not thought likely to have much more than a marginal effect on rates of savings. The factors inducing the high rate of savings, apart from cultural and traditional ones, are very strong and unlikely to change in the foreseeable future.

The supply of conventional housing especially in the main urban connurbations of Tokyo and Osaka is inadequate to meet the demand and land prices are now astronomically high – so high indeed that it has been argued that a new graduate entrant into a company with a monthly salary of just under 150,000 yen (just over £600) (plus say 5 months bonus) will hardly be able to save enough before he is due to retire, even if he rises up the salary ladder at average pace, to buy himself a modest apartment in a reasonably convenient place (say 1-to-1½ hours commuting time from his office).

Public education in Japan is, of course, free, but private schools and universities exist in large numbers and are expensive. Competition to get into the more prestigious institutions is intense and even children in the public system generally have to go to "juku" or private crammers to prepare themselves for the "examination hell". It is essential to get into a top university if a young person wants to join the civil service or one of the top companies. Parents who want the best for their children are thus induced to save much money towards the costs of crammers and private universities.

The health service is not as comprehensive as in Britain. Doctors and dentists are among the best paid professions in Japan (and are among the lowest payers of taxes!). Japanese are thus forced to save against ill-health.

But perhaps the most important element inducing saving is the ageing society. Japan has one of the highest expectations of life in the world. In 1986 a man would expect to live until he was over 75 and a woman until she was almost 81. (The comparable U.K. figures were 71.6 and 78.8). Until quite recently the general retirement age was 55. 60 is now more common, but, even so, Japanese men and women can look forward to many years of life after retirement. They cannot, however, afford to live on the meagre state pension and the lump sums usually given by companies on retirement are likely to be needed mainly to cover mortgage costs. More companies are now making provisions for proper pensions, but whether pensions are company-financed or personal ones they have to be funded by savings. In the past the average Japanese could expect his children to support him and look after him. This is no longer the case.

The rise in the value of the yen and programmes to expand internal demand have had some effect on Japanese exports and imports and the huge trade surplus is being slowly eroded. But we should not be too optimistic about this. Japanese companies have shown extraordinary resilience in the face of the rising yen. They have pared costs, increased productivity, still further improved quality and generally moved into higher added value products. The social incentives inducing savings are only eroded at the margin. Japan is thus likely to have a capital surplus for many years to come. We have to learn to live with this as other countries had to do when we were in surplus in the Victorian age or as Europe had to do when America had a similarly huge surplus. We have all had to cope with the OPEC surpluses.

Recipients of surplus funding can, of course, gain some benefits. To the advantage of borrowers, surpluses tend to force down interest rates and margins on borrowing.

The Work of Japanese Banks in London

But the Japanese surplus is in some ways different from previous surpluses. American banks and other financial institutions were very powerful when there was a major American surplus and the American "invasion" of the London market was significant. But the Japanese "invasion" is even more striking. The assets of the Japanese banks in London have grown from under 10% of the total of all the banking business of all banks in the U.K. in 1975 to 26% now. All categories of Japanese banks are represented in London. The thirteen city banks which are among the top banks in the world (the top five banks in terms of assets are all Japanese – Dai Ichi Kangyo, Fuji, Sumitomo, Mitsubishi and Sanwa), as well as the three long term credit banks, have branches. So do six of the seven trust banks (the seventh has a representative office), as has Japan's largest regional bank (The Bank of Yokohama). Three of the four top Japanese securities companies (Nomura, Daiwa and Nikko) have established banking branches in London and Yamaichi will soon follow. There are also two consortium banks as well as a number of securities subsidiaries of Japanese city and long term credit banks in London. An increasing number of regional and mutual banks have representative offices and would like to have branches. The main Japanese securities companies either have securities branches or representative offices in London. (There are 74 Japanese firms in London authorised to deal in securities). In the London market the distinctive roles of banks, trust banks, long term credit banks and securities houses have ceased to have much reality; in Japan itself the distinction may be becoming blurred at the edges, but Article 65 of the Securities Law, based on the Glass-Steagall Act of the United States and enforced during the occupation by the Americans, has not been repealed and it will be some time before the barriers between the different institutions are broken down.

