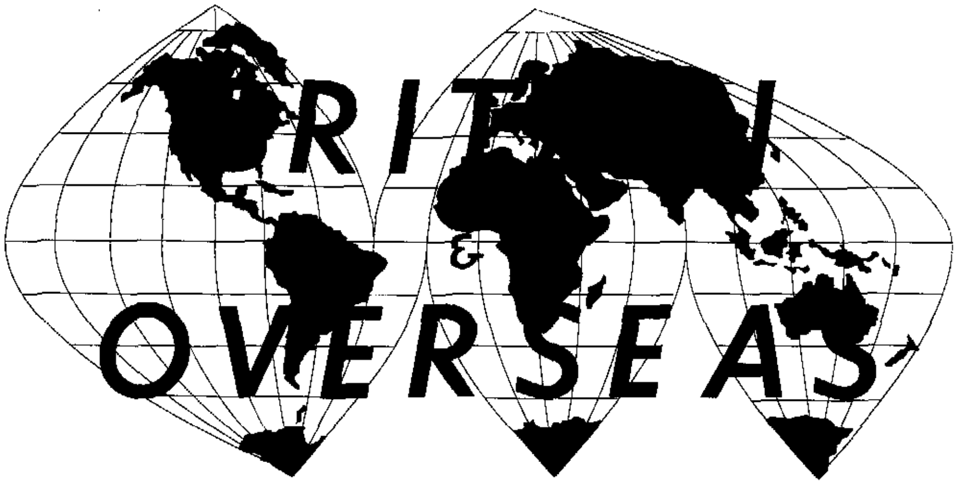

A DIGEST OF NEWS AND VIEWS ON BRITAIN'S ECONOMY
AND OUR ROLE IN OVERSEAS TRADE AND PAYMENTS

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THE PLIGHT OF THE SMALL BUSINESS

By G.W. Gardiner

Jane Austen's Pride and Prejudice has an attention grabbing opening sentence which goes, "It is a truth universally acknowledged that a single man in possession of a good fortune must be in want of a wife."

My opening remark is a poor parody of Jane's sentence. It goes,

> "It is a truth universally acknowledged that a country which has failed in its economic growth must be in want of a healthy, thriving, small business sector."

There are, I believe, economists who assert that all the most successful economies have strong small business sectors and that they are the secret of their success. The Americans have a small business sector which represents 38% of US Gross Domestic Product and by itself would be the fourth or fifth largest economy in the world. Japan, not surprisingly, has the biggest small business sector of any developed economy. The bigger Japanese companies are said to be assemblers of bits and pieces produced by small businesses, some of which operate in circumstances that would breach Britain's restrictive planning regulations.

Needless to say, the United Kingdom has the smallest small business sector of all developed economies. Hence its failure to keep up with the field.

A proper business structure

In 1987 the first Rank Xerox lecture on information technology at the City University was given by Professor Paul Strassman. Strassman, a former Xerox Inc executive, was visiting professor at Imperial College. He studied 64 multi-national companies to find out what effect information technology systems had on their profitability. It is of the nature of pure research to discover truths for which you are not looking, and the great but unexpected discovery that Strassman made was that the relevance of information technology was impossible to ascertain because of an overruling factor that gave success. That factor was good management, and the secret of good management was discovered to be a policy of buying in services from outside rather than providing them in house.

He found that the most profitable companies, and of course most of them were Japanese, were those who bought in goods and services from outside. Many of those goods and services were of course bought from small businesses that were specialist and highly focused.

Strassman's discovery provided a philosophy for privatisation. The Thatcher government tried to implement this philosophy throughout the public sector and the economy generally, and the process still continues. But unfortunately in Britain this does not mean that small businesses have acquired all the farmed-out business. Your waste disposal may be contracted out to AAH, a public company, your cleaning to BET, a public company, your catering to Gardner Merchant, a subsidiary of Forte. Although the UK small business sector has grown enormously in recent years, it seems still to be missing out on the openings that privatisation ought to provide.

How did our private business sector get into such a weak state in the first place?

The reasons for the UK's weakness

I have detected several reasons for the poorer performance of small companies in Britain. Five of my reasons have also been the target of studies and lobbying by the Forum of Private Business which represents over 19,000 small private businesses.

The members are always right

The Forum has a very sophisticated opinion gathering system. Members are questioned regularly and frequently on all important topics. The Forum's executive act upon the answers to the questionnaires. The members' wishes are scrupulously followed. The executive does not originate attitudes. Both sides of every argument are put to the members before they give their opinions.

