BRITAIN & OVERSEAS

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

Autumn 1991 Vol. 21, No. 3

Published quarterly by
The Economic Research Council
Benchmark House, 86 Newman Street, London W1P 3LD

Price: U.K. £10 Australia $20 Canada $20 New Zealand $30 U.S.A. $20 Japan ¥3,000

MEMBERSHIP

Membership of the Economic Research Council is open to all who are in sympathy with its declared objects. The minimum annual subscription for individual members is £18 for full members, £10 for Associate members, and Student members £8.

Corporate membership is open to all companies and other bodies, minimum annual subscription £50 (Educational institutions £35) in respect of which they may send up to six nominees to any of the Council's discussion meetings and lectures.

ECONOMICS AND THE MORAL LIFE

Summary of a talk by Professor Kenneth Minogue of the London School of Economics and Political Science, to members of the Economic Research Council on Tuesday 28th May 1991

My title was culpably vague, and suggests that I might well be intending to discourse on one or another old friend of the pontificating trade: the morality of capitalism, a.k.a. the economy, for example; or the contradictions of capitalism, in which the productive necessities of the "Protestant ethic" are juxtaposed against the dynamics of the consumer society. My title might even suggest that I shall dilate upon the Pope's latest move in forming a *rapprochement* with capitalism, the encyclical *centesimus annus.*

Economics and Equality

In fact, my concern is elsewhere. It arises from the fact that economics has been such a success. You might well doubt this, given the fact that the predictive power of economists is only just above that of astrologers, but the fact is that theorists in many other fields have been tempted to apply the economic model of economic rationality to the entire range of human behaviour. Along with biology, economics is now the fashionable science of policy, and it has also been appropriated by political theorists to sketch out an ideal scheme of social justice. The most famous example of this is the *Theory of Justice* elaborated by John Rawls, but its vogue has been such as to make plausible, though not actually true, the remark by Ronald Dworkin that "every plausible political theory has the same ultimate value, which is equality". The point of these ideal schemes is to envisage a central redistributor (on whose characteristics all theorists are understandably entirely vague) who would redistribute goods until the point is reached where no possible further redistribution would bring any benefit to the least well off member of society. An argument along these lines used to be made in the name of marginal utility, but these days the point is generally made as Pareto optimality, and it leaves room for some indeterminate set of inequalities as functional, perhaps, to incentives.

Quite what will be distributed depends on the imagination of the projector concerned. Rawls, for example, seeks to correct that particular defect in the Creation by which people are born with varying degrees of talent. Society will rationalise what nature has failed to do. Dworkin imagines a lottery in which we notionally bid for the available talents and qualities on the basis of an equal quantity of an imaginary currency of clamshells until we achieve a society in which everyone has an "envy-free" bundle of advantages. With the growth of organ transplant technology, who knows where the pursuit of justice might land us? Perhaps the only guide is science fiction – the short story by Kurt Vonnegut, for example, in which a highly intelligent man is found watching the television, but twitching every ninety seconds because a concentration shock device has been implanted by the Handicapper General to bring his mental capabilities down to the level of everyone else.

Equality and Morality

My interest is in the form of the moral life assumed in these theories. The basic assumption is that human beings are happiness maximising organisms. It is a two-dimensional view of the human condition. Along one dimension will be found the set of desires by which human beings succeed in determining their preferences for states of the world (and there is, of course, a logic of these preferences.) Along the other dimension will be found a variety of constraints which must be taken into account when choosing a course of action. Some of these constraints will be moral, and thus under our control, but most will be determined by an authority whose concern is to harmonise the potentially conflicting tendencies of individuals. In this literature, the word "social" will normally be found to have replaced the word "moral." This is in my view a significant shift, and I shall discuss it later.

The ideal citizen of these ideal republics is a pure altruist, someone who always "pursues a co-operative strategy" and understands himself as part of a community. These days, owing to the breakdown of some useful grammatical conventions one must tiresomely add to the last sentence "and herself" but this kind of gender fussing does not affect the basic point. It is that these theorists understand the problem of human life in the traditional way as self-partiality, or what Christian theologians understood as "pride". The Central Distributor is to correct for selfishness by constraining self-assertion and redistributing benefits. Further, no set of rules will guarantee that the pursuit of human ends will yield an egalitarian outcome; hence the Distributor must make continuous and highly specific decisions on who is to get what. (The alternative, I suppose, might be a continuous readjustment of the general rules to correct for every anomaly, but that way frenzy lies.) I do not see how this can be done except with the form of government known to political philosophers as "despotism."

Morality and Identity

My central comment upon this tradition of thought, however, is that it is a two-dimensional account of a three-dimensional world. That extra dimension makes a great deal of difference. The theory of a rational agent begins with an abstract agent calculating preferences under constraints, and this is a powerful way of analysing many problems. In the real world, however, every agent has an identity which powerfully affects what is done, and (even more important), what is conceivable as an option. It is essential to remember this point whenever the attempt is made to derive practical conclusions from abstract models. Just such an attempt, I believe, has been made by many normative political philosophers. They have entirely neglected moral identity inseparable from being a human being, the third dimension of human life as I am calling it.

Any human identity is, of course, immensely complex. One source is cultural. Castes and tribes in traditional societies allocate substantial and comprehensive identities which in principle determine conduct often down to very fine details. The husband-wife or elder brother-younger brother relation in Confucian ethics is often very detailed. In

the West, by contrast, a generalised ethics "quantifies over" as the logicians say, an abstract agent who may be imagined in many varied situations. Even today, after the steady erosion of many traditional distinctions and identity, "lady" and "gentleman" exemplify still powerful sets of assumptions determining what is possible. Again, in our intercourse with others, we often adopt rhetorical identities, such as those of *confidante* or adviser. Speechmakers often begin by making friendly remarks about their opponents, for example, in order to establish a *persona* of reasonableness. More recently, a whole variety of abstract ideological identities have established themselves as identities we must come to terms with by taking up the correct postures: racist, sexist, reactionary etc.

Much of this is what some sociologists call "the presentation of self in everyday life" and an important part of it is moral identity. This is constituted by the motive by which or the spirit in which we do things – generously or grudgingly, heroically or fearfully, willingly or jealously etc. *In* acting in certain ways, we take on the identity such action implies: coward, saint, deceiver, self-sacrificer, etc.

Identity, Action and Motivation

This third dimension of human life corresponds to the fact that we are more than simple happiness-seeking organisms, and are cursed with, and blessed by, self-consciousness. When we act, then, we act with an awareness of the self we are enacting, and into this self will be incorporated what we value, admire, despise and detest. And whereas the two-dimensional world will be concerned with the value of justice in examining the distribution of goods, this third dimension will respond to such values as respectability, decency, honour, or glory. Sometimes these contrasted dimensions of the moral life are construed in terms of the distinction between guilt and shame, sometimes with intention and motive, but the important point is that there can be no serious account of the moral life which does not accommodate both elements.