One of the main strengths of Japanese banks and securities houses lies in the nature of Japanese industrial groupings. It is better to refer to this as the Keiretsu (linking) system rather than the Zaibatsu (or commercial oligarchy) system which existed before the war. The Mitsui Group is generally regarded as having fairly loose ties while those of the Mitsubishi Group are closer. But these relationships are all achieved by mutual shareholdings centring on the group trading company and the group bank which usually acts as main banker to other companies in the group. Banks are only allowed to have up to 5% of the shares of a company, but with interlinking shareholdings this usually means that a company within a group has such important obligations to other members of the group that it is unlikely to "go it alone". The Mitsubishi Bank will compete with the Mitsubishi Trust and Banking Corporation, but it would rather compete say with Sumitomo Bank or Sumitomo Trust and Banking Corporation. One important result of these relationships is that the Japanese banks in London generally continue to act as bankers for members in their group.

So far, with fairly minor exceptions, the Japanese banks operating in London have been primarily engaged in international business. Indeed London is the most important centre for Japanese banks' international business outside Japan itself. In a recent article the Bank of England noted that at the end of June 1987, 28% of Japanese banks' international assets was booked in London and that there were no indications yet that the Tokyo offshore banking market had affected business carried out in London.

Japanese banks have been able to quote very fine rates, but although they have made some loans to British local authorities, indulging in creative financing, and there has been some interest in mortgage business, Japanese banks have not yet made significant inroads into domestic business in Britain. The Bank of England has noted that Japanese banks have secured a high level of penetration in the water-supply and energy sectors, and their share of all sterling loans and advances is 5%. But they have not so far attempted to takeover local banks as they have done in California or to seek major stakes in the U.K. financial houses as, for instance, Sumitomo Bank did with Goldman Sachs in the U.S.A.

Current Developments

Why have they been so cautious? One factor may be the tightening in September 1987 by the Ministry of Finance of the Japanese banks' risk-weighted foreign assets ratio. Another may have been the tough anti-Japanese statements made in Parliament in March 1987 and the provisions of the Banking and Financial Services Acts. But more probably more important have been cultural factors. The Japanese approach in banking has always been a cautious one and they have no easy guide to the risks inherent in lending to U.K. companies or institutions. They need good British staff, but they have so far been reluctant to appoint British managers to top positions for reasons of language and corporate culture. Some of the securities companies, e.g. Daiwa, have been adopting a more international approach in appointments, and Nomura has become the largest single employer in the City of Oxford and Cambridge graduates (offering salaries way above those offered by British institutions). But to attract the best the Japanese will have to do more than offer high salaries. They must open up the higher posts to foreigners and so far they have not seen their way to this.

It is possible that Japanese banks may try to make major inroads into U.K. domestic business and may be tempted to build up stakes in British financial institutions. I think that Japanese lending to U.K. corporates will increase quite significantly where risks are not great, but they will continue to put the main emphasis in London on international

business and will abide their time over possible acquisitions. They will, however, expand their efforts to achieve joint ventures with British investment management companies. Their purpose will be to learn more about international investment management, an area where they are less expert than some of our institutions. British institutions entering into such arrangements need to do so with their eyes open not only to the immediate gains but the longer term risks.

I do not assert that once they have learnt all the "tricks of the trade" the Japanese partners will let the joint ventures wither. But they may, especially if the British partners do not build up in-depth relationships which will last, and do not keep ahead of the game.

