



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

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## THE ENGINEERING INDUSTRY IN THE UK ECONOMY

*Summary of a talk by Ian Thompson, economic advisor to the Engineering Employers Federation, to members of the Economic Research Council on Thursday 28th February 1991.*

I will try briefly first to indicate why engineering is especially important to the maintenance and growth of living standards in all economies; and then to look at the particular case of the UK economy to assess the past, present and potential future role of engineering in the UK.

### What is engineering?

I ought to make as clear as possible just what I mean when I talk about "engineering".

Engineering can be defined broadly as: "the application of scientific principles and empirical knowledge to the design, construction and maintenance of machines, structures, vehicles and systems." Applied to industrial sectors, that broad definition embraces not only the engineering manufacturing industry but also engineering construction and engineering services. It covers civil engineering too – although the EEF does not represent the civil engineering sector.

Engineering activities take place to some extent in most parts of the economy – so that engineering is not confined only to those industry sectors described as the "engineering industry".

Tonight my remarks refer specifically to the engineering manufacturing industry, although most of what I will say about the contribution of engineering to the economy applies equally well to the very broadest definition of engineering.

Just to illustrate the range of products from engineering manufacturing, the three largest by numbers employed in 1990 among 33 specific product sectors were first – telecommunications equipment and electronic capital goods; second – aerospace equipment; and third – motor vehicle assembly. These three accounted for some 25 per cent of total employment and some 31 per cent of total sales turnover in engineering manufacturing.

### Technology, innovation and growth

Advances in civilisation have always depended on successive technological innovations – beginning with the early development of primitive tools and agriculture through printing, heat engines steel and electricity to the more recent exploitation of chemistry, telecommunications, broadcasting and computers. Today, emerging technologies offer the prospect of huge advances to come.

Only by the extensive use of engineering technology can the world sustain its rapidly growing population without famine or catastrophic environmental damage. The potential impact on society of all the existing embryonic technologies is enormous.

The special importance of the engineering industry is in its ability to create and exploit technological innovation. The resulting benefits to society are seen not within industry but elsewhere – by the final consumers of goods and services.

Engineering products and technologies are at the heart of virtually every aspect of economic life in modern advanced nations. Engineering products are used in industry and business. They are used by households for shelter, warmth, cooking, hygiene, entertainment, travel, communication and almost all aspects of civilised life. And they are used for defence, health care, education and the administration of national and local government.

New and improved engineering products enable people to improve the quality and productivity of their own activities. Improvements occur in material and cultural living standards largely because of improved performance and value-for-money in the engineering equipment in people's homes – and in the engineering equipment used by the service industries which provide travel, recreation, entertainment, education and health care. For example – publishing, films, broadcasting and music are vital media for cultural activity.

Service industries such as travel, broadcasting and entertainment and financial services have grown impressively as a direct result of the availability of new, improved and lower cost aircraft, ships, rail and road vehicles, computers and electronic equipment.

In all advanced economies, the future growth of those service industries, and increasingly of education and health care activities and environmental protection, will depend on continued engineering innovation.

Most businesses, whether in manufacturing or services, depend on innovative engineering products to enable the business to develop new activities, improve quality and reduce costs. The importance of this is almost impossible to overstate. If you look at the factors which enable businesses to expand, to innovate and to reduce costs you will find in almost every case that it is done primarily through the use of new engineering products.

For those reasons, the economic importance of engineering far exceeds its direct contribution to the gross domestic product – however great that direct contribution may be.

### Engineering's role in the UK economy

No country in the world can have and maintain high living standards without engineering. Countries with abundant natural resources and low populations may be able to import most of their engineering products – but the UK is not one of them.

However, the temporary impact in the 1980s on the UK economic structure of North Sea oil is an interesting story in itself and not entirely a happy one. North Sea oil allowed the UK economy to expand in the 1980s while its engineering industry did not expand. I do believe that to be a root cause of many of the UK's economic difficulties today.

In theory, a nation could have a thriving modern economy with only a small

engineering manufacturing sector – if it could afford to import most of the engineering products it needs. To do that, it would have to export some other kinds of product or service to pay for its imports of engineering products.

In the 1980s the UK became temporarily less dependent on its own engineering industry and more dependent on imports. This happened because rising North Sea oil and gas output earned the foreign currency to buy more manufactured imports.

In the 1990s, as oil and gas output gradually declines, the UK balance of international trade is becoming increasingly dependent on exports from the engineering manufacturing industries.

The engineering industry's exports are already much larger than those of all the service industries. In the last 20 years, engineering products have been the only major sector of the UK's total exports and imports which has grown significantly in importance. In 1970, engineering made up some 30 per cent of the UK's international trade. By 1990 that had risen to some 39 per cent. In the same period the contribution of services diminished from 28 per cent to 21 per cent.

While engineering products make up more than one third of all exports and imports, the engineering industry also makes a major indirect contribution to the exports of all other products and services – because of the dependence of other industries upon engineering products.

Agricultural exports depend on farm machinery and tractors. Oil exports depend on exploration rigs, production platforms, drilling and production equipment, pipelines, and refineries. Chemical and pharmaceutical exports depend on laboratory equipment and chemical process plant. Steel, aluminium, plastics and building materials are all manufactured in process plants supplied by the engineering industry. Textiles and clothing, drinks and food products are manufactured on machinery supplied by engineering. Exports of services – travel and tourism, financial services – also depend on transport equipment, computer systems and many other engineering products.

As the UK economy integrates with mainland Europe, engineering exports and imports are likely both to increase. But exports will need to increase faster than imports.

Throughout the 1990s and beyond, the engineering industry will be of central importance to the UK economy. Its contribution will be essential both for balance of payments reasons and for innovation reasons.

Engineering exports will be needed first to rectify the trade deficit and then to balance the increased imports of all kinds which naturally accompany economic growth.

Engineering products will be needed in all sectors of the economy to generate new business opportunities; to improve the efficiency and quality of existing businesses; and to provide the technological means for raising the material, environmental and intellectual standards of national and personal life.

The UK engineering manufacturing industry now employs about two million people. Its gross sales turnover last year is estimated at £129 billion, of which some £49 billion were exported. Measured as gross value added, the output of the UK engineering manufacturing industry was some £39 billion – which is more than eight per cent of the UK's gross domestic product.

### **The economic situation today**

The UK has serious and fundamental problems of excessive inflation and chronic balance of payments difficulties. The seriousness of both of those problems was hidden through much of the 1980s by the temporary beneficial effects on the economy of North Sea oil and gas production.

The UK's inflation problem results certainly from national attitudes to pay and price increases and perhaps also from the UK's methods of monetary monitoring and control. The UK is by no means the only country in Europe to have an inflation problem, but I do believe that our problem is more serious and deeply entrenched than in most other countries.