Whatever we do, in other words, we seek satisfaction in the world; but also whatever we do, we do as a certain kind of person. I suspect that the balance between these two elements of the moral life can vary, and that in the twentieth century, the concern with strictly specified moral identities is a great deal less than it used to be in earlier centuries; but the duality can never be abolished. Feminine honour, for example, used to be a function of self-restriction, comparable (as St. Augustine suggests) to the power of poets, which results from submission to rules of rhyme and rhythm. Such self-restriction has gone out of fashion, and with it the power it generated. It occurs to me to wonder how long it is since I heard the slogan "women and children first" which determined the manner in which the *Titanic* was abandoned. (I am reminded of the woman who divorced her husband merely because he survived that event.)

Some Consequences

The point of my argument is to reveal what is left out whenever the economic reduction of human life is mistaken for actuality, and having set up this scaffolding, let me make two points about it. The first is that it seems to me to constitute a refutation of any comprehensive plan of social justice. The reason is that in this third dimension of the moral life, we are found to be indulging in one of the favourite games of the human race: imagining ourselves superior to other people. It is of the essence of honour and glory that they distinguish those who act in terms of them as superior. Among the necessary conditions of social justice, then, must be the suppression of these identities (along with those associated with generosity and self-sacrifice, as Robert Nozick pointed out years ago). The practical attempt to implement this suppression, as we all know, results in horrible regimes.

The second point is that this recognition of moral identity puts economics back in its place as a technique of calculation. The question of how to accommodate preferences and constraints has long appealed to theorists because it can be – theorised! It mathematicizes justice, promising certainty, and turns the moral life, as Bentham was far from being the first to realise, into an activity of calculation which may in principle yield a determinate result. This is why the economic approach to morality is intellectually so popular. Once the element of identity in the moral life is recognised, however, morality must be recognised as a dialogue between competing considerations which, being *incommensurable, cannot be reduced to a calculation.*

It might seem that economic two-dimensionality might be saved by the simple device of incorporating the third dimension of identity into the constraints. The identity of being a lady, for example, excludes certain ends and certain means of attaining them, and might thus be considered merely as an additional set of constraints upon the calculations of a feminine agent. And it has been suggested that among the ends we might propose to ourselves is the notion of becoming a better person of a certain sort. There is no doubt something in all this, but what it leaves out is the fact that these identities arise from the fact that we are self-conscious beings. Even as we incorporate these identity-materials, somewhat uneasily, into the two-dimensional picture, we can contemplate ourselves doing so, and respond to the new identity which bobs up buoyantly in the third dimension, an identity, for example, as self-improver, or whatever other way we might choose to describe what we are doing. For an identity is what it is described as. That is what gives the moral life its creativity, for everything can be described in a great variety of ways.

Shakespeare is always a great test of the adequacy of any understanding of the human situation, and I would invoke him as someone with an intense sensitivity to identity considerations. For it is to a moral identity that Laertes is being directed when Polonius tells him: "To thine own self be true." The moralist Iago also refers to such conditions when he remarks that the loss of a purse is of little consequence in comparison with the loss of one's good name.

In my view, such a recognition of moral identity solves the problem I mentioned earlier: that social justice is normally taken to be part of the social rather than the moral world. A socially just world might be described as harmonious and co-operative; it may have many advantages. The question is: what makes it moral? It is true that moral conduct often leads to harmony and cooperation, but it is by no means always true that socially cooperative behaviour is always moral. Bands of criminals, as Socrates

observed, are very cooperative but that does not make them moral. The real source of morality lies in this third dimension, in which we explore the intimations of the moral identities we sustain.

These identities are the rocks of human life. When that old extremist Ecclesiastes remarked that all was vanity under the sun, he was referring to the satisfactions we pursue, and which are highly contingent: they don't last long, and they force us into compromises with the demands of others. But a moral identity is one which is insulated against every kind of disaster. We recognise, indeed, as bad those people who push the right into righteousness, and hold to a secure moral identity whatever the consequences, but we must take them as perversions, rather than ignorings, of the moral world.

Conclusion

My conclusion is, then, a simple one: that economics is a very powerful way of analysing policy, but that it is only part of the story, and that it must be very clearly demarcated from ethics and morality. These remarks are intended to be a contribution to such a demarcation.

BACK TO PHILLIPS

By Mami Kajikawa and Jim Bourlet

In 1964 Professor Phillips of the L.S.E. presented his findings from a survey of unemployment and inflation statistics. He had covered a number of time periods and a number of countries and after charting the data on a graph observed that a trade-off line seemed to 'fit' which suggested that politicians could choose, at any one time whether to have a little more unemployment with a little less inflation – or vice-versa. This can be described by a simple line on a graph as in fig. 1a. The catch arises over the term 'vice-versa' because it suggests that having gone in one direction too far one is able to about turn and retrace one's steps to the previous position, that one can march up and down the same line and up again – and down again etc.

The experience of the 1960s and the 1970s was that this is hardly possible. In practice what happened was that the movements of the economic cycles described on the graph a series of loops moving upwards and to the right. In other words, on a long term basis the new 'line of best fit' showed that the choice was between more unemployment AND more inflation or less of both. Articles in the Financial Times were headed "Round and round the loops we go" and this position can be represented by the simplified lines in fig. 1b. The 'new wisdom' thus indicated that the search for a trade-off between inflation and unemployment was pointless and that we should hold to a course of low inflation whatever happened to unemployment.

But something else happened during the 1980s – the 'loops' have failed to perform in quite the way that they were expected to. Unemployment has remained high and the relationship between unemployment and inflation continues to describe loops – but the

Figure 1a
The 'Phillips' Curve

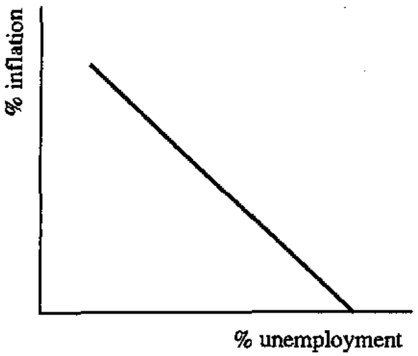


Figure 1b
1970's 'Phillips' Curve

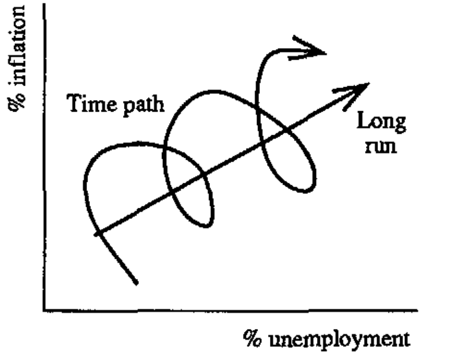


Figure 1c
1980's 'Phillips' Curve

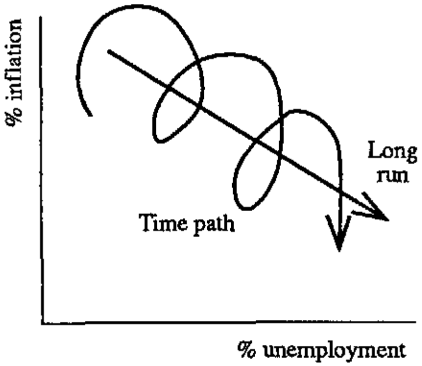
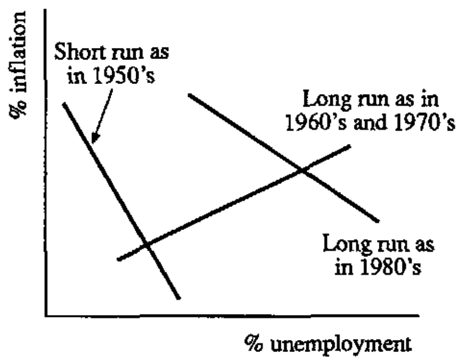