Scale and Regulation are Important

Japanese securities houses are very powerful. In 1986 in London alone they were responsible for $1 billion in equities and $18 billion in bonds. In the Eurobond market, Nomura and Daiwa were the top two institutions. Nomura had an 8.4% share and Daiwa a 4.6% share. The power of Japanese securities houses is demonstrated by the following figures from Nomura: an equity base of $4 billion, net income over $1 billion, assets under custody $150 billion, customers accounts $3.9 billion. Japanese competition in the relatively free market of London is formidable.

What then is the position in Japan? Article 65 keeps the banks and securities houses out of each other's patches. While many rules have been modified (or "liberalised" to use the Japanese phrase), the influence of the Banking and Securities Bureaux of the Ministry of Finance is all pervasive. Japanese banks cannot open a new cash dispenser, let alone a new branch, without permission. Cash dispensers cannot be operated outside specified and limited hours as this would lead to "unfair competition" for the smaller banks who cannot afford the necessary network. Only trust banks can deal with pension funds. Rates of interest on "small deposits" (up to 100 million yen) are controlled to protect the Ministry of Postal Services from losing postal savings accounts to the banks, but this has made it extremely difficult for foreign banks to accumulate deposits and compete effectively in Japan with Japanese banks.

Foreign Banks in Japan

Although there are 79 foreign commercial banks operating in Japan, their share of the market has been falling. Together they have only 2% of the total lending business of banks in Japan, and less than 1% of deposits from commercial customers. Of this total, the five U.K. banks have only 0.2% of lending and 0.03% of deposits! Although there is no legal or regulatory discrimination against foreign banks, it is very difficult for them to expand. They do not have the relationship which Japanese banks have with the 'keiretsu' groups and because they cannot attract deposits, not having a large low-cost retail base. Tokyo is also expensive.

Nine British houses have securities branch licences, including merchant bank subsidiaries of U.K. banks. This is permitted through 50% joint ventures and could be described as a form of reverse discrimination as Japanese banks cannot do the same.

Branch licences are important, as without them the bulk of commission income has to be paid to Japanese intermediaries. Even with a branch licence, 27% of commissions go to Japanese brokers until stock exchange seats have been obtained. Hence, the emphasis placed last year by the British authorities in gaining stock exchange seats for British applicants. The Tokyo Stock Exchange has not had a "big bang". Fixed commissions are high except for large institutions (this favours established brokers especially the big Japanese ones), and the emphasis on dealing on the floor of the Exchange is out of date with this electronic age. British houses will have to fight for a reasonable share of the Japanese securities market. Their share of the $9 billion brokerage commission earned by all members of the Tokyo Stock Exchange is at present minimal.

One British bank (Barclays) has managed to get a trust bank licence, while twelve U.K. fund management companies have been licensed as investment advisers. The market is huge, but the structural difficulties for foreign companies and the costs are immense.

The Appropriate Response

The balance of advantage would seem to be weighted heavily in favour of the Japanese in London as against the British in Japan. Our regime is more liberal and less expensive than the Japanese, and it is easier, although not easy, for the Japanese to operate in a British cultural milieu than for the British to operate in the Japanese environment. Does this, as some people allege, amount to less than a level playing-field? The answer must be that it does in practice if not in theory. But an insistence on exact reciprocity is difficult to achieve especially when the evidence of discrimination by the Japanese authorities is limited and when the main problems lie in structural and cultural differences. An over emphasis on reciprocity might also tend to restrict the growth of the U.K. market and eventually undermine its world position. It is arguable that the take-over provisions in the Banking Act are sufficient to prevent Japanese institutions dominating British banking and that the Securities Rules can be used effectively to prevent predatory tactics in the securities field.

I suggest that the main needs at the moment are:

firstly – constant vigilance and observation of Japanese financial strategy and tactics, and caution over joint ventures;

secondly – the maintenance of the highest standards of innovation and of excellence to keep ahead of the Japanese competition; and

thirdly – a major effort to train staff involved in business with Japan to understand Japanese language and culture.