The UK's balance of payments problem results largely from an inadequate amount of total productive capacity in the UK manufacturing sector. Whenever demand increases in the UK economy, imports tend to rise by a greater amount than the increase in UK manufacturers' output. The EEF believes that the only solution to this problem is to increase substantially the competitive productive capacity of the UK's manufacturing industry.

The dilemma for the UK is that action to tackle inflation implies recessionary forces to dampen expectations for pay and price increases; but that same action will tend to weaken the manufacturing sector instead of strengthening it – thereby worsening further the balance of payments constraints on future expansion of the economy.

Joining the European exchange rate mechanism means that the UK must tackle its inflation problem as the first priority.

For at least thirty years, the UK has been a high inflation economy compared with West Germany, France and the Benelux countries. Being in the European exchange rate mechanism forces the UK to face its cost and inflation problem now in a way which has not happened before.

A harsh recession can cause a temporary reduction in inflation; but for permanently low inflation, expectations of prices and pay increases must remain low even when the economy recovers. To achieve such a change in attitudes is likely to need a long period of adjustment – probably several years. That is what happened to France in the 1980s. France has changed from a relatively high inflation economy ten years ago to one which is now comparable with Germany.

Thus to reduce inflation the UK needs to have several years of little or no economic growth. But the recession which is helping to reduce inflation is damaging the manufacturing industry – which should be investing to increase its productive capacity, not cutting back.

### **Engineering output and employment**

In 1990 the engineering industry's output volume was slightly lower than in 1989. Output from the motor vehicles sector fell by some 4 per cent. Output from the metal goods and electrical engineering sectors fell slightly; and output from the mechanical

engineering and aerospace equipment sectors increased slightly.

The EEF's latest unpublished forecasts indicate a reduction of some 7 per cent in engineering output volume in 1991 compared with the 1990 level; and for virtually no change in 1992.

That is an uncomfortable prospect, and not only for the engineering industry. The national balance of payments deficit will prevent growth of the whole economy unless the output and exports of the manufacturing sector are increased.

But this recession is not as severe as that of the early 1980s. The EEF's forecasts indicate engineering output levels falling back in 1991 and 1992 to the levels previously seen in 1988.

The EEF has not published forecasts for engineering employment since September 1990 – when it indicated reductions of some 80 000 jobs a year for two years. Rough estimates now suggest a loss of some 100 000 a year for the next two years. That is a large loss of employment, but is not nearly comparable with the slump of the early 1980s, when engineering employment fell by some 440 000 in the two years 1980–81 and by over 350 000 in the two years 1982–83.

The UK recession is affecting almost all business sectors – not only engineering. Unlike the recession of the early 1980s, recovery of growth across the whole economy will depend critically on what happens to the manufacturing sector. If the economy is to be able to grow in the 1990s, a very substantial increase is needed in the productive capacity of UK manufacturing. In the 1980s, the UK manufacturing sector became much more efficient – but it also became too small to support the national balance of payments.

To assist businesses to invest, the EEF has asked the government to reduce the corporation tax burden on firms which invest. The existing tax structure discriminates against investment and savings – which I believe to be a luxury the UK can not afford.

### **January 1991 balance of payments**

The balance of payments figures for January 1991, published this week, serve only to reinforce the importance of increasing the UK's manufacturing capacity. Despite the deep recession in the UK economy – which is undoubtedly reducing the amount of imports into the UK compared with the levels to be expected when the economy is growing – the January current account deficit amounted to some £1.2 billion. That is 2 ½ per cent of GDP – or about £15 billion a year. Until there is a substantial increase in competitive export capacity, the balance of payments is in danger of worsening dramatically when domestic demand begins to grow again.

## THE MONEY SUPPLY AND ASSET INFLATION – A NOTE ON RECENT EVENTS

*By Geoffrey W. Gardiner*

*“Mr Lawson’s Boom” by Brian Reading was published by the Economic Research Council in 1988. A major point concerned asset as compared to current goods inflation.*

The Financial Statistics show a story which enables one to expand upon Brian Reading’s theme of asset inflation. In 1988 and 1989 banks created the money to finance take-overs and buy-outs totalling £37bn. The take-overs were no doubt at values way in excess of previous stockmarket values for the shares – asset price inflation with a vengeance. Much of that cash went to private shareholders whose total realisations of company securities in the two years amounted to £28.5bn., a huge increase on earlier years but continuing a long-standing process. The cash paid in the take-overs had to find its way to being deposits with the same banks that lent it, but one can readily guess the route it took in its prior circulation: it went through the housing market, for the British personal investor loves to put his stockmarket profits into housing, either directly by buying a bigger house, or by investing in building societies. Either way it caused house prices to rise three times faster than the RPI. Then Brian Reading’s theory came into effect: property owners borrowed against the security of inflated asset values. The total expansion of the money supply in the three years 1988-90 has been over £150bn.

Now the credit crunch has come. Many lendings have gone sour; the banks’ capital bases are not increasing so fast; indeed Midland and Lloyds, by paying their dividends out of capital, have decreased their capital bases and ensured that they must cut their lendings by up to twenty times the amount of the decrease. Yet in the recession small businesses, which normally rely on the banks for 31% on average of their capital needs, need additional finance. The “just in time” policy of large manufacturing companies passes the stockholding function down the line to their smaller suppliers. The position of small companies is then aggravated by the growing practice of late payment of bills.

The building societies however are still increasing their capital bases. Woolwich made £217m. profit in a 15 month accounting period and although the Directors have spent £17m. or so of that on buying estate agencies from the Pru the rest would be enough for an expansion of the money supply of £4bn. Where can the money go? Ideally the building societies should now take over the role that the banks cannot fulfil for a while – finance industry in the way that their Japanese equivalents, the Trust Banks, have done for forty years. Unfortunately when Lawson levelled the playing field between banks and building societies and made it possible for them to compete for deposits on equal terms, he failed to make it possible for them to compete for lendings on equal terms: the banks can compete for mortgage lending – and have done so with disastrous results in house price inflation – but the building societies cannot compete in the banks’ traditional lending market.

The result is a capital system for Britain which is a disgrace.

The £37bn. of take-overs and buy-outs represented a transformation of the British capital market away from equity towards loan capital. To raise interest rates in the

knowledge of that transformation was an act of economic vandalism only paralleled by the 1925 return to the Gold Standard.