Before the recent election the political parties, including the SNP and Plaid Cymru, submitted their policies regarding small businesses to the Forum and these were circulated to all members. I suspect that the Conservatives saw the virtue of the way the Forum listens to the grass roots and copied it to decide the form of their election campaign. That campaign was severely criticised by all the armchair experts of the media but it was successful, it seems, because it was based on the ascertainment at the individual level of what people really thought and wanted. It was presumably in pursuit of this policy that Mr. Lamont took careful note of the Forum's budget submission. I cannot recall a submission being so successful ever before. Lamont must have used that submission as a check list as he wrote his proposals. He did not adopt every suggestion in full but he certainly showed willing. I was quite amazed to see the promise to implement the proposal that I had myself strongly supported: that was the abolition of inheritance tax on business assets.

The cultural problem

But there is one serious cause of Britain's poorer industrial performance and the plight of private business that the Forum cannot tackle and that is Britain's severe cultural problem regarding industry which has persisted long after Jane Austen made it the subject of her caustic wit. You will remember that the hero of Pride and Prejudice, Mr. Darcy, has impeccable status as a gentleman because his wealth is landed; his income is from rents. He does not even seem to run a home farm.

The secondary hero of the novel is Bingley whose background is more plebeian for his family fortune was made in trade, and in the north of England too. How terrible! But the family appears to have sold out and their fortune is invested in the funds so he has acquired respectability.

The two heroines, Elizabeth and Jane Bennet, have a nasty skeleton in their family closet for they have an uncle who is in trade, and in Gracechurch Street at that. Jane Austen tries to show the folly of the prejudice against trade by making the uncle and his wife the nicest people in the book. To emphasise their quality she named them "Mr. and Mrs. Gardiner".

Since I first read the book at the age of 12 I have been on the side of Mr. Gardiner and all businessmen. But the attitude pilloried in the book remains to this day. A business-man, and especially a small one, is nowhere near the top of Britain's social pyramid today. The professionals whose services the small businessman uses have a higher status!

The attitude to the production of wealth

In addition to the snobbery of the landed aristocrat and of the members of the learned professions, the businessman suffers the condemnation of the parson, who abhors materialism, and of the socialist intellectual who condemns profit. Profit is the wage of the entrepreneur or the return on his capital. If society really wants something badly it is well advised to accept the realities of human nature and make it worth someone's while to provide what society wants.

But the parson and the socialist intellectual set the philosophy that the education system encourages. That system drives many bright people into anything except small private business. The defects of our education system and its ethos have already been well dealt with by Correlli Banet in an earlier ERC lecture but it was further brought home to me recently through the experience of a young relative of mine who lives in an industrial area and got six of her numerous GCSE's at Grade A. That was no mean feat in the third from worst educational authority in England.

She chose to go to a sixth form college which had a strong business bias, but she left it after two weeks. She complained that she was not worked at all hard and that the staff were incompetent. A culture that devalues business gets bad teachers of business subjects even in an industrial area. She transferred to an academic school and is now studying English, history, and religious studies for A levels. She is worked very hard there. She could undoubtedly go on to Oxbridge. But she insists that her sights are still set on a business course at University. Will her determination survive the discourage-ment that she is bound to receive from many of her teachers who will undoubtedly have academic ambitions for her? If she goes to Oxbridge, what hope is there that she will find a career in business, small or large? With history and English as her main subjects she could end up in that anti-business institution, the British Broadcasting Corporation.

Some people who take academic courses later switch successfully to vocational work. Indeed because of their intrinsic abilities they often outperform those who have had purely vocational courses. I saw the evidence for that when I was on the Council of the Institute of Chartered Secretaries and Administrators. Many senior people in British industry have like myself made up for an academic education by taking professional qualifications the hard way, in their own time. But to the educational establishment we are just failed academics and therefore unimportant.

My own experience of small businesses

I could not enter the small business sector directly. Instead I joined the Trustee Department of Barclays Bank in Birmingham and thereby got a better than ringside seat to view the destruction of British private industry. My enlightenment as to what was going on commenced as soon as I first posted a ledger. Every now and again I came across an executorship account with a huge debit balance on it.

"What is happening here?", I asked.

"Oh that is one of the section 55 cases; we have a number of those. They are very difficult, but the manager is the national expert on them."

"What is section 55?", I asked.

"It is a section of the Finance Act 1940. You see, after estate duty was introduced in 1894 businessmen discovered that if they organised their businesses as companies and never paid out any dividends the shares in the company would be valued on death as virtually worthless because they produce no income. Section 55 says that shares in a family controlled company shall be valued on the basis of the assets. For various reasons at the moment that goes the other way and leads to a valuation way above going concern value.