We must not allow ourselves to be intimidated by the cultural and structural differences. The Japanese have achieved much, but they are not super-men. There are weaknesses in Japanese society and institutions. One of these is the failure of Japanese companies, including banks and securities houses, to achieve any real internationalism of their management! But there are others in the Japanese education system, with its emphasis on passing exams and the cult of the group, Japan's economic dominance will probably last another decade or two, but it too will pass. In the meantime we must live with it and make the best of it, i.e. use it to our own advantage.

WIDENING FREEDOMS IN NEW ZEALAND

By Mr Bryce Harland, High Commissioner for New Zealand

Over and beyond our political freedoms we New Zealanders have enjoyed a great deal of economic freedom. Our economy, like yours, was built up largely by private enterprise and the private sector still comprises by far the greater part of it. In New Zealand the machinery of Government has on occasions been used by all political parties to mobilise capital for the development of the country; but "nationalisation" has seldom been a major political issue.

New Zealand was developed in the 19th century to supply Britain with good cheap food – and we did so reliably in war as well as in peace. But in the 1930s we found that Britain could no longer take all the butter, cheese, meat and wool that New Zealand could produce, and there were at that time few alternative markets for our products. Our response to the Great Depression was to try and insulate our economy against price fluctuations, and to develop manufacturing industries of our own. Our infant industries were protected, both by tariffs and by import licensing. These measures led to growing regulation of the domestic economy, which narrowed the consumers' freedom of choice. The attempt at insulation also led to a rapid growth in our external debt.

Radical Change Since 1984

When our present Government was elected in July 1984, it was confronted with a foreign exchange crisis. It realised that New Zealand had been living beyond its means, and that the time had come to face realities. It also saw that the best way to put our economy on a competitive footings again was to open it up to competition, from abroad as well as at home.

During the past three years there have been radical changes in our economic policies – at least as radical as those you have had in Britain. To mention only the highlights, our Government has:

- abolished all controls over prices, wages, rents and foreign exchange dealings
- floated the New Zealand dollar, and refrained from intervening in foreign exchange markets
- halved the top rate of personal taxation from 66 to 33 percent, with company tax down to 28 percent
- abolished the subsidies previously given to various industries, including agriculture
- reducing tariffs and dismantled the system of import licensing

Radical changes like the ones I have mentioned cannot be made without cost and at present the costs are weighing down on New Zealanders.

- Unemployment has risen to the highest level since the 1930s, and emigration is also running high
- Farmers' incomes have fallen sharply, as have their land values, and many of them are in financial difficulties
- Share values have fallen more in New Zealand than in most other countries, with severe effects on our financial sector.

Our Government recently had to postpone the introduction of a single rate of personal taxation, but it has committed itself to seeing through the changes that are required to achieve its objectives. A third of our Post Offices have been closed, legislation has been passed reforming the State Services, and several enterprises at present owned by the State are being sold, in whole or in part. That is the measure of our Government's commitment to radical reform.

U.K. and N.Z. Policies Differ on Agricultural Subsidies

The policies that are being carried out by our Labour Government are in some respects parallel to those of your Government. The objectives are similar – particularly the objective of raising living standards by letting markets determine the allocation of resources. But there is at least one important difference between the two cases. New Zealand farmers have lost all the support they were getting from the State – which was in any case not comparable with that enjoyed by British farmers. In New Zealand agriculture is not excluded from the general movement towards liberalisation.

Your Government's freedom of action in this area is limited by Britain's membership of the European Economic Community. The Common Agricultural Policy is based on the principle of Community preference, and takes little account of other considerations. The British Government had taken the lead in drawing attention to the enormous cost of subsidised food production in Europe, North America and Japan. At its recent Summit meeting in Brussels the EEC Council took an important step to limit the cost of the CAP by a system of "stabilisers". But the CAP still limits the consumer's freedom of choice by restricting imports and subsidises agriculture through unnecessarily high food prices. Some farmers are seeking compensation for the cuts they are taking by calling for further reductions in the quantity of butter Britain imports from New Zealand -even though this is now less than half what it was when Britain joined the E.E.C.