## BRITAIN’S EDUCATIONAL SYSTEM: THE LESSONS OF HISTORY – HAVE WE LEARNT ANYTHING AT ALL?

*By John Black*

In response to Professor David Bell and a suggestion for debate about Britain’s educational system, as a practising teacher and an ‘educationalist’ I would agree with his proposal that in certain circumstances pupils should be allowed to leave at 14, provided three conditions put forward by Professor Bell can be satisfied. These points are:

- i) They have reached a certain minimum level of attainment, which can be verified by the proposed tests of attainment (presumably in terms of the National Curriculum).
- ii) They have secured entry to some kind of formal apprenticeship which leads to a skilled occupation.
- iii) They continue part-time study until they have gained GCSE in at least English and mathematics.

As an experienced teacher who has taught for ten years in city secondary schools, the advantages of his proposals are very apparent. A large part of a teacher’s time and the management in secondary schools is spent on either disruptive pupils or on attempting to redress truancy. The two areas have very close correlations, much of which has little to do with education or pedagogic skills. Indeed, I have found my role in recent years more akin to social work than pedagogy. What should be realised is that many children attending school in the state sector do so only because the law requires it.

However, there are certain points which would make Professor Bell’s suggestion unworkable with the current British educational system. Standards of attainment, work-related experience relating to part-time education, and continuing day-release schools are not new concepts within the English educational system. Historically the employment of children and the raising of the school leaving age has caused major obstacles. For example, the 1876 Elementary Education Act allowed for half-time elementary education as long as the pupil had attained Standard IV in the Revised Code (a 19th century version of the National Curriculum). The system did not work, because of a lack of effective policing – which was the problem with most Victorian educational legislation. Half-time systems of education varied from region to region. In many rural areas it involved work on the farms in the mornings and evenings, and school in the afternoons. The Lancashire and Yorkshire half-time system, where children were employed in textile mills half-time, meant one week at school followed by one week at work.

The problem was not only one of enforcing attendance but also of employer attitudes and of having tired children at school (definitely a barrier to learning). Employers were always keen on the half-time system so long as trade was slack. In times of boom it was difficult to enforce compulsory attendance as the employers and landowners were also the local bench!

Nevertheless, the major points made by Professor Bell were almost identical to the provisions of the 1918 Education Act. This Act raised the school leaving age to 14 but gave local authorities the enabling power to create day continuing schools where children and young persons would attend on a day release basis until the age of 18. Hostility to this provision came from employers' associations whose labour forces consisted of a high concentration of children, notably the newspaper industry, the Retail Newspaper Association, Retail Dairy Association, the Actors' Association and the London and Provincial Theatre Managers' Association. Certain Members of Parliament, too, were disturbed by the provision of day continuing schools. Indeed, B.E. Peto, Conservative member for Wiltshire East, argued that such a system smacked of 'Prussianism'! Peto was a director of the Morgan Crucible Co. Ltd. at Battersea. Prior to 1914 he had visited the vast Krupp complex at Essen, where industry, education and state had worked in harmony to produce a vast industrial and welfare society on Bismarkian lines since the 19th century. The Bismarkian welfare system in Germany created a collective or statist society: German companies such as Krupp had a system of employee benefits ranging from kindergarten to technical schools through to pensioner care. Such systems were not unknown in Britain. Robert Owen had similar schemes at his New Lanark Mills in the early 19th century, and companies such as Cadbury's and Fry's were noted for their paternalistic employment policies including the provision of technical schools.

Despite this, the British have always tended to have a suspicion of statism or collectivism. Though Liberal reforms after 1906 meant more intervention by the state into the lives of the population, laissez-faire views such as free trade and the free market were still closely cherished policies held by many politicians. Indeed, the jurist A.V. Dicey was totally opposed to collectivism and had a contempt towards the 1906 Education (Provision of Meals) Act, believing that parents would be deprived of their responsibility for the care of their children by intervention of the central government.

Similar attitudes are common today, and Dicey's argument has been resurrected by Somerset LEA who have scrapped the County's school meals service in the name of prudence. Educationally, however, whether in 1906 or 1991, a hungry, underfed child has a learning barrier. This is even more pronounced if the child comes from the underclass in society. Laissez-faire attitudes in education still prevail, however. In delivering the Presidential Address to the British Association in August 1990, Sir Claus Moser argued that education should be the government's top priority. Sir Claus commented that free market forces' philosophies were in danger of making Britain "one of the least adequately educated of all the advanced nations". Michael Fallon, MP, a junior education minister, stated, in dismissing Moser's argument, that what was needed in education "is the discipline of the market place, the power of the customer and the engine of competition". Education in Britain has been reduced to consumerism!

H.A.L. Fisher, as President of the Board of Education from 1917 to 1922, was perhaps the most visionary Minister of Education this century. Fisher was an academic historian and an educationalist who was taken from the groves of academe by Lloyd George into the Coalition Government of 1916 in order to prepare for a post-war educational restructure. Fisher, unlike Butler in 1944, attempted to bridge the vast gap that still exists between academic and vocational education. The concept of day continuing schools was part of this strategy. It failed due to the inertia of employers and the paucity of local authorities who were penny-pinching during the recession of the twenties. Only one day continuing school was ever established, at Rugby. It was closed down in 1969.

Professor Bell's suggestion would also fail because the structure of the educational system is organised on a dual private and state sector. The system is also very fragmented with little concordance. Professor Barnett quite rightly described the system where changes appear to be 'one-offs' attached to an already fragmented system which is administered by a variety of administrative departments and agencies with no apparent cohesive structure or policies of co-operation. The state system can be either local authority controlled or maintained, if it is a Church school. Since the Education Reform Act, City Technological Colleges and grant-maintained schools (the opt-out system) have been added to the structure.

So this nation now has varying degrees of decentralised state schools with the addition of two centralised types of schools, CTCs and opt-out schools which, according to free market philosophies, have to compete with each other. Neo-classical economic theory assumes that the market is perfect, therefore equal. The market in reality is very unequal. Even in the state sector CTCs and opt-out schools are not obliged to enrol 'statemented' children. CTCs are not required to conform to the provision of the National Curriculum.

Most city state schools in local authority control, whose very fabric is decaying, and who take the children of what Professor Barnett described as the underclass, have no means of competing with the CTCs, grant-maintained schools or the independent sector. The very fact that the law requires children to receive compulsory education until the age of 16 makes a mockery of the fact that education can be controlled by free market forces. That is why Professor Bell's proposal appears to me to be very sound and constructive.

Our European partners and Japan have very centralised administrative control over education and training. Policies are very much more cohesive and there are much closer links between academic and vocational education. Normally one Ministry controls the administration of education and training with all the parameters involved. Alternatively, as in the Japanese model, the Ministry of Education works in close collaboration with the Ministry of International Trade and Industry in order to plan manpower and training requirements based on long-term strategies.

The British experience over the past ten years has re-emphasised individualism over collectivism. Plans for training and education are made over short-term periods. Education is the Cinderella of government expenditure in time of recession or in time of war.