Figure 1d
The Three 'Phillips' Curves

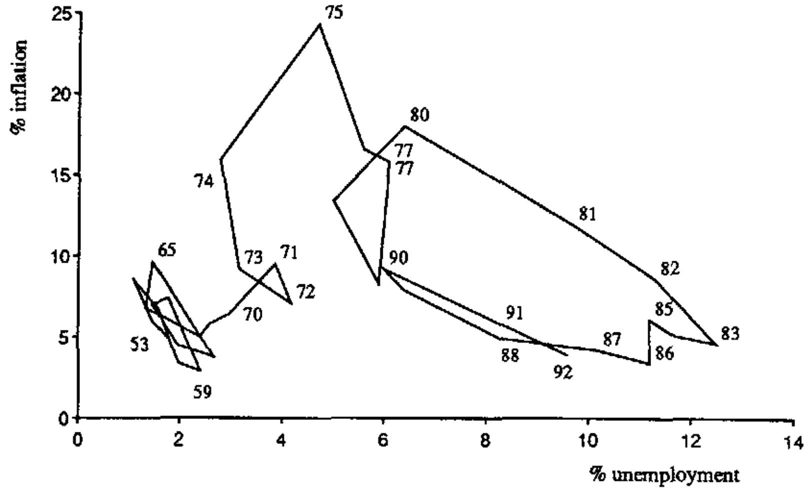


loops are heading *downward* and to the right rather than *upward* and to the right. This picture is shown together with the implied long term trend line, in fig. 1c.

Fig. 2 shows readings for unemployment and inflation for the years 1953 to 1992. The figures for 1991 are based on OECD forecasts and for 1992 on intelligent guesses. All such figures of course require caution in interpreting their accuracy and significance – and we should remember that the Government during the 1980s has progressively redefined the official unemployment statistics such that the present figures are substantially lower than they would be if recorded on the basis used during the 1970s. Nonetheless, the overall picture appears to be clear enough and readers should visualise the three lines of fig. 1d superimposed on the chart.

The conclusions seem to be of enormous significance. If both the short run Phillips curve *and* the long run Phillips curve point in the same direction (or if there has simply been a shift to the right of the old downward sloping curve) then there IS a trade-off still

Figure 2: The Phillips Curve 1953-92



to be had and the original Phillips policy remains valid. If writers such as Samuel Brittan in the 1970s were quick to claim that the apparently perverse long run Phillips curve justified semi-permanent recession then they can now join the chorus calling for release from this downward pressure. We have perhaps, abandoned Phillips prematurely and it is time to remind policy makers of the real options open to them.

A LAND TAX – WHY NOT IN BRITAIN?

By John Hatherley *

Land taxers are accustomed to hearing the dismissive question: "If a land tax is a good measure, why has it not been applied in Britain?"

The omission appears starker, and the question acquires a tone of puzzlement, if one adds a mere sample of facts, as follows:

- The tax was advocated by the British "Father of Economics", Adam Smith, two centuries ago (although not in the form in which it was applied here in his day). A land tax has been in the statute book five times this century. Professor Milton Friedman has called it "The least harmful tax". Richard Lipsey's "Positive Economics", familiar amongst sixth formers reading Economics, contains a simple, accurate and enthusiastic exposition of it. About a year ago, a group of American economists,

* The writer is a Director of The United Committee for Taxation of Land Values Ltd – Secretary of the Centre for Incentive Taxation; and a member of the International Union for Taxation of Land Values.

including three Nobel Economics Prize winners, went to Russia to advise President Gorbachev to adopt Land Taxation.

- In the rating system, we had a tax which applied to occupied sites (apart from farmland, exempted in 1929). Postwar, Britain has not taken the jump from a tax on land and buildings, to a tax on land only.

Which takes us back to the opening question.

There are several reasons for the absence of such a tax, advocacy of which keeps small groups of campaigners active. First, I suggest, is the power of the landed interest; second, closely connected, the opposition of its ally, the Conservative Party; third, a lack of public understanding, a casualty of World War I, before which the tax was well understood by the anonymous, ubiquitous, man in the street; fourth, the weakness of local government in the so-called "Motherland of Democracy" (it is probably significant that most countries in which states, provinces or cities use a land tax, have federal government).

Power of the landed interest

According to Report No. 7 of the Royal Commission on Distribution of Income and Wealth, 1979, 75% of the total personal wealth of the richest 1% is transmitted, inherited wealth. This accounts for more than half of the wealth of the top 5% of the population. The lower 50% owns less than one percent of all land. Half the food grown in Britain comes from land owned by 0.2% of the population. These people, of course, are now rate-free. As A.H. Halsey, Oxford University Professor of Social and Administrative Studies, noted in his 1978 Reith Lectures: "A tiny minority has monopolised wealth, and an even tinier minority has monopolised property for power." No wonder that Winston Churchill, a land-taxer to the end of his days, condemned concentration of land ownership in a few hands as one of the greatest evils in the country.

Land and Politics

In 1909, landed interests, a powerful force in the Conservative Party, caused a constitutional crisis. The Liberal Government budget introduced a small tax on land values. The Lords, much more representative of landed aristocracy than today, rejected it, provoking a constitutional crisis, because the Government claimed that matters of finance were the prerogative of the elected representatives of the people. The outcome is well known. Asquith called a General Election which took place in 1910, and the 1911 Parliament Act curbed the power of the Lords to amend bills passed by the House of Commons.

In 1910, the tax *was* incorporated in an Act of Parliament. However, the measure was needlessly complicated and contained several errors, although the idea of a Land Tax is simple in itself. But had it come into force and been retained to the present time, it would have saved the Chancellor of the Exchequer many an anxious hour, for its yield would have increased materially every year.

The outbreak of war in 1914 stalled reform and the postwar, Conservative-dominated

Coalition repealed the Land Clauses and refunded land-owners their payments in land-value duties.

In the 1923 election campaign, both the Liberal and Labour parties re-affirmed statements in favour of Land Value Taxation. Labour with Liberal allies had a comfortable majority; but the Conservatives brought the Government down over the Zinoviev letter episode (Government abandonment of the prosecution of a Communist accused of seditious writings).

1929 saw Labour in office again. The Snowden Finance Act of 1931 included a better section on Land Taxation. It was drafted by Andrew MacLaren, a fiery Scot who soon after founded the School of Economic Science, which instructs students in land value taxation to this day. The Finance Act was passed and as a result of the 1911 Parliament Act, the Lords could not throw this Bill out. However, in 1931, the cry was raised that gold was draining from the Bank of England, causing the alarmed Ramsey MacDonald to form a Coalition Government. The Conservatives disposed of the tax in 1934, using tactics which dismayed Churchill. Was this a coincidence or was it, as Andrew MacLaren believed, a matter of subterfuge?