The Best Way to Build a Strong Economy

Some Members of Parliament have recently put forward a Motion in the House of Commons affirming "The right of British consumers to continue to buy butter from New Zealand in the same quantities as now", and calling upon the British Government "to ensure that there will be no diminution in New Zealand's butter exports to the United Kingdom".

So far over 180 MP's have signed that Motion, and only a few have come out in open opposition to it.

We appreciate their action, and the public attitude that it reflects. Our butter exports to Britain are still very important to us, and any reduction in them would be a serious blow to our efforts at radical economic reform.

Any reduction would also limit the freedom of choice of the British consumer, and run directly counter to the general direction of current policy changes.

New Zealanders fully realise that widening economic freedom is not as easy as it sounds. In the short term the consequences can be quite painful, at least for privileged groups. But experience has taught us that other approaches can be even more costly. To earn a decent living, we have to be able to compete in world markets, and we cannot afford to carry inefficient industries. Giving the individual as much freedom as possible is an end in itself, for all Western countries. It is also the best way we have yet found to build a strong economy, and give people more of the good things of life.

INTEREST-FREE FINANCE: ISLAMIC ANOMALY OR GLOBAL ALTERNATIVE

By Mr. L.W.T. Stafford

Economic analysis tends to lose it's sureness of touch when ethical issues become involved. A market-based system, such as that towards which the UK economy is evolving, can be shown to tend itself towards beneficial results ***provided*** that given a degree of inequality in wealth and income is accepted. It may even be acknowledged that market processes increase the level of inequality. In the absence of any externally imposed guide, however, no amount of conventional analysis will tell economists, or governments or even socially concerned individuals what is the optimum level for a particular society.

Another moral and ethical issue which is pertinent to the economic situtation in which Western societies find themselves is the existence of a mountainous accumulation of consumer credit on which high interest rates are charged.

Yet another concerns the profitability of the financial services sector which is dependent on arranging and providing finance, much of it at rates of interest which are much higher than those which have ruled, in real terms, in the recent past. These high returns to the provision of finance have not been without risk. Debts from newly industrial countries, particularly those in Latin America have had to be written down. Stock markets have endured sensational falls. These falls, the October "melt-down" for instance, have been in equity markets, predominantly. Equity holders must expect reverses; risk is a part of their contract.

Holders of debt, though, gain a reward which is less subject to risk, although it is not risk free. The distinction between lending at interest and participation in the risk of an intendedly profitable enterprise is one which has a central place in the Islamic approach to economic affairs. Here, the injection of a firm ethical line is confident and uncompromising. Does it matter, though, for Western economists, financial analysts and investors? It does, for three reasons: firstly, the Islamic nations, and their economies are increasingly a factor which cannot be ignored in the world economy; secondly, the Islamic economic system interacts with the financial system of the West and, thirdly, the freedom from ethical inputs in conventional Anglo-Saxon economies may now be an impediment to the development of policy formation and perhaps to the survival of our system.

The unease which Western economists feel at the rewards accruing to the financial services sector has been expressed by Tobin (1984). The guilt experienced by those in government at the problems of the ethicly-mixed inner-cities, in the UK and the USA, has led to a plethora of uncoordinated programmes which may yet prove to be more expensive and more intrusive than would be the case if there were to be an open acknowledgement of the need to fill a vacuum in the conventional analysis.

Islamic thought is clear on, among other things, two economic aspects: that usury is wrong and that hoarding is immoral. Consequently, banking must, in Islamic societies, be interest-free if the rules of behaviour laid down in the Qur'an are to be followed. Increasingly, though, the question of whether an "open" Islamic economy can exist within a finance-orientated international economy has become an acute one as has the related one of how to control a modern, developed Islamic economy which is free of interest-taking.