The English in particular have a manic obsession over centralisation or statism. The root causes of this perhaps go back to the absolute monarchy of the early Stuarts. Centralisation and funding from the public purse has always been an anathema to the English. Education has always been regarded as an 'expense', and an unnecessary one at that. Many of the National Curriculum proposals would have been either cheap to administer or efficient, but not both. The 19th century Liberal Revised Code of testing reading, writing and arithmetic in elementary schools had the same policies. Elementary educational policy, during the 19th century, was in fact administered by auditors, as the famous Cockerton Judgement demonstrated. The education of the masses was about coercion and control. I still see this as the hidden curriculum within the National Curriculum. Let me demonstrate this point by suggesting that even with so eminent an historian as Professor Corelli Barnett, whose works I admire, under the history National Curriculum testing I would not be able to use his works or views.

Again, with the best will in the world many industrialists are still loath to pay for training and education for their workforce, let alone give time off for younger employees between 14 and 18 to attend for part-time study. Industry and commerce have been slow to respond to the funding of CTCs. I disagree with Professor Bell's comments about apprenticeship training. This system, once so universal, is almost moribund in Britain today, which is a great pity and crass stupidity, as the German system is alive and kicking. Many youngsters who now leave school for employment at 16 enter mainly the retail distribution or service industries. These types of industries, as in 1918, are cost driven and any training given to youngsters is very 'in-house' and very basic. Young people leaving at 14 years of age would enter similar industries.

A second major problem with the English is their preoccupation with class and culture. It is assumed by many in educational authority that there is 'high' culture and 'low' culture. This view still prevails in the Higher Civil Service, in the Department of Education and Science and in the Clarendon Schools and Oxbridge. Professor Barnett stated how there is now a GCSE in Craft Design and Technology. I doubt whether this subject will make any impact on the great public schools or Oxbridge. Indeed, I fear that in certain cases the craft element may override the design and technology component.

Despite cosmetic reforms of the 1960s and early 1970s the English public school system still encourages a classical liberal arts curriculum. This is demanded by the classical professions, which include Parliament, the Higher Civil Service, the Law, the Church and the City. Even the City has always had a 'snobbish' contempt for things manufacturing. Anything scientific or technological, smokestack or greenfields, has similarly been treated with some contempt by the gentrified professions. By comparison industrialists, manufacturers and entrepreneurs generally have had an anti-intellectual contempt for education and theory. The basis of the English entrepreneur has been the 'practical man'. Indeed, science and technology have been treated as a poor relation by society in general.

Corelli Barnett is quite right in stating that we have been educating for industrial decline since the 1940s. All the Education Acts that have been passed and the Bills that have failed have been compromises over religious controversy, and I would include in this the 1988 Education Reform Act. Fisher had to make compromises to the 1918

Education Act under pressure from the Congregational Education Union. Butler, as President of the Board of Education, spent most of the issues surrounding the 1944 Education Act attempting to resolve dogmatic religious dilemmas. The 1944 Act, unlike the 1918 Act, made no attempt to redress the balance of science, technical and vocational education.

Professor Bell in his suggestion identifies the 'grammar school' (German 'gymnasium') line for pupils. I have already dispelled the 'apprenticeship' system. It tends now to be a minor irrelevance in the English educational system, which I can only say is a great pity. Much more must be done in Britain to redress the link between academic and vocational, between theory and practice. Even in Germany in 1925, when the provisions of the 1918 Education Act were a dead letter, the Weimar Government, despite its economic difficulties, produced a system of day continuation schools which gave its students nationally recognised dual academic and vocational qualifications. The Berufsschulen system is what is needed in Britain, with higher colleges based on the German 'technischulen' model.

Vocational training in Britain is very much divorced from education. Much of what happens in the name of vocational training is not vocational at all. It tends to be training basic personal-interpretation skills. This is unfortunate as it has debased the rag-bag disjointed schemes that exist in Britain today. Most vocational courses run in British schools and colleges – TVEI, CPVE, ET, JTS – tend to reflect cheap and shallow training. Many employers and the trainees themselves see little relevance in the 'Waynes and Traceys' being statemented that they can take a telephone message, make a bed or make tea for two. The German system of vocational education is much more advanced than this. Much of their academic and vocational training is based on an apprenticeship system. The Wissenschaft philosophy has been the fulcrum of the German university and technological educational system since the 18th century. In Britain, science at university level reflected pure science, not technology.

Notwithstanding this, the present system of A-levels does not give a wide enough breadth to young people. The present A-level system has a 30 per cent failure rate. I would suggest that this is a reason why many young 16 year olds 'drop out' of education at this point. They see the existing vocational training schemes as irrelevant, or alternatively the A-levels being too hard or remote. This leaves a large middle gap of talented youngsters which both the educational and vocational training systems cannot recruit. Professor Bell equates the 'grammar school' (German gymnasium) structure in his suggestion. Is it not time that Britain was restructured on the European model, having a centrally controlled educational system under one department, offering a Baccalaureat-type post-16 curriculum – or is this too Prussian?

To summarise:

Though I would agree with Professor Bell's suggestions, which contain very good points, the main thrust of the debate on the educational system in Britain should be concentrated on the following five points:

- 1) A centrally structured educational system, and centrally financed. This point was the central premise of Mr. Michael Heseltine's Conservative leadership brief. However, this policy should be pursued for the sake of educational improvement and invest-



ment and not purely to reduce the burden on the local authority community charge.

- 2) Education provision in Britain should be identified as an investment and not an expense. This was a major premise of Professor Barnett's point in Chapter II of 'Audit Of War'. This is also the emphasis of Sir Claus Moser's presidential address to the British Association.
- 3) Long term economic strategic planning is required in Britain, where educational policy is seen as a major contributor. This is the Japanese model. Also, the British model of laissez-faire doctrinal issues of 18th century philosophy is now irrelevant in terms of 20th/21st century educational philosophy. Collectivism is not the same as socialism. The Japanese are not a socialist nation, but then neither do they pursue near Smithsonian/Ricardian neo-classical economic philosophies.
- 4) A radical change of emphasis on how we as a nation perceive knowledge and culture. There is a great danger that Britain could fall further behind the major economic nations if we allow anti-intellectual, anti-industrial attitudes to prevail.
- 5) Teachers and lecturers should have their own professional council, similar to that enjoyed by the legal and medical professions. Some argue that this is a restrictive practice. I would argue that the professional councils in law and medicine have maintained the high standards one has come to expect from lawyers and doctors. No government would allow a licensed doctor scheme if there were a shortage of doctors, yet we have such a scheme if there is a shortage of teachers.