Morrison unsuccessfully made a further attempt to introduce a Land Value Tax under the Ten Minute Rule in 1939, but there has been no further major mention of the tax in Parliament. David Steel admitted in private to favouring the measure, but never advocated it in public. Ignorance of it (and hostility to it) amongst ordinary Liberals is astonishing; the most recent objection I have heard is that it would close down sandwich bars, the lady concerned being blissfully unaware of their survival in cities which have land value taxation today such as Pittsburgh, Sydney and Johannesburg!

The Lack of Public Understanding

Bar room discussions today on this subject end all too often in someone making a claim that it would be too difficult, if not impossible to conduct a satisfactory survey of land values. At this point someone should point out that there are plenty of examples of cities where the tax is in operation and the valuation difficulties *have* been overcome. Furthermore, in Denmark, the Site Value of every property appears in the telephone directory and here in Britain we have plenty of Local Authority surveyors – not to mention estate agents – who know very well the values of property in their areas. In fact, this objection has been disproved elsewhere for over seventy years now. In any case, a survey *was* satisfactorily conducted in Britain in 1925 – but the Conservatives subsequently ordered its destruction.

A century ago the question of land value taxation was just a part of a lively and astonishingly well developed debate over land ownership in general. The whole question of land tenure filled public meetings, kept printers busy and spawned a variety of groups adhering to different views.

One such was that the human race had a common and universal right to land – "a free gift of Nature" – and the 25th chapter of the Book of Leviticus was called in for support. Indeed, such an idea had frequently been put forward by philosophers and others from the 18th century onwards. Then there was the Land Nationalisation Society and the

Land Reform Union (later called the Land Restoration League) and numerous others (including the Socialists) in both England and Scotland. Joseph Chamberlain wrote and spoke in support of reform – and explained land value taxation. In Ireland where British absentee landlordism was a feature, the debate was particularly intense.

Discussion today, would be greatly enriched if we were more aware of this ferment, dating from the 1860s which gathered momentum as the century progressed. In particular we should look again at the author and lecturer, Henry George. His book "Progress and Poverty" was published in 1884 and soon was reputed to be the most widely-read book in the English-speaking world – after the Bible, Shakespeare and "Das Kapital".

George took the view that land differed from other property, from the moral and the economic point of view. No man had a better title than another to what was a free gift of Nature (or, one might add, the common reward for conquest or defence) vital for every person's survival. Land was therefore to be distinguished from improvements to it; but the value of a site depends on the work of the Community, and that value, a Common Fund, should be returned to the Community for its common needs such as streets, etc. Reformers such as Sydney and Beatrice Webb endorsed his view.

From the Georgeist movement phrases such as "Site Value Rating" (land value taxation applied to local government needs) became common. A new London Evening Newspaper, "The Star", successful from its appearance in 1888, soon supported the idea of a "Single Tax" for the nation's revenue – the idea being that the Land Tax alone would support the country.

Early in 1889, during the first elections for the newly instituted London County Council, "The Star" declared that "Taxation of Ground Rents or values is one of the most popular cries in the election of County Councillors". Glasgow City Council became a convert, and that city remained the British centre of the Land Taxation Movement until well into this century.

Weakness of Local Government

Had Britain a federal constitution, with local revenue raising powers, parts at least, would have introduced the measure. Two hundred English and Scottish local authorities were in favour of it by 1897. London would assuredly have adopted it. As stated earlier, in 1938, under the Ten Minute Rule, Herbert Morrison introduced a Bill to enable the London County Council to do so. It proceeded no further. Just as the success of the tax in Pittsburgh has encouraged other cities in Pennsylvania to follow its example, so its use in British cities, if properly devised, would almost certainly have led to its spread here. The longevity of the tax overseas would have been repeated here.

Position Today

In London, The United Committee for Taxation of Land Values, formed in 1907, continues to operate and is a member of the International Union. The Economic and Social Science Research Association conducts evening classes and is a library of Land

Tax literature. The Centre for Incentive Taxation conducts research.

Dr. Roy Douglas, Liberal Party historian, chairs a small inter-party group which attempts to influence MPs and others. A leading member of one of the two major parties admitted he favoured the Land Tax, "but it is not politically popular" -which is perhaps what has kept Paddy Ashdown's public support of it to just one article in a national newspaper.

So the British public, seldom quick to take on overseas ideas, continues in ignorance.

The voices of those who condemned private ownership of land as one of the greatest of evils – including Jean Jacques Rousseau, Leo Tolstoy, Churchill and Eastern mystics – mingle, hardly heard today with those who advocated a land tax to return community-generated revenue to the community – including J.S. Mill, Chinese philosopher-statesman Sun Yat-Sen and Abraham Lincoln.

Professor Muhlbauer of Oxford and a few lesser known academics and at least two leading journalists help keep the message alive.

THE EDWARD HOLLOWAY COLLECTION REVIEW

***The End of Laissez-Faire*, by John Maynard Keynes**
Published by The Hogarth Press 1926

At a moment, post Thatcher and the IEA, when free market economics seems poised for a retreat in the UK, whilst the 'market economy' in its crudest form is being urged upon the States of what was once Soviet Russia, it is a delightful privilege to read this little 53 page assessment of the pros and cons of Laissez-Faire. A stroke of luck to pick it up at this instant.

Keynes' first point is that such a doctrine was originally – in the 17th and 18th centuries – promoted as the political philosophy of individualism for the purpose of deposing the Monarch and the Church (p. 7). Today in Moscow, it has deposed the Soviet Communists. Thus a new political order was established based on the appeal to the mob, and some sort of intellectual opiate was required to justify this "destruction of every element of cohesion, making Society a struggle of selfish interests and striking at the very root of all order, patriotism, poetry and religion" (p. 17). The opiate, supplied by the Utilitarian economists, was the Darwinistic notion that each man, by seeking his own profit, would indirectly benefit Society as a whole. Keynes explains, lucidly, as always, how this was developed through the works of the Marquis d'Argenson, the Physiocrats (particularly de Gournay and Quesnay), Jeremy Bentham and the Manchester School, Miss Martineau, Archbishop Whateley and Fredrick de Bastiat.

Neither the phrase nor the spirit of 'Laissez-Faire' however, is to be found, Keynes shows, in the works of Adam Smith, David Ricardo or Thomas Malthus. "Even the idea is not present in a dogmatic form in any of these authors"(p. 20). These writers were concerned to use market concepts to analyse issues and suggest specific liberalising moves in the interests of general welfare over sectional interests, but they were never *blind to the possible abuses of freedom or the valuable role of government and society* in achieving a nation's progress. Keynes' analysis thus far in no way differs from Hayek's account given in his famous essay entitled "True and False Individualism".