These questions are approached at an analytic level by Muhammed Anwar in his macro-economic study of an interest-free economy.[1]

Both Keynesian and neo-classical analyses see investment expenditures in new capital equipment and investment goods as responding, inversely, to interest rates. To remove this control and stimulus from the analysis consequently leaves a disturbing void and, in policy terms, reduces the range of instruments available to the authorities. Adapting the neo-classical models, particularly that of Thomas Sargent (1979) Anwar employs the *mudaraba* concept, which requires risks to be shared and profits to be divided between the provider of capital and the client who is to employ it in some enterprise. This is only one of a range of contracts which can be employed in interest-free transactions.

In neo-classical models business firms compare the marginal return on investment projects with the user cost of capital as they estimate it to be at the time at which decisions are made. Under *mudaraba* contracts, the user cost of capital is calculated as:-

i) the "normal" rate of profit (θ) times the agreed profit share going to the provider of funds (k) (giving $k\theta$)

plus ii) the rate of depreciation

less iii) the rate of inflation

This gives the anticipated real *mudaraba* return to the funds provider and it is this which is equated to the marginal product of capital to give the investment demand.

For households, portfolio decisions respond to the expected return on *mudaraba*, an increasing value for $k\theta$ leading to reductions in planned real transactions balances.

Similarly, the inflation adjusted *mudaraba* return enters into consumption.

The revision of the neo-classical analysis to that point is reasonably convincing and could be taken further but the approach to government financing is less sure-footed. The definition of government-issued *mudarabas* is inadequate and the operation of an interest free system of government financing would be likely to be cumbersome and subject to a disquieting degree of sophistry.

It is worth noting, though, that Islamic thought seems to suggest that a balanced budget is a required objective for Islamic societies.

The requirement that bond finance by government should be minimised might be taken as indicating that privatization of government activities under *mudaraba* finance with balanced budgets would be desired and even required by the religious authorities. Does this limit political as well as economic options for an Islamic state?

Anwar's models suggest that the profit-sharing ratio, responding to changes in taxation, government expenditure and expected inflation rates, is a key control variable.

Models, though, are "systems for ordering thought"; they are not descriptions of reality. The conditions set out suggest that an increasing capital stock will be likely to lead to increasing real wages and employment. This is unsurprising since the underlying assumptions are imported from the neo-classical model. Interactions between the equations suggest that increases in tax should reduce the profit sharing ratio and so induce greater investment outlays. Government expenditure, though, may crowd out investment.

Saving, however, in a *mudaraba* financial analysis may respond negatively to the profit-sharing ratio in the models.

The financial effects of Islamic interest-free systems could well be extended. Anwar suggests, no non-Islamic developing countries. Saving behaviour would be less perversely affected by inflation (or deflation) and development paths could become less erratic.

Muhammad Anwar's study offers interesting extensions of fairly conventional macro-economic models but practical investigation is needed both to test effects in societies which also, to an extent, employ Islamic approaches to banking and to explore the political consequences and restrictions of interest-free finance.

The moral and ethical questions are important enough, though, to concern us all.

1) Muhammed ANWAR, *Modelling Interest-Free Economy: a study in Macro-economics and Development*, The International Institute of Islamic Thought, 1987. Available from Shorouk International, 315-318 Regent Street, London W1.

A CASE FOR OBDURACY

By Mr R.F. Read BA., ARICS

Large scale development on agricultural land in the south east could prove as great a disaster to national recovery as post war urban planning policies have to the economy, social fabric, and technology of the UK.

Planning Schemes cleared or blighted vast city areas and consumed many acres of virgin countryside while destroying hundreds of thousands of good homes, along with the minority of bad ones from which the policies had been subjectively generalised. With them went communities that made little call on the state and seldom wanted the action in hand.

Having exported one substantially imagined problem to the countryside, at vast profit to the construction industry and greater cost in lost alternative investment opportunity (i.e. blue streak, TSR2, Kidney Dialysis machines or what have you) a greater one appeared in the inner cities: the capital's problems are typical of the other larger provincial cities.