"Usually the family has no money to pay the duty and the company has to be wound up or sold. You cannot use the company's own money except very deviously or even illegally. Sometimes the companies are big enough to go public. You will find you can make a bit of profit by stagging the issues. Others we sell to big companies like GKN. Some families take on a huge burden of debt in order to keep the companies. God help them if interest rates are pushed up any higher than the present 5%."

"The particular case you are looking at is a company that can print huge posters for the cinema industry. Demand is dropping because of television and the company needs re-equipping to provide new products, so it needs capital. The estate duty liability is the last straw, but the family are trying to continue."

That story is ancient history, and you will say, "Mr. Lamont has freed businesses from Inheritance Tax, and Section 55 was repealed when capital transfer tax was introduced in 1975. Before Mr. Lamont's change Mr. Lawson had ensured that no family controlled business need pay more than 20% in inheritance tax and there are now legal ways of getting the money out of the business."

Yes, I know, because I helped with the campaign to make it possible for companies to buy their own shares, and campaigned for business asset relief, but I have a surprise for you. If you adjust for inflation the estate duty rate bands, you will find that on a half million pound estate the amount of duty payable on a death in 1991 was greater than it was in 1949 when the estate duty rates were raised to savage levels by the left wing Chancellor, Sir Stafford Cripps. I would suggest to you that the estates of the majority of small businessmen are in the half million pound range.

Until the 1992 budget every private business had to take into account the possibility that it would part with 20% of its capital in every generation. Such a tax has to be funded for and doing that restricts the amount of capital available for expansion. A public

company has no such imposition when a job backed by large capital passes from father to son. I wonder how the miners' union would react to a suggestion that there should be such a tax on the Coal Board when a miner dies.

I myself became very experienced in dealing with Section 55 cases. The worst one involved responsibility for one of the small band of glasshouse manufacturers in Britain. It was technically advanced, having pioneered aluminium construction. We had to sell every other asset to keep that business going and we still had a deficiency on capital account. But we saw some £38m worth of new business in eastern Europe escape us because we had not the capital to finance it. After five and a half years of worry we gave up and sold the business to a large quoted public company. Their overheads must have been much greater and prices were pushed up.

Although the businesses I have had personal responsibility for have included everything from a fish and chip shop to a steel company my main interest became farms, for I was based for a long time in Cambridge, the centre of the farming industry. I got involved in campaigning country wide about the tax problems of farmers. In 1971 I calculated that the tax on a 500 acre farm had gone up 76 times since 1949, a good example of fiscal drag. To my great delight I got the agricultural academics on my side and was strongly supported by the greatest of all agricultural scientists of this century, the late Professor Sir Frank Engledow, the man who increased the yield of wheat five times and was one of the first trustees of the Nuffield Trust.

We had some success but in a survey made by the Forum of Private Business in January of its members' attitudes the problem of inheritance tax was ranked third of all the problems referred to in the survey. Only late payment of debts and the uniform business rate ranked higher. Personally I think that death duty should have been placed at the top of the list.

How to hinder expansion

Businessmen are encouraged by the tax system to put money into pension funds. This is yet more cash lost to the business that might have financed expansion. Controlling directors are allowed to have their own self administered pension funds and some of the funds' money, but no more than half, can be recycled back to their companies, usually by buying premises for them to occupy, or by giving them loans. But the recycled money is not part of the equity base of the business for the purpose of determining its credit limit. Indeed any loans to the company from the pension fund must in theory reduce pro rata the availability of bank credit.

I am trying to find out if any businessmen would be prepared to take the risk of self investment of pension contributions, if it were to be permitted. My guess is that some will, even though it is very risky. If so, let them have tax relief on such self investment. Is it not part of the strength of German businesses that it can self invest its pension funds because the state guarantees the pensions? It is because their pension funds are in the balance sheet that German banks have the capability to invest in company equity. If you have long term liabilities you can invest in long term assets!

A proper capital market is needed

But the form of capital that small businesses particularly want is long term loan capital, preferably at fixed, or at any rate stable, rates of interest. Our banking system is no designed to provide it. In the very old days the traditional source of funds for a private business would often be a mortgage from a wealthy person. The interest rate would be four or five percent and there would be no repayments. It would be a permanent mortgage because both parties wanted it so.