Keynes is full of praise for Alfred Marshall for the skill of the successful businessman. He quotes Marshall. "Men of this class, live in constantly shifting visions, fashioned in their own brains, of various routes to their desired end; of the difficulties which Nature will oppose to them on each route, and of the contrivances by which they hope to get the better of her opposition. This imagination gains little credit with the people, because it is not allowed to run riot; its strength is disciplined by a stronger will; and its highest glory is to have attained great ends by means so simple that no one will know, and none but experts will even guess, how a dozen other expedients, each suggesting as much brilliancy to the hasty observer, were set aside in favour of it. The imagination of such a man is employed, like that of the master chess-player, in forecasting the obstacles which may be opposed to the successful issue of his far-reaching projects, and constantly rejecting brilliant suggestions because he has pictured to himself the counter strokes to them. His strong nervous force is at the opposite extreme of human nature from that nervous irresponsibility which conceives hasty Utopian schemes, and which is rather to be compared to the bold facility of a weak player, who will speedily solve the most difficult chess problem by taking on himself to move the black men as well as the white." (p. 37). Keynes then adds "This is a fine picture of the great Captain of Industry, the Master-Individualist, who serves us in serving himself, just as any form of artist does. Yet this one, in his turn, is becoming a tarnished idol. We grow more doubtful whether it is he who will lead us into Paradise by the hand." (p. 38).

Keynes then lists what I might now term a set of "cautions for Moscow" concerning Laissez-Faire. He says "It is *not* true that individuals possess a prescriptive 'national library' in their economic activities. There is *no* 'compact' conferring perpetual rights on those who Have or on those who Acquire. The world is *not* so governed from above that private and social interest always coincide. It is *not* so managed here below that in practice they coincide. It is *not* a correct deduction from the principles of Economics that enlightened self-interest always operates in the public interest. Nor is it true that self-interest generally *is* enlightened; more often individuals acting separately to promote their own ends are too ignorant or too weak to attain even these. Experience does *not* show that individuals when they make up a social unit, are always less clear-sighted than when they act separately." (p. 39).

He continues, "We cannot therefore settle on abstract grounds, but must handle on its merits in detail what Burke termed 'one of the finest problems in legislation', namely, to determine what the State ought to take upon itself to direct by the public wisdom, and what it ought to leave, with as little interference as possible to individual exertion".

We have to discriminate between the *Agenda and Non-Agenda* of Government.

Within the *Non-Agenda* of Government Keynes would place even the largest business corporations. He says "There is, for instance, no so-called important political question so really unimportant, so irrelevant to the re-organisation of the economic life of Great Britain, as the Nationalisation of the Railways". (p. 44). Keynes is right behind Mrs Thatcher's privatisation and would willingly write tracts for the *Adam Smith Institute*. In opposing the Socialism of the 1920s, he says "I criticise it because it misses the significance of what is actually happening; because it is, in fact, little better than a dusty survival of a plan to meet the problems of fifty years ago". (p. 45).

But the *Agenda* for State action is very positive, and involves those decisions which are made by *no one* if the State does not make them. He sketches such decisions as:

i) The deliberate control of the currency and credit by a central institution.

ii) The collection and dissemination on a great scale of data relating to the business situation, including the full publicity, by law if necessary, of all business facts which it is useful to know.

iii) An intelligent judgement as to the scale on which it is desirable that the community as a whole should save, the scale on which these savings should go abroad in the form of foreign investments, and whether the present organisation of the investment market distributes savings along the most nationally productive channels.

iv) A considered national policy about the size of Population and, perhaps in time paying attention to the innate quality as well as the mere numbers of the country's future members.

For this *agenda* modern critics of Keynes have charged that he was a "macro-Benthamite" or "macro-Utilitarian" because, on the national if not on the individual level he advocated action based on a vision or 'end state' in mind rather than action based on improving the *process* of change. Such "teleocratic" action cannot foresee the consequences and side effects of such actions which are often perverse – such as inflation or the manipulation of information. Keynes, they say, should have developed improved *processes* rather than desirable *ends* – such as greater methods of disciplining currency values, improved laws to ensure the widespread use of computer based data banks and the greater involvement of market signals in influencing family decisions on both family size and manner of upbringing.

But Keynes (if not modern Keynesians), one feels, would have the right to respond that he is concerned to set the right pre-conditions for free markets to operate beneficially, not to determine their results; that he is a "beginning stater" rather than an "end stater"; that he is an "economic constitutionalist" rather than an "economic planner". "Monetarism" has surely vindicated his concern over the currency, new developments may have reduced the need for government-provided information, and population worries seem now less urgent in the advanced economies. But the question remains of the balance between savings and investment – of unemployment and inflation, a point on which, 65 years after Keynes wrote this little summary of his thoughts, the jury is still out.

J.B.

LETTERS

A response to letters in the Summer 1991 edition, from the author of *The proposal for a basic income of £4,000 per head, financed from an energy tax,* Mr John P.C. Dunlop.

Sir,

How stimulating to see two responses from opposite directions at the same time to my little article in your Spring issue 1991!

Turning first to the letter from Commander Havergal, I hope he will appreciate that a Guardsman will always stand his ground under shelling even though directed at him in error by the Navy.

Could I recommend to the Commander that he should read *The Human Use of Human Beings* by Norbert Wiener, the father of the science of cybernetics. In it he will find the following words about the development of productive forces in society. He wrote "In all important respects the man who has nothing but his physical power to sell has nothing to sell which is worth anyone's money to buy."

The corollary to this is in the paragraph near the top of page 12 where I drew attention to Professor Slesser's remark about the availability to our economy of incredibly cheap energy. The Commander seems to have missed this. Put the two remarks together and you have the dilemma of all capitalist economies in a nutshell and the appositeness of the Protestant work ethic gets crunched underfoot and also the Commander's last paragraph in which he uses the word 'unfortunate'.

I can assure him that there are a great many unfortunate people who are unable to earn a living however much they would like, to whom an unearned income would make all the difference between poverty and security.

What is wrong with having an unearned income? Do not most of the subscribers to this journal have the benefit of one? Does the Commander himself not have any unearned income? Or does he still have to slave away directing his gun turrets?

I will gladly grant Commander Havergal that all taxes are in the end paid by people. But there are two ways of classifying taxes, direct and indirect. Each class has different economic effects. That is the whole point of the UNITAX proposition. All transfer payments by the Government are funded by taxation of the worst, most regressive kind, deductions from the earnings of individuals and businesses. It is also the most expensive to collect and administer. Commonsense alone dictates that we should change to a more efficient way of raising taxes.

UNITAX is the most efficient way of providing funding for unearned incomes for all. These make it possible for lower income groups who are the bulk of the electorate to pay their equitable shares towards local authority finance through the cost of the goods they consume. That should satisfy Margaret and yes, here the Commander has hit the target, then UNITAX would be an even more universal Poll Tax but a painless one. It was Margaret's misfortune that she did not follow the advice of the Resource Use Institute.

His last paragraph pronounces an unusual philosophy for some one whose trade has been war or preparing for it. War is the most destructive and wasteful human activity of all and, to quote an eminent historian, the least intelligent way of settling disputes. It is most unfortunate that wealth and prosperity seem to be so closely linked to the preparations for war.

R. Docker in his much to the point letter has picked on my reference to minimal staff redundancies. Certainly the adoption of UNITAX would mean the eventual withering away of all the branch of the Civil Service dealing with Income & Corporation Tax and NI. That is why we suggest it will have to be phased over a period of some years. But VAT could be replaced almost right away with less effect on levels of staffing in that department. Let me reassure him that I have every intention of seeing this reform on the statute books before I am called away to other duties.