Despite these points, the prognosis for any change at all is not good. Too much of the power base of British society has its roots in the classical concept of education or in the practical culture of entrepreneurship. Neo-classical economic theory is still a prevalent philosophy of government. The status of professional society has been eroded over the past decade. (Perkin, 'The Rise of the Professional Class, 1880 to the Present'.) Teachers of all levels in the state sector have had their professionalism reduced as they have been seen to be 'non-productive' in terms of a nation's economic performance and thus an 'expense to the state'. This Victorian value was a major cause of the economic decline which we as a nation have experienced since the 1840s.

Having said this, and despite the fact that my teaching involves very street-wise youngsters from a large housing estate, where unemployment is high and where the Thatcher economic revolution has hardly made an impact (the school, a local authority establishment, has not been painted since the 1953 Coronation), I still regard myself as being in one of the best areas of employment for satisfaction. I only hope that for my children's children, conditions for education in Britain will improve dramatically by the 21st century.

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## FREE TRADE AND POLITICAL SOVEREIGNTY

By Christopher Houghton Budd

The future of Britain's relation to Europe seems to be heading for the melting-pot. Many people see the joint US/UK carve-up of Kuwait's reconstruction as a sign that, at bottom, Britain's preference is transatlantic rather than continental. John Major remains somewhat on the fence, his eventual *politique* as indeterminate as his country's future leadership. The tactics of Jacques Delors and others – to induce the birth of European political union by accelerating the establishment of a single currency – have yet to secure their objective. And, while at first hearing they may sound irrational and off-beam, the recent cries of Mrs Thatcher and Prince Charles about loss of sovereignty may prove a more precise intimation of Britain's future than we think.

It is not yet time for Eurofederalists to be counting their chickens, although the next few years will probably decide matters, as the talk about a single Europe gives way to the deed. The issue is likely to polarise between the two contending scenarios depicted to date – scenarios that have Britain choosing between the historical ties born of its empire and those now being forged with Brussels. But is our only choice one between the relations born of a bygone empire or those resulting from "joining" Europe?

Why not, for example, predicate *all* our world dealings on the idea of common markets? This would give new meaning to defunct colonialisms, while distinguishing the issue of European economic development from that of European federalism. After all, there is a world of difference between a common market and a common state. Moreover, while political union requires economic union, the reverse is not the case.

When the tide went out on the colonial circumstances that had become the vessel of Britain's global economy in the last few centuries, the instinctive economies that lay beneath British imperialism became beached. Keel-held, Britain has been in the dry-dock of modern history ever since and our national purpose seems to have ebbed away. New direction is needed, but trying to refloat Britain's economy on the waters of a united Europe is surely a questionable enterprise when one considers the global expanse of Britain's economic history and the relatively narrow confines of the European Community.

If Britain could find itself a unique and inherent role to play in the overall world economy, its economic future would achieve new purpose and renewed inner certainty. This would free Britain's economy from the exigencies of keeping alive former glories, of being an adjunct of American interests, of falling, press-ganged, into an unsought and possibly ill-matched marriage with continental Europe, or of trying to emulate the "miracle" economy of the day.

The main obstacle to such a development is that Britain's economic role continues to be spoken of in terms of prowess in such things as manufacturing and world finance. Lacking in depth, such an analysis fails to distinguish between the outer circumstances of economic development at any one time and the enduring, albeit unseen, talent that manifests through them. Being the world's factory, for example, was real enough



historically, but it was a transient phenomenon and, although appropriate when they happen, passing circumstances can never be goals in themselves.

Until recent times, Britain's instinctive economic development had the special characteristic of rarely being the outcome of conscious purpose. It evolved naturally Britain didn't intend to be a world trader; it became one. Britain didn't intend to have an industrial revolution; it happened. In contrast, other countries have had to bring about such developments deliberately.

Britain's essential economic development derives less from intentions than from following its nose. And it is not for nothing that in modern economic life the things one can intend – for example, information technology, manufacturing and even financial services – are either already taking place elsewhere, or can be readily replicated, and usually more cheaply. Resting the economy on developments copied from others, or those which can be easily copied by others is not a viable strategy.

The question is whether there is a future path particular to Britain which will also give the country economic purpose and, therefore, benefits. I believe there is such a path and that one joins it when one sees through the false dichotomy between Empire and Europe, colonial history or federal Continent.

This path gives access to a landscape of free trade between politically sovereign countries, in which economic relations have their own basis, cognizant of but not subordinate to political relations. Although not customary, there is no intrinsic obstacle to conceiving *all* economic relations in this way. The contractual infra-structure and field experience necessary to this approach are not wanting. It is the idea, or maybe only the will, that is missing.

Consider the European Free Trade Association. Whatever repute it may now be held in, and despite current attempts to sink the arrangement, EFTA proves that economic relations can be created independently of imperial or federal politics. Sovereignty has never been an issue in our dealings with Norway or Switzerland, for example. EFTA demonstrates that free economic association between politically independent countries is possible.

Even more telling is the example of Laufenburg in northern Switzerland. For over 30 years the Rhine town of Laufenburg has had its hydro-electric station linked to the Europe-wide grids. In 1958 it was linked to the systems of France and West Germany through the creation of "Laufenburg Electricity Ltd". Since then the station has been connected to 12 continental European countries. Meanwhile, in 1967 (23 years ago!) France, Germany and Switzerland joined their VHT grids through the Union for Coordinated Production and Distribution of Electricity (UCPTE). The fact that Laufenburg's capacity is twice Switzerland's consumption requirements, demonstrates Switzerland's capacity to generate and "export" electricity to the rest of Europe while remaining politically sovereign.

Why not extend such practices to wider areas? Because of its world position, Britain is quite probably unique in being able to break such a path. Neither fully a part of Europe, nor in reality the European state of America, Britain's true significance is a global one. By championing free trade *and* political sovereignty on a world-wide basis, Britain

could deploy her considerable capital of experience in a realm where it would pay substantial dividends. We would become valued members of the world community in our own right, able to make our contribution without pretence or bombast. For when one separates economic development from political interests, the unstable psychology of competition and dominance over others relaxes into the quiet certainty that comes from having something unique to offer the community of which one is a part.

Nations become men, as Kipling might have put it.

## THE EDWARD HOLLOWAY COLLECTION REVIEW

*Insanity Fair*, by Douglas Reed  
*Published by Jonathan Cape, London 1938*

Reed was clearly a man who felt he had a special responsibility and mission in life – to illuminate issues and provide information and opinion in the highest tradition of honest reporting so that both the general public and those with the power to make public policy decisions could make the best possible choices. He found a career to match his zeal – as an overseas reporter for The Times. He had the audience he needed and the ability to master the information for their benefit. *Insanity Fair* speaks to that audience through 48 short chapters written from Berlin, Prague, Vienna and other European cities during 1930 to 1939 – the years when the European psyche was split in two. When Britain, France and other small western states were law abiding, humane, dilettante, lackadaisical democracies lacking direction, drive and order but when 'MittelEurop' cast off the shackles of civilization and embraced primitive, racist, collectivist dictatorship with its attendant well-springs of energy, drive and inspiration, the scene was being set for war.