Inflation, of course, killed the private mortgage market just as it killed the bond market for public companies in the late 1960s. Since then banks have been a more important source of capital. Private businesses on average get 31% of their capital from the banks, and they have no other source but the banks. Lloyds bank cut its domestic loan book by 10% in 1991. How much of that cut was at the expense of small businesses? During 1991 the banks widened their interest differentials: some of the increase must have been the result of not passing on to business customers all of the interest rate reductions. National Westminster lost a tenth of its shareholders' funds in 1991, partly through paying a dividend out of capital. That reduction in its equity base could mean a £10billion reduction in its advances. Where will the credit crunch squeeze hardest? Private business is very worried that it might be the target and I have urged the Forum to monitor the position.

A better capital market for loans

I hope that you will not think that I have got Japan on the brain if I again refer to it. This time it is to commend the Japanese Loan Trust system which developed after 1952 and which raises medium term funds from the public and provides medium term loans for industry. The whole system is carefully controlled by the government because Japan is a planned economy. But it is sensibly planned. Back in 1928 in the "Treatise on Money" Lord Keynes suggested that it would be better if the economy was planned so that a long term view could be applied and so that we could apply the collective wisdom of the people. Unfortunately when planning is done by a British government it seems to take a short term view and we get the collective stupidity of the British people, not its collective wisdom. But certainly no collective wisdom has been applied to the British capital system, and the small businessman cannot get money in the form he wants which is, as I have already remarked, medium or long term loans at a stable and modest rate of interest.

At the moment, however, small businessmen themselves rate as their top problem the fact that a large amount of the capital which they borrow is tied up in debts owed to them by larger companies. The Forum of Private Business has of course campaigned very strongly on this. Debts which are payable at 30 days are on average at the moment paid at something over 80 days. Before the campaign it was 90 days. It would seem to me quite likely that half or even more of bank loans to small businesses are being absorbed by late payment of debt. It may seem clever to the finance directors of large businesses to play this ploy of late payment of debt but in the end they are indirectly paying the

higher interest charges that a small business has to pay rather than the lower level that the large business itself might have to pay.

The cost of compliance

Another gripe of small businessmen is that the compliance cost of social legislation falls much more heavily upon them than it does on the bigger company. The big company can have a personnel department, it can have a department for this, that, and the other. The small businessman has to do the lot. The effect is well seen in connection with statutory sick pay. SSP is paid by the business but is recoverable. A survey has shown that something like half of small businesses do not bother to make the recovery. They just have not got the time to do it. Now it proposed that only 80% of SSP will be recoverable so the other half of small businesses that do recover statutory sick pay will find their cash resources diminished.

Not surprisingly, when the Forum surveyed its members reaction to the Social Charter they gave it the thumbs down.

Non-wage costs

Next there is the general problem of business rates and national insurance. Now I know that non-wage costs in Britain are lower than in other Common Market countries. People are now talking about a non-wage cost ratio of 26% in Britain. In the days of the last Labour government I put the figure at about 38.5%. A lot depends on what goes into pension funds. In Germany it has been stated that non-wage costs are 80%, and some people – including a leader of the German trade union, I.G. Metall, – have even credited the motivation for Germany's great productivity to this colossal burden of non-wage costs. I would suggest that we should take a world wide view and realise that all European countries are shooting themselves in the foot and arm by applying high non-wage costs to their industries. The Koreans don't do it and the Japanese level is much lower than the European level. Indeed one of the reasons why Japanese motor industry wages are the highest in the world is because they can afford them as they do not have high non-wage costs. So the German and Japanese situations are at opposite ends of the spectrum.

High non-wage costs damage the country's competitiveness and that is made worse by the fact that we have an overvalued currency and have always had one. I have long advocated that by reducing non-wage costs we could compensate for the fact that we have an overvalued currency. Thereby we could keep the advantages of an overvalued currency without its disadvantages. The late Lord Kaldor made proposals to the same effect back in 1964.

The uniform business rate system requires almost a lecture by itself. I will content myself by saying that the uniform business rate is wrong because it goes completely against the philosophy of the market economy which is that a business should bear its proper costs and that taxation should be neutral in its effects. Of course all taxes on property values, whether on annual value or on capital value, are illogical because the tax and the values are inter-reactive. If premises are given an increased value leading to a higher tax charge the market value of the premises will come down and you get a five year oscillation of values as revaluations are made only quinquennially. This causes an instability that is bad for the economy generally. Businessmen gallop around the country in pursuit of a chimaera of lower taxes.

The Community Charge and the Uniform Business Rate were based on diametrically opposite taxation philosophies. I suppose that two different ministries and two sets of Civil Servants were involved and neither cooperated with the other.