Finally, I am delighted to announce that another advantage of UNITAX/NEED has just appeared. Its implementation would cut the ground from under those who have recently been demanding that the Monarchy should pay income tax. It would then be in the same position as everyone else and paying tax in the price of goods it consumed.

Yours truly
2703277 Lance/Sergeant DUNLOP J.P.C., Sir!
The Resource Use Institute Ltd
17 Randolph Crescent
Edinburgh, EH3 7TT

Further responses to the review of *Monetary Analysis* from Mr Frank Selby, Mr Eric de Mare and from the author, Mr T.B. Haran

Sir

I wish you had appeared on my horizon earlier but your Vol 21 No. 2 is the first that reached me. I enjoyed the first 21 pages; the 2 letters filling the last 4 deal with a subject, Mr. Haran's book: "The Monetary Analysis" which I have tried to tackle for quite a few weeks, by co-incidence. Authors must be prepared for criticism; I hope mine will give no offence. Let me quote: "Money is created by one party performing a service for another." (Yes, Mr. Haran, it is reasonable though oversimplified to point out that we really pay for services making them available when we buy goods.) Next: "Money is created and destroyed where trade takes place i.e. outside the banking system." Finally: "Money such as banknotes is not money but a 'monetary instrument'."

After lengthy digs through the many illustrations of those summarising statements I interpret them simply to mean that Mr. Haran has 'discovered' what is really obvious: Money is not in itself an article or service of household or trade but represents, measures, personifies such. It does not remotely justify the violent destruction of the meaning 'money' has had in all languages for more than 3 millennia. We all realise that a diagram represents but is not a fact; a map represents but is not place. Just as money represents but is not the value of a service. Do we maintain that a fact creates a diagram? A place a map? No more than a service 'creates' what *represents* its value!

'Money' if I may use the word in its ancient sense, has recently undergone quite considerable developments in scale, shape, range, facets. By 'recent' I mean during the last century or two; 'recent' indeed in the long history of articles and services. To use the slightly expanded label 'Monetary Instrument' to cover all those rather boring little names. M1, 2, 3, 4, 5 and M0. PSL1, 2, 3, 4 may well be quite acceptable but does not in itself signify any new conception let alone replace the familiar one.

The one aspect where 'money' differs from other 'representational identities' is that *the latter must* operate within clear, universally accepted, permanent rules. (Well, a bit of diagram fiddling for instance goes on but is quickly rejected when discovered.) The presentational rules of 'money' are, alas, not well established but are left to organisations and persons, usually well rewarded to put it mildly, who do manage to twist them a bit or a lot with certain benefits such as e.g. re-election in mind. (Money (M4) End of 1979 £98bn. End of 1990 £475bn. Br. Bankers Association, Annual Abstracts, Vol. 8). That faulty aspect of 'money' will I trust soon be given due attention by our young science of Economics with a view to correcting it. I hope in less than a century! I tried to find in Mr. Haran's thesis prescriptions of effective mechanisms working towards that end which, if nothing else, he and I surely find equally desirable. I confess that I did not recognise any concrete ones. The 'need to tip the scales in favour of the buyers' which he advocates does not seem to me a wholly worthy guideline.

Frank Selby
47 Dove Park
Hatch End
Pinner, HA5 4ED

Sir,

Letters like that from Mr. Haran which you print in your summer number do no good; they only raise more verbal dust to blind misguided humanity in its Gadarene rush. Mr. Haran ignores the most blatant and devastating act of criminality in human history that should now be our main concern: the commercial bankers' monopoly of credit creation and cancellation that is keeping the whole world enchained by false, ever-growing and irredeemable indebtedness and chronically and lethally short of purchasing power.

Mr. Haran's extraordinary statement that banknotes are not money but merely "titles to their underlying values, i.e. real money (credits on services)" confuses the issue from the start. If we define money as the convenience, no matter of what it is made, that people *will accept in* exchange for goods and services, banknotes are undoubtedly one form of money. Together with coins, banknotes serve for daily shopping needs and it is on their base that the huge credit and cheque structure is erected. The money we now use is composed of 1/2% coins, 4 1/2% banknotes and 95% paper cheques and book and computer entries.

What, then, are Mr. Haran's "credits in services"? Does he mean that when you dig up a ton of potatoes you will find its money's worth sticking to the tubers?

"The Bank (of England) demands, and has always demanded immediate payment of every banknote it issues." Payment in what form? In banknotes? Payment by whom? Mr. Haran doesn't tell us.

A company must pay its workers for services rendered, declares Mr. Haran. Yes, of course, and presumably with some form of money. But how has the work itself created the money with which to pay the workers? Industry itself creates no money of any sort; it only distributes it. Nor does, or can, modern industry pay its workers in kind with its own products. You can't sleep in a turbine, or eat nuts and bolts and drink North Sea oil for breakfast.

"The company faces the problem of how to settle the debts." What debts? To whom owed? Again Mr. Haran fails to tell us. "Money is subject to a process of continuous creation and destruction" and that is true, but then he adds the dotty comment that this is completely independent of the banking-system. Are we really being told that money and real wealth production are the same thing? These are the sort of comments that make the public's confusion about the money mystique ever worse confounded.

We have now reached such a point of economic desperation that we shall soon be forced to face the truth about the prevailing abuse of money, in spite of all the lamentable obscurantisms – the ink-fish ejections – that are published, and of which Mr. Haran's letter is an example.

Yours faithfully
Eric de Mare
The Old Chapel
Tunley, Nr. Cirencester
Gloucestershire GL7 6LW

Sir

Perhaps I may deal with some of the points raised by Mr Lee Cheney (letter) and Mr Geoffrey W Gardiner (article) in the Summer 1991 edition.

Economists have failed to distinguish between media of exchange and the underlying values in services they represent. Both cannot be "money". Past writings and authoritative statements cannot, therefore, be relied upon.

Mr Cheney says that money is defined in Webster's dictionary as, "3. Any circulating medium of exchange". I hope to replace this definition with mine, namely, "Money is a credit in services of one party and a debt in services of another".

"Party" includes individuals and groups, such as trustees, companies, banks, government departments etc., that is, all the participants in the market-place. Their services are being traded and media of exchange are merely temporary titles used for that purpose. They can take any form acceptable to the recipients.

However, this form is not usually debt. A banknote, for example, is simply a purchasing voucher already bought with real money. If it stated that it was exchangeable for its face value in services, the position would be clear.

Any participant can create money by obtaining more in services than contributed (by spending). Thus, private debt is just as much money as any other and total money supply is *not* determined by banks.

It is a medium of exchange which is "simply a tool, used to facilitate transactions", while the money supply is the total outstanding credits in services or the total unredeemed debts, the answer being the same either way.

Deposits arise when creditor parties have contributed more in services than obtained and the relevant media of exchange are paid into a bank. They are not "bank printed deposits owned by securities dealers". If, or while, they are not spent, ("already existing"), they can be lent.

The cheque issued by the Federal Reserve Bank would be presented for payment. That bank could sell securities and the fall in the buyer's deposits would then be matched by the securities dealer's gain.