Reed not only felt the frustrations which many felt in Britain over the slow pace of re-armament. Since 'it takes two to tango' this very frustration was but part of the build up to war. He felt a deeper frustration arising from the conviction that leaders on both sides – perhaps themselves misled – were allowing the general public to be misled and the result was insanity in public decision making everywhere. War would be a relief to all. Referring to parliamentary debates he comments (p. 340):-

"The great British public, like a frustrated foxhound, casts vainly about for the scent of the truth among the welter of false trails and red herrings." "Only a few specialists at home and abroad, students, foreign office officials, diplomats, journalists, see and foresee the inevitable sequence of event leading to event, but as long as the British public is treated like an infirm old lady, who must not be told about anything for fear of heart failure, their knowledge must lie fallow. By this process of cloaking the wolf of truth in the sheepskin of blarney the little pig that is British public opinion was left to play blithely in its house of straw until the big bad wolf was at the door."

At the other end of Europe lay Moscow. I found the following passage curious. In 1935 Reed found himself accompanying Anthony Eden and exploring Soviet Censorship.

"Before I had been there five minutes, the Soviet Government started quarrelling with me about the most trivial thing. For I wrote that Eden had passed through streets lined with 'drab and silent crowds', I think that was the expression, and a little Jewish censor came along, and said these words must come out.

"I asked him if he wanted me to write that the streets were filled with top-hatted bourgeoisie, but he was adamant. Such is the intellectual level of censors. The censorship department, and that means the whole machine for controlling the home and muzzling the foreign press, was entirely staffed by Jews, and this was a thing that puzzled me more than anything else in Moscow. There seemed not to be a single non-Jewish official in the whole outfit, and they were just the same Jews as you meet in New York, Berlin, Vienna and Prague – well-manicured, well-fed, dressed with a touch of the dandy. I was told that the proportion of Jews in the Government was small, but in this one department that I got to know intimately they seemed to have a monopoly, and I asked myself, where were the Russians? The answer seemed to be that they were in the drab, silent crowds which I had seen but which must not be heard of."

But it is the analysis and reportage of Germany itself in these years that provide the 'guts' of the book. England free at one end and Russia under the yoke of Bolshevism at the other saw Germany fall under the jackboot of Hitler's National Socialism in the middle. It is Hitler's *methods* which are so well described in this book. In Berlin, Reed reports:

"I dashed down and after a struggle procured a newspaper. Rohn shot. Ernst shot. Sprei shot ... Heines shot, Heydebreck shot, Hayn shot. All men who had gone on fighting after the war, against the Poles in Silesia and the French in the Ruhr, men who had been with Hitler from the start ... The National Socialist revolution was eating its children.

"Hullo! General von Schleicher shot. Frau von Schleicher shot. The revolution was devouring some that were not its children.

"Seventy-seven was the number of 'traitors' shot according to Hitler in his speech of self-exculpation on July 13th. Some time later I made a note of '1,176' and I believe this is the exact number of the persons shot in Germany on June 30th 1934".

Of economics, this book has only incidental light to shed. He talks of the relief of leaving the "high prices" found in all the dictatorship countries; he explains that the British Government was only cajoled into subsidising the Queen Mary liner as a result of a German government-financed rival; he speaks of his own frustrations as a door-to-door salesman around Salisbury during a job briefly held in 1920.

But the manner is always, in what is now an increasingly old fashioned virtue, forthright and uninhibited. He is confident and clear in both praise and condemnation. A spade is to be called a spade – but of prejudice and bias I can detect none. That is the quality of mind which made this book famous in its day – and remembered by so many even now.

J.B.

## OUR FOOD, OUR LAND

*By Richard Body*

*Published by Rider, 1991, £15.99*

Readers new to the subject of agricultural policies and reforms should read this book from cover to cover. Readers already convinced of the need for change but who need to be brought up to date should dip into the subjects of their choice – this reviewer started by looking up 'BSE' to try and make up his mind whether he really can return to consuming beef in safety. Readers who are ready for action can remind themselves of the arguments by skip-reading the book and then find a cogently argued and convincingly backed program of reform listed in the concluding chapter. The intellectual can start at the beginning; the practical man can start at the end.

The last page is worth quoting in full – remembering that the feasibility of the reforms has been explored at length in the preceding chapters.

"So we in the UK can plan our way forward with precision and confidence. Here, in conclusion, is a summary of what we must do.

"First, we must escape from the controls now embodied in the CAP that stop us doing what we clearly need to do. If the CAP cannot be changed, then we must leave it.

"The freedom we then gain must be used to reverse our whole agricultural policy. Instead of subsidizing output, and so forcing farmers on to the high-input/high-output treadmill, we must instead support them as custodians of the countryside, paying them for their services in this capacity and making sure that these services really are delivered.

"We should do this through a system of farm management agreements, similar in many ways to those now reached in the Environmentally Sensitive Areas already designated. The status of ESA should be extended to the whole of the country.

"The cost of all this is likely to be substantially below what we now spend and would be controlled by a simple principle. No public money would ever again be handed out to farmers who did not in return accept the duty to respect the landscape, the animals in their charge and the health of the community at large, in particular in its need for uncontaminated food and water.

"We should open our ports to food from any country in the world that will send us what we want at prices we are ready to pay, safeguarding ourselves only against dumping and against food produced by practices that are banned in our own country. This is good ecology as well as good economics; for the cheapest food of any particular kind is generally produced in those countries that are by nature most suited to growing it, and so need less human interference in the ecosystem.

"In this way we can return to what we ought never to have abandoned: a ready supply of healthy, cheap and varied food, and the freedom to preserve our own

countryside as we would wish to see it. For our farmers it means escape from the treadmill and a secure future as the business-like suppliers of what the public really wants to have from them. For all of us, it means securing the future of our two most important resources: our food and our land."

Richard Body's style and content will intimidate no-one. Complex as the arguments may be, he manages to present things in our common language and as common sense. It is well researched with a valuable select bibliography and index. This book is entertaining and interesting as well as solid and serious. And it is but a part of a growing list of convincing literature on the need for reform in agricultural policies. Richard Body is not the first to show the desirability of abolishing the Ministry of Agriculture or the inevitability of withdrawal from the CAP. Such notions, once taboo, are becoming commonplace. For those who need to catch up with events – or just need to know more about the trendsetters in organic farming, this book is the answer today.

J.B.