In 1945 London housed 8.6m people. Over 4m indigenous natives have left since that time and around 2m newcomers have settled. Today, as the still falling population nears 6m, the once vibrant metropolis, with a talented population making small demand on public funds, is, apart from occasional oasis of wealth of resurgence, largely populated by the elderly and unskilled, dependant on the public purse, with much of the former population now commuting to work in the prosperous commercial heart, on overloaded roads and services, from recently green acres developed in response to pressures from the ill planned capital.

Since 1980 government initiatives have turned the tide in London. The once faltering financial heart has consolidated and developers, lacking easier alternatives, have used their profit motivated ingenuity to produce homes from sites and buildings once thought incapable of beneficial use: a majority of which remain to be tackled.

Undirected by real demand, governments have for too long used construction as an economic regulator producing the chaos of the inner cities. The twenty inter-war years saw about 5m homes built privately, in response to unfettered demand, a figure not exceeded by the efforts of both sectors in the forty years following the war, producing the horrors of ribbon development principally in the south. Considered, with experience gained from recent initiatives, all combine to illustrate that only the market is an objective arbiter and that properly constrained it can be used to lead those seeking profit into fulfilling social goals.

If the economic miracle is to be sustained, and prosperity, which makes the south a divisive magnet, spread into the rest of the UK, government would do well to resist lobby pressure from developers seeking quick profit from the easy options and from others who, in the face of a static population, proffer suspect statistics, tailored to fit their particular use.

London's post war planners' soon learned that car parking space produced traffic and demand for new roads – adding to the decline of the environment and public transport.

Today's surrender to institutional and retail lobbies wishing to build shopping Malls outside towns accelerates the decline of established centres and communities, increasing dependance on the car with provenly destructive spin offs. Anyone travelling widely in the USA will encounter town after town surrounded by a ring road with a car park/ shopping Mall at each freeway junction serving a population commuting from the countryside, while it's centre lies residentially dead to other than the very poor. Furthermore, unlike the USA the UK does not have a surfiet of low cost land.

Yet more large scale development on virgin land in the south east would place unacceptable demands on the land stock from traffic creation, new roads, and other infrastructure needs. In addition it would compound the tendency to depopulate the north exacerbating the economic divide.

There are indications that business, aiming to lower overheads, and people seeking cheaper homes (many looking to release capital), are moving north adding to the already growing prosperity of the regions. Indeed, in comparative terms, growth in house prices in the South East has slowed recently whilst those in the regions, especially in East Anglia, have moved sharply forward. Increasing values arise mainly from a small remedial shortage of stock on the margin, of which couples looking for tax relief are but one current factor cause. All evidence suggests that if government resists the lobbying of developers and farm owning institutions to allow the easy option, uses the constrained market as a tool, and organises some special developments for let to local families in those rural areas of low income hardest hit by rising values, Britain could again become one nation.

"EUROPE 1992" – A NOTE OF CAUTION

By James Bourlet

'1992' and the benefits claimed for the Common Market's single market proposals are being hoisted as the new stars for us all to gaze towards. But there are just a few points to ponder – just to ensure that our spaceship remains on course.

Firstly, one might note that the benefits claimed, though, in new cloths are precisely those claimed for British membership in 1972. At that time they were seen as the 'profit' to be exchanged for the 'loss' of C.A.P. costs. Reality, in contrast to proposal has taught us that the politics of Europe often ensure that one suffers the costs without reaping the benefits.

Secondly, there ***are*** costs within the proposed 1992 package. One is that it involves member states abandoning finally their ability to make independent commercial arrangements with 3rd countries. This basically means that Brussels will make all policy decisions regarding trade with Japan. Tariffs can be imposed raising Common Market revenues, V.E.Rs can be imposed with impunity on any or every product and vast new powers will accrue to that organisation – at consumer expense.