If the Bank used funds deposited with it to redeem the cheque, it would spend itself further into debt in services and would thereby create money. The deposit is then a correct reflection of the transaction. This procedure, however, is no different from an individual having his personal cheque accepted and on presentation bought by his bank with customers' cheques. Any party deemed credit-worthy can, therefore, create money. Banks do create money by spending, but not by lending.

Mr Cheney is wrong in assuming that the money supply would be eliminated if banks were obliged "to maintain 100% reserves with zero government debt". Borrowers, unable to repay their indebtedness, would advertise for loans from depositors and offer high interest rates. Deposits and advances would disappear, but the debts would still be in existence, thereby proving that the banks did not create them by lending.

Perhaps Mr Cheney will now read my book instead of guessing, "What is the next step?" After all, he should be relieved to find that his debt/tax slavery scenario is an illusion.

Mr Gardiner presents us with an even more nightmarish picture, but fortunately his arguments too are not soundly based.

Again the fault lies with economists. They have failed to recognise the vital difference between original and subsequent transactions. Raw materials are provided free by nature. The buyer of a new item pays only for the services which created it; increases in the cost of these services debase the value of the pound, i.e. they cause inflation. In subsequent sales, however, services are not being remunerated; thus, such sales are merely barter transactions, in which one of the assets exchanged is money; they have no effect on inflation.

It was the demand for new properties on increasingly expensive land, bolstered by increased salary multiples for mortgage loans, which "caused house prices to rise three times faster than the RPI".

Takeovers and buy-outs are subsequent transactions and the result is that debtor party companies are simply replaced by other debtor party groups. In fairness, too, many such transactions are opportunistic and are made when companies are in difficulties and prices are low.

Deposits are not the active purchasing power economists would have us believe. A hard core represents funds depositors have no intention of spending and a further part is held in cover of commitments already accruing, e.g. for electricity. Thus, new deposits are more likely to become dormant than active.

Everything we buy is financed at every step up to the point of sale. Thus, the process largely involves debtor parties buying from one another. Where the final products are bought by other debtor parties, all the activity, including the payment of remuneration and dividends, takes place on the assets side of the balance sheet, whereas deposits are liabilities. Thus, credit-worthy parties can buy expensive items and repay by instalments. This wealth creating process should not be condemned.

Again, the borrowers by spending have obtained more in services than contributed. They *incur* the debts or, in other words, they, not the banks, create the money. The banks use their massive supply of largely inactive deposits to cover the outstanding loans. They have no need to create money, apart from their own spending requirements.

For various accounting reasons, the monetary aggregates give grossly exaggerated figures for the money supply. It is increased by (1) additional trading activity and (2) more pay for the same work. The first is desirable; the second is not and, indeed, is at the root of all our economic problems.

Believing that boom conditions would continue, companies increased production, pay and prices, while individuals entered into more expensive commitments. However, pay increases added to prices constantly reduce the purchasing power of the outstanding money supply credits and destroy part of savings (capital). Eventually, there is insufficient money to buy the current production of goods and services, so recession with its domino effect sets in. That, not a credit crunch, is the reason why, "many lendings have gone sour".

Interest rates are determined by the demand for borrowing in relation to the supply of deposits. Thus, alterations to base rates and margins are merely an acknowledgement of the current state of affairs. Changes to interest rates are ineffective as a policy instrument as the market forces will offset them.

The scenarios of Mr Cheney and Mr Gardiner are based on currently accepted monetary theory, which is false, and simply emphasise how great is the need to replace it with the facts.

T.B. Haran
"Grianan"
23 Orchard Road
Bromley, Kent

Footnote:- There is a printing error in my letter in the Summer 1991 edition. The relevant sentence should read, "Earnings can (a) be exchanged for goods and services or (b) be converted into an asset of *some* kind, such as cash or a credit to a bank account". It may be relevant, for showing it as *"same"* has altered the meaning.

A response to *Britain's educational system: The lessons of history – have we learnt anything at all?* by John Black from J.K.M. Tod.

Sir

Your correspondent John Black has reminded us that Professor Corelli Barnett said that ever since the 1940s we have been educating for decline. Perhaps that is connected with the fact that no young man of university age that I have asked about his future has mentioned manufacturing. They all have clear, even enthusiastic, intentions but never about production of goods. No wonder our balance of trade is in the red. It is surprising it is not more so when we are told that in a Japanese engineering works every draughtsman has a university degree.

This is no new fashion. For a long time the engineering profession has been regarded with disdain, occupying a lower position in the social scale than, say, stockbroking or accountancy. Yet our prosperity or otherwise depend on our production of goods for export.

It would be interesting to know what proportion of MPs have active experience of industrial production and how they are distributed among the parties but I am not sure that would get us much further as long as our obsession with social class (however illogical) swamps considerations of national prosperity.

J.K.M. Tod
Thorn
Butts Lawn
Brockenhurst
Hants
SO42 7TE

A response to the closure of the BCCI from Dr. D.D. Artingstall

Sir,

The compulsory closure of all the British branches of the Bank of Credit and Commerce International on 5th July, 1991, on orders from the Bank of England, and the tragic plight of this bank's depositors who suddenly, without warning, were permanently deprived of the use of their money, demands a critical examination of the banking system.

The fundamental reason for the expropriation of millions of pounds of depositors' money lies with the fault-ridden theory of banking. The theory, upheld by bankers, the majority of economists and financial commentators, is that commercial, deposit-taking clearing banks borrow and then re-lend their depositors' money.

Depositors are people who place their money either in interest-paying time deposit accounts or in current transaction accounts. There might seem to be some difference between these two kinds of depositors. The former would seem to be lending money to the bank in order to accrue interest. The latter, however, deposit their money for safe

keeping and access to the cheque clearing system. But, in terms of the re-lending explanation, bankers have never made any distinction and have regarded both types of deposit as monies they could re-lend. So throughout this paper the term depositor includes both.

Now, the contention in this paper is that bankers do not re-lend their depositors' money. If this was so, then the money supply could not expand. But the amount of money circulating in the British economy has increased continuously since modern banking began in the mid-17th century. What bankers actually do is to create the money they lend by simply writing a credit into a borrower's transactional account on which he, or she, can then draw at will. These credits are interest-bearing repayable loans and it is an integral part of the system that the monies, as they are repaid, are cancelled out of existence. Now this creation and destruction of money has no direct connection with monies deposited by individuals, business enterprises or all tiers of government. These monies are derived from work or taxes. The only possible and indirect connection lies in the claim sometimes made that bankers only use the total of depositors' funds as a base on which to calculate their prudent lending ability -usually assessed at 80 per cent of the total. But that is an entirely different matter.