## LETTERS

### Responses to

*The proposal for a basic income of £4,000 per head, financed from an energy tax*  
by John P.C. Dunlop from Mr R. Docker and from Commander C.R. Havergal.

Sir,

I have read, with increasing interest, the article by John Dunlop on 'The Proposal for a Basic Income of £4000 per head, financed from an Energy Tax' – page 8 (Vol 21, no. 1 – Spring 1991).

The idea seems too simple to work, yet it appears to have all the hallmarks of a revolutionary system; rather like folding the Road Fund Licence fee into vehicle fuel costs at the pump. Simple and cost effective, yet no government has given heed to the latter proposition. Not even our Maggie (who was hell-bent on eliminating wastage and bureaucratic overspending and who barely got started – even after 11 years) was radical enough even for that scheme let alone such a monumental change to an established system.

Therefore the question 'why?' must be asked. Why do eminent persons within and without government keep making the same, blithering, mistakes time after time after time? The answer lies within the last few lines of the above article ... '– staff redundancies minimal'. Incredible! We are talking about abolishing a system of taxes that employs thousands of people and costs many, many millions of pounds per year to run and yet John speaks of minimal redundancies.

From past experience it appears that Labour governments run away from axing systems that employ underworked staff and/or inefficient methods for fear of reprisals from their pay-masters – the unions, and Tory governments appear to run away from

axing systems that employ underworked staff and/or inefficient methods for fear of reprisals from those in the corridors of power, or the 'G & T' brigade.

Of course there will be redundancies. Probably in the thousands. But with companies having to find no tax payments they will be able to soak up all those that are laid off from the Quangos (still in existence) and the various taxation departments thereby minimizing the redundancy costs to the nation and, at the same time, privatising a sector of the working population that has been cushioned and safe-guarded within the public sector for far too long.

With the prospect first of the other John (Major) continuing his onward march into mish-mash politics, or secondly being saddled with the opposition answer to Neville Chamberlain, or thirdly a hung parliament ruled from the centre there is little hope of any intelligent life in Westminster for the foreseeable future. Therefore John (Dunlop), it appears that you may need to resurrect this proposal in another twenty to thirty years should you be fortunate to live so long.

R. Docker  
4 Lexfield House  
75 Highbury New Park  
London, N5 2EY

Sir,

I wish I could support wholeheartedly the interesting ideas set out on page 8 of the Spring edition of Britain and Overseas, Vol 21, No. 1. I fear, however, that I must draw attention to what I believe is a fundamental fallacy in John Dunlop's logic, where he says (on page 11) that "Basic Income can be funded by the cheapest form of taxation, an excise duty levied on the primary energy used to fuel all business in the country at less than one half-penny in the pound and unevadable."

I have two points to make.

First, the basic energy that fuels all business in every economy is not fossil, hydro, wind and nuclear energy. It is the human energy measured in manhours per hour, which manipulates and harnesses all other forms of energy for the purpose of generating the river of productivity which flows continually from the supply of it to the demand for it, in accordance with the unbreachable mathematical relationship which governs this flow and regulates the value of the relevant currency, namely:-

$$S = QD$$

Where: S stands for the productive manhours supplied to the relevant economy per hour, D stands for the productive manhours demanded from that economy per hour, and Q stands for the proportionality between S and D in terms of the relevant currency.

It is therefore the human energisers – not their borrowed fuels or engines – that bear all the taxes, no matter what they are called or hitched to. Thus it would appear that ULITAX would be an even more universal Poll Tax than the Thatcher sunken flagship.

Secondly, it seemed to me to be unfortunate that John Dunlop had latched his paper to the provision of a basic universal unearned £4,000 income per head, for this would surely be to subsidise indolence when we should encourage all civilised citizens to work for each other ever more productively, if community wealth and prosperity is to be enhanced.

Christopher R. Havergal  
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**A response to the letter from Mr T.B. Haran on *Monetary Analysis*  
from Mr Lee Cheney and a further explanatory note from Mr T.B. Haran.**

Sir,  
Money is defined by Webster's dictionary as "3. Any circulating medium of exchange". Mr. T. B. Haran's letter (B&O Vol.21, No.1, p.20) fails to distinguish between debt that is a medium of exchange and debt that is not a medium of exchange. It is this error that leads Mr. Haran to falsely conclude that banks do not print money.

Private debt (debt between individuals) is not money precisely because private debt does not function as a medium of exchange. The "money supply" on the other hand (generally defined as M1 but may, under broader concepts, include M2 & M3) is, to quote "Modern Money Mechanics" (published by the Federal Reserve Bank of Chicago), "simply a tool used to facilitate transactions". In short, to qualify as money, debt must be readily accepted in exchange for goods, services and other assets. Plastic debt cards and paper debt notes (such as the Pound note or the Federal Reserve dollar) qualify as money: gold, silver and other precious metals do not qualify as money any more than does wheat or corn oil; in the year 1991, what circulates as a medium of exchange is plastic and paper. The problem is not with the plastic and paper. The problem is with the debt/tax slavery attached to them.

"The total money supply", to quote McGraw-Hill Dictionary of Modern Economics, "is determined by the banks" (p.377). Bank debt, both plastic and paper is money; private debt is not money. "THE ACTUAL PROCESS OF MONEY CREATION TAKES PLACE IN THE BANKS" (so says "Modern Money Mechanics" published by the Federal Reserve Bank of Chicago, p.3). Mr. Haran simply fails to distinguish between debt that is exchanged for assets and bank debt which perpetually increases liabilities (both for the private sector and for the government).

The real kicker to debt/tax slavery is that banks, and only banks, can legally write "hot checks" which is the beginning point of the actual money printing process in the banks. Again to quote "Modern Money Mechanics" (p.6), "The Federal Reserve Bank pays for securities with a check *issued on itself* .... The securities dealer deposits this

check in his account .... these reserves are matched by ... deposits owned by the dealer which did not exist before". The simple process of money printing is then explained in the remainder of that 31 page booklet.. ONLY BANKS CAN CREATE THEIR OWN CREDITS; the rest of society (the government included) remain debt slaves to these money-printing banks. I think that even Mr. Haran would admit that private citizens do not enjoy the privilege of issuing "hot checks" (i.e. NSF checks). Private citizens cannot print their own money but your friendly local banker is, by law, allowed to enslave nations and people to debt and taxes.

Of course the other kicker to this scenario is how the securities dealer ended up with this newly printed bank money in his account (which shall have to be analyzed at a later date). But when Mr. Haran started his article with *already existing* deposits he simply skipped the money printing process and failed to tell his readers that these deposits (balanced by Mr. Haran against "advances" and "cash") are bank printed deposits owned by the securities dealers (those who do not understand the role of insurance companies in the money printing process need to do their homework).