Thirdly, the proposals include the idea that ***all*** member countries should accept any product standards acceptable to ***any*** one member government. This is surely a recipe for competition between members to lower standards in the interests of cost advantage.

Fourthly, the whole package will greatly reinforce calls for a common currency – at precisely the moment when such a move is most dangerous. The free movement of goods, services and finance must lead to 'Euro-regional' disparities, and exchange rate flexibility is absolutely essential to mitigate these effects. Subsidies can never be large enough to do the job.

Meanwhile, one need not doubt that each member will fight to water down the proposals – and in the meantime our attention will be yet again diverted from the Common Market's two great offences – it's protectionism in general and it's maintenance of the C.A.P. in particular.

THE EDWARD HOLLOWAY COLLECTION REVIEW

Expansion or Explosion by Anthony Vickers.
Published by The Bodley Head. 1955 (83 pages)

"Of all the inventions throughout the ages there is none that has been, or is, a greater influence for good or evil than money, in whatever form. No invention is more used by the peoples of the world and yet is less understood".

These cardinal statements are central to the theme of Anthony Vickers succinct exposition "Expansion or Explosion". As an innovative successful industrialist from the famous Vickers family, the author draws from actual observation and intelligent analysis, the unique role of money in enabling abundant production (arising out of the machine age) to be distributed widely and fairly and thus become abundant prosperity for all.

Set as a lighthouse of inspiration for the future; towering over the turbulent sea of darkness and mistake which characterised the 1914–45 period, perhaps Mr Vickers in calling for "a sound policy to increase purchasing power rather than to restrict output" embraced a vision of modern consumerism. Not that our swords have yet been beaten into ploughshares but a boom on Wall Street is at least as much based on people flocking to the sales nowadays, as it was historically upon people marching as to war.

At a cursory glance it might be held as an accusation against this marvellous little book that it's analysis and conclusions were contributing causes to the inflationary explosion of the 1970's. Closer scrutiny rapidly dismisses such false witness. The author proposes reform based upon better understanding and balance, whether domestically or globally. Nevertheless, Mr Vickers has not dealt decisively with the problem posed by inflation (potentially arising from the expansion of purchasing power) and this is certainly a weakness.

However, the book is an excellent stimulus to fundamental study, implicitly asking what is money? And explicitly, why do we use it? What forms does it take? Has it any value in itself? Where does it come from? Moreover, "Expansion or Explosion" is

nothing if not entertaining, if only by virtue of the two appendices, "We beg to differ" (a talk given by Edward Holloway in 1947 subtitled, 'Free trade in money – or bi-lateral barter, a false dilemma', broadcast on the B.B.C's third programme) and an extract from Sir Winston Churchill's statement on the Gold Standard from Hansard, 21st April 1932.

Referring to the events since the return to the Gold Standard in 1925, Sir Winston, accepting blame, says, "But what has happened? We have had no reality, no stability. The price of gold has risen since then by more than 70%. That is as if a 12 inch foot rule had suddenly been stretched to 19 or 20 inches, as if the pound avoir dupois had suddenly become 23 or 24 ounces instead of 16".

So what is money?

A.J.H

BIG BROTHER KNOWS BEST

How often one stands at a traffic light or by a stationary line of traffic wishing that the closed bus right in front had an open platform to jump on to ! Something important in the convenience of London life has surely been lost by the introduction of 'efficient' one man closed door models. I mentioned this point to a representative of London Regional Transport and was given the following reply.

"Your regret at the loss of 'Hop-on' facilities is certainly shared by others, and some other people would prefer the retention of fare collecting conductors also. But the move to busses equipped with entry and exit doors reflects the design regulations which restricted the now-defunct bus grant system, whereby the government contributed to the cost of new stock, ostensibly to speed up the introduction of buses operated by drivers only. This effectively closed down manufacture of open-platform buses around 1970"

Can we have our platforms back please? – Sir.

J.B.

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