That bankers do not borrow and re-lend depositors' funds is beyond question in any meaningful sense of those two words. For when did any depositor find their credit balances reduced because the bank manager had lent their money to someone else? The answer is never, because it never happens, and never has since modern banking began. So, this being the situation, there is absolutely no reason why, when a banker creates money and lends it to a borrower who then defaults on the repayments, depositors' funds should be deemed to be involved. That they are is only because of the bankers' traditional, but illogical, form of book-keeping. This system demands that the two sets of money shall be regarded as opposite sides of an assets-liabilities balance sheet on which depositors' monies are seen as the bankers' liabilities and outstanding loans as their assets. Such an accounting exercise is like trying to equate the movements of elastic with that of flowing water. There is no logic in regarding account holders' monies as liabilities. They would only be liabilities if the bankers borrowed them and had to pay them back, but they don't and they aren't. It is true, of course, that the bankers must *allow depositors access to their money on request* and, that through the cheque system, undertake to transfer money from one account to another throughout the banking institution. But that is not at all the same thing as borrowing it, for the monies held in accounts stay undisturbed until the holders choose to add to them or reduce them. The bankers do not own these monies, they are custodians only and, despite any imaginative book-keeping, have no call on these monies.

In regard to outstanding loans: to call these assets has much more justification, for while the loans are still performing they are accruing income and profits by virtue of the interest charged. So the bankers' self-interest requires them to increase their lending as much as possible. Fundamentally this can only be done in response to demand and much thought and ingenuity has been expended in the past trying artificially to expand such demand. For, throughout this history of banking, the unbridled pursuit of profits has been the cause of their repeated errors and scandals. The bankers have proved to be so desirous of lending to all and sundry that they have frequently failed to assess their borrowers' ability to service the loans. This lack of prudence has often led to borrowers going into default and their loans having to be written off. If the size and number of write-offs in a given period of time is such that the bankers concerned are no longer earning sufficient income to meet their obligations – salaries, property maintenance or acquisitions and repayment of debts then, quite rightly, they should be regarded as bankrupt, just like any other business. But, because bankers insist that their loans are made by using depositors' monies, then the whole population, including governments, believe it too. This belief creates a totally different set of parameters for judging a bank's solvency and the fitness of the bankers concerned to hold a banking licence. For, when it is even thought or rumoured that a particular bank has too high a ratio of non-performing loans or actual write-offs, confidence is lost in that bank. Loss of confidence generates a fear that its depositors' money is at risk. Such a fear may develop into a rush on the bank by depositors wanting to withdraw their money to prevent the bank lending any more of it. Now a bank cannot pay out cash for more than a tiny proportion of its depositors because 95% of money is in the form of cheque/figure money (that is, it only exists as figures in ledgers or computers). The only way such a bank can give its depositors their money is by allowing them to transfer their accounts to another bank. But this the bank cannot allow, 1) because bankers insist that without depositors their lending ability will come to a grinding halt, and 2) because such transfers take time and cannot be organised to meet a sudden overwhelming demand. Therefore, it is claimed, a bank faced with such a rush has no other recourse than to close its doors and cease doing business. The dire consequences resulting from such a loss of confidence in one bank holds a further fear that confidence may be lost in many banks and the whole money system will collapse. To prevent this knock-on effect the Bank of England may step in and remove the afflicted bank's licence, making what might have been only a temporary affair into a permanent one. For it is deemed that confidence in the whole system will only be maintained by complete closure of the offending bank.

However, even that does not explain why depositors are permanently deprived the use of their money. The fact that they are is where the consequences of the mythical belief in the borrowing theory passes from mere illogicality into the realm of criminal expropriation of depositors' property. It arises from the bankers' methods of book-keeping. Their argument is that because they have borrowed and re-lent depositors' funds, thereby turning their liabilities into assets, and because some of their assets have been lost in non-performing loans, then their liabilities have to be used to replace the losses in their books, that is depositors' monies have disappeared down the plug hole of the bankers' bad debts. Moreover it is not just sufficient monies to balance the losses which is frozen and commandeered but all depositors' funds. Although the depositors may be awarded some compensation – perhaps 75% of their first £20,000 – this money is paid out of a separate insurance fund and is not some of the depositors' monies being returned to its rightful owners. None of the depositors' monies is ever returned. And even if the borrowing theory is held to be true it is an intolerable situation. But as the theory is not true it is a situation which can only be described in terms of theft.

WHAT NEEDS TO BE DONE?

1. Bankers must either voluntarily admit, or be compulsorily required to admit, that the monies they lend are created by them and are not borrowed from anyone.
2. This being unequivocally established and publicised the bankers will have to alter their system of book-keeping.

   Their assets will remain their outstanding performing loans, plus securities acquired, money held at the Bank of England and the value of the properties they own. Their liabilities, however, will be re-conceptualised as being only their obligations to their employees, the cost of property maintenance and the servicing of any borrowing they have incurred. The notion of their liabilities being the monies held by their account holders in transactional accounts will be abandoned, as will be the term depositor. The bankers will recognise that they are but custodians of account holders' money and do not have any call on it whatsoever. These changes in perception will allow bankers to stop offering interest-paying deposit accounts and withdraw from the recently established practice of paying interest on transactional accounts; this will, no doubt, boost their profits.
3. The bankers will be required to acknowledge that they have two separate functions and alter their methods of administration accordingly, a) in providing the nation with its necessary money supply by the creation of credit; b) in providing the public, business and all other tiers of government with necessary banking facilities through the maintenance of transactional accounts and a cheque clearing service.
4. It will be acknowledged that the credit creation function of banking is not without risk from default, but that risk is entirely the responsibility of the bankers concerned. If a particular bank incurs too many bad debts then the judgement or the integrity of the bankers responsible will be subjected to examination, ordered either by the bank's shareholders or the Bank of England, and dismissal or criminal charges may result. But it will be recognised unequivocally that at no point are the monies in the bank's transactional accounts in any way involved. These monies will be inviolate, for they are the property of the person or persons in whose name the account stands.

It is therefore submitted that there is an urgent need for the true facts about the bankers' creation of money to be made known, and the necessary alterations to bankers' traditional practice be undertaken, so that the totally unnecessary loss of account holders' money will never happen again. And, indeed, that access to their money be restored immediately to the account holders with the BCCI.

Dr. D.D. Artingstall
26 College Lane
Stratford-on-Avon
Warwickshire

NEW MEMBERS

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

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

OBJECTS

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

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

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

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

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

vi) To encourage the 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.

BENEFITS

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

SUBSCRIPTION RATES

Individual members	£18 per year
Corporate members	£50 per year (for which they may send up to six nominees to meetings, and receive six copies of publications).
Associate members	£10 per year (Associate members do not receive Occasional Papers or the journal 'Britain and Overseas').
Student members	£8 per year
Educational Institutions	£35 per year (For which they may send up to six nominees to meetings and receive six copies of publications).

APPLICATION

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

APPLICATION FORM

To the Honorary Secretary
Economic Research Council
Benchmark House, 86 Newman Street
LONDON W1P 3LD.

Date ....

APPLICATION FOR MEMBERSHIP

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

This application is for	Individual membership (£18 per year)
(delete those non-applicable)	Corporate membership (£50 per year)
	Associate membership (£10 per year)
	Student membership (£8 per year)
	Educational Institutions (£35 per year)

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

NAME OF ORGANISATION ....
(if corporate)

ADDRESS ....

....

....

PROFESSION OR BUSINESS ....

REMITTANCE HEREWITH ....

SIGNATURE OF APPLICANT ....

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

AND SIGNATURE OF PROPOSER ....