If the National Dividend envisioned by Major Douglas fuelled both the government and the private sector there would be no need for debt of any kind nor would there be any need for taxes of any kind, ineffective demand would be eliminated, and economic equilibrium would be maintained (i.e. private sector full production would exist with neither inflation nor unemployment and the requirements of the A + B theorem would be fulfilled). But, as long as banks print money by enslaving the government to debt and the private sector to debt and taxes, the beneficiaries of Deuteronomy 15.6 get richer while the rest of the world struggles to try to figure out how to free themselves from debt/tax slavery. The problem of usury is not limited to "interest". The problem of usury goes to the very heart and soul of the money printing process itself.

Mr. John P.C. Dunlop's proposal to provide a £4,000 per head income financed from an energy tax (B&O Vol. 21, No. 1, p. 8) would no doubt be a popular gesture (who would turn down a £4,000 gift) but skimming energy taxes from the general public to give back part of those taxes to the general public smacks of the same deception as the "popular inheritance" proposal (per capita bond issue) of Mr. Oldham (B&O Vol. 20, No. 2, p. 12). Desperation measures such as these to try to prop up our collapsing debt/tax banking system are no solution.

To solve the tremendous economic problems facing the world created by the debt/tax bankers requires nothing less than total monetary reform ... the elimination of debt/tax banking in its entirety. In short, the solution requires converting social debt/tax slavery into Social Credit.

Oh yes, in case Mr. Haran still thinks banks do not print money, perhaps he would care to try to put a bill through Parliament requiring all banks (including the bank of England) to maintain 100% reserves with zero government debt. But then what? The money supply has just been eliminated. What is the next step? National Socialism? State Capitalism? Why not Social Credit and a National Dividend for the money supply?

Lee Cheney  
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Sir,

In my letter in the Spring 1991 edition, I explained why the notion that banks create money by lending is a fallacy and showed from whence money actually comes. Unfortunately, the general acceptance of the false concept has saddled us with a distorted view on how the economy works and I would like now to bring the true situation to light.

Economists tell us that banknotes are "money", but, as I have already demonstrated, they are in fact titles to their underlying values, i.e. real money (credits in services).

The Bank of England issues banknotes for two reasons, (1) petty cash payments and (2) response to demand. Obviously, the first reason can be ignored, but in regard to the second it should be noted that the Bank demands, and has always demanded, immediate payment for every banknote it issues. Thus, the banknotes are sold by the Bank and can only be purchased with – yes – money!

The Bank uses the purchasing power it receives to buy government securities and holds them as backing for the note issue. What then is the true nature of banknotes? Before answering this question, we must first look at how money is created and destroyed in our modern economy and consider the problems involved. Here is an example.

A company opens a factory and by the end of the first week has incurred an obligation to compensate each of its workers for services rendered. Money has been created. It is a credit in services of one party and a debt in services of another.

The company faces the problem of how to settle the debts. Suppose that the workers ask for necessities and that the company is able to supply them. It takes that action and wipes out the debts or, in other words, destroys the money. Each week's work creates new debts and each provision by the company cancels them. Thus, money is subject to a process of continuous creation and destruction, which is completely independent of the banking system.

If the company cannot supply the required items, it has to consider other ways of settling the debts. Such ways have to take into account the fact that money is, by its nature, intangible. A means of evidencing its existence and of transferring its ownership is, therefore, required. Consider three of the options available.

- 1) The company issues IOUs. These are spent in the local shops. The retailers present them to the company, which redeems them by supplying goods. It should be noted that the money was created by the work done and not by the IOUs. They are simply titles to money in the same way as deeds are to houses. Their issue evidenced the existence of the debts and enabled the ownership to be transferred first to the retailers and secondly to the company. The redemption of the IOUs destroys the money they represent.
- 2) The company arranges an overdraft facility at a bank and issues cheques. These are presented to the bank, directly or indirectly, and their face values are debited to the company's account. Again, it should be noted that the money was created by the work done and not by the cheques or, for that matter, by bank lending. The ownership of the debts has been transferred to the bank, so money has not, at this stage, been destroyed. As the company sells goods, i.e., performs its own services, money is

destroyed outside the banking system. The proceeds reduce the overdraft.

- 3) The company gives its workers Bank of England notes. It drew them from that institution via its own bank, which is the same as saying that it bought them. Again, it can be seen that the notes are not money itself, but titles to it. They are simply purchasing vouchers for general purposes in the same way as a luncheon voucher is for a specific one. The notes follow the same routes as the previously mentioned IOUs. They are spent in the shops and the retailers use them to purchase goods from the company. The money created has been destroyed, although the notes are still in existence.

The company pays them into its bank account and, but for being required for the next wage payment, they would be returned to the Bank of England for redemption. Their true nature would then be obvious. They are temporary titles and would have served their purpose.

In practice, the notes would be reissued for the second week's wages. These, however, are new debts. Thus, the notes can have a velocity of circulation in excess of one, but money can only be used once. That is the experience of us all and the economy is the sum total of our experiences in this connection.

We can now consider further the nature of banknotes. A simple comparison is revealing. One company buys a £100,000 Treasury Bill and another draws a sum of £100,000 in banknotes. The Bank of England receives payment for both. Two similar assets have been created, the only difference for our purposes being that the first bears interest. Banknotes are, therefore, non-interest-bearing assets.

A banknote moving from hand to hand is not working harder and causing inflation. It simply represents a different asset on each exchange, i.e., part of another party's income.

Earnings can (a) be exchanged for goods and services or (b) be converted into an asset of same kind, such as cash or a credit to a bank account. We then trade these assets for goods and services in the quantities we require at the most convenient times.

It can now be seen that we have not departed from the barter system, but have simply refined it! The ingenuity of the merchants and the bankers has deceived the economists.

The implications of this analysis are considerable. They wipe out most of current monetary theory, destroy the basis of monetarism and question much of Keynesian doctrine.

On the brighter side, the analysis makes it possible for us, in the absence of national disasters, to devise policies which would eliminate inflation, provide full employment, prevent recessions and permit continuous growth.

Perhaps now the importance of the issues raised in my book will be realised by the economic establishment and the monetary authorities.

T B Haran  
"Grianan"  
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- iii) To explore with other bodies the fields of monetary and economic thought in order progressively to secure a maximum of common ground for purposes of public enlightenment.
- iv) To take all necessary steps to increase the interest of the general public in the objects of the Council, by making known the results of study and research.
- v) To publish reports and other documents embodying the results of study and research.
- vi) To encourage the establishment by other countries of bodies having aims similar to those of the Council, and to collaborate with such bodies to the public advantage.
- vii) To do such other things as may be incidental or conducive to the attainment of the aforesaid objects.

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Economic Research Council  
Benchmark House, 86 Newman Street  
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Date .....

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