Legal structures

The small businessman of Britain works in a society whose legal system has defects. It is not only the law on the recovery of debt that is at fault. There is also the fact that a new legal structure for small businesses is desirable. The Forum of Private Business has had a study of this done by the Manchester Business School and Professor Pennington of Birmingham University. Suggestions have resulted which, by coincidence or otherwise, are exactly the same as those arrived at by a working party of a committee of the Council of the Institute of Chartered Secretaries and Administrators back in 1981. I chaired that working party so I was delighted to see academic support for our views.

Interest rates

I have left until last the vandalism of high interest rates. For twenty-five years I have urged that the key to the intermediated money supply is the capital base of the banks and that therefore there is an easy way to control the increase of bank credit without changing interest rates. I first advocated that view publicly at a conference on inflation at Sunningdale in 1973. Some of you may have heard me say it at the Council's meeting in January 1990 or will have read my follow-up article in the April 1990 issue of "B & O".

May I remind you of Keynes' description of a policy of controlling credit by high interest rates. He said it was neither judicious nor humane. We now know that it can cause inflation, as well as cure it. But it can only cure inflation by destroying employment. The eras of low inflation in Britain have commonly been the eras when interest rates were low, not high.

My main task during the last 15 months has been to martial the intellectual arguments against high interest rates. I presented a draft paper last September to the Forum of Private Business when the reaction was, "One man's views are not likely to change anything". I accepted this judgement. But it is beginning to look as though I am no longer alone. In the January issue of Banking World Professor David Llewellyn, who was present at our January 1990 meeting, states categorically that the capital of the banks is the determinant of the money supply. In a recent letter to the Financial Times Giles Keating makes the same assertion and he called for the reduction in interest rates internationally. In January 1991 I made the same appeal on a Granada television programme on which Keating too appeared. That was about five weeks before President

Bush made a similar call and was derided by British economists for doing it.

Nothing could better ease the plight of the small business than the creation of a better capital market and the introduction of lower and stable interest rates.

Lamont has done some very good things for the small business sector and I hope that we can keep up the momentum of the moves to ease its plight. But there is an enormous amount of lost ground to make up. For seventy years economists and politicians have supported policies that have damaged the British economy and tragically diminished the chances of success for the small business sector.

Perhaps we need a Commission charged with the task of protecting business from its cultural and academic enemies, and with the duty to study and advocate all the methods of promoting the success of our industry, big or small. Frank Engledow showed the way in 1976 when he established his study group to plan the future of British agriculture until the year 2025, a remarkable act for a man of 87! I served on his group and I can think of no better occupation than to serve on a similar group with an even wider remit, the future of all British industry for the next fifty years.

EXCHANGE RATES – EAST ASIA, AMERICA AND EUROPE

By James Bourlet

Of course exchange rate changes are often, in the main, reflections of differing inflation rates, differing interest rate policies and changes due to calamitous events. These and such like factors we talk about endlessly and much of the time have little difficulty incorporating them into our mental picture -and thus our efforts at reasonable prediction.

But in addition to these, or perhaps one should say, underlying these factors, the question of relative economic performance is crucial. Simply put, if one country succeeds in producing, at the right price, items which others want, its exchange rate will accordingly rise to reflect this success. If other countries improve their output in some way, then, all other things being equal, the exchange rate will adjust by falling somewhat. In other words, the exchange rate is just a part of the price mechanism – the part that adjusts relative performance and which acts as a signal for a relative increase in exports or imports. It is one of the most delicate and crucial instruments in economics. Tampering with it is very dangerous indeed.

Small countries can benefit hugely from a free exchange rate – a point amply made by such economies as Singapore and Hong Kong. Larger ones can suffer from the fact that the exchange rate is an 'average' of requirements set slightly undervalued for the more successful regions and slightly overvalued for depressed regions thus accentuating these differences, but for countries the size of (say) Britain or Japan this cost seems bearable enough even though regrettable.

It can also be said that if governments long term, systematically allow the exchange rate to be either overvalued or undervalued there can be predictable and very noticeable consequences. First, how might this be done? It is really a matter of 'foot-dragging'. Britain, for example, has faced many years of poor economic growth coupled with relatively high inflation. The need is always for falls in the exchange rate. Setting high interest rates and encouraging the inflow of both long term and short term capital has slowed this fall – so that the exchange rate, on average, seems always just a bit overvalued. Japan in contrast has for 4 decades out-performed most of the rest of the world in productivity gains for internationally traded goods and tends towards surpluses in international trade. The need is always for rises in the exchange rate. Responding to the pleas of exporting businessmen the Japanese government has been happy to set up relatively low interest rates (and undertaken a fair battery of supplementary and somewhat questionable measures to back this up!) thus allowing the Yen to lag behind the level which would truly reflect economic performance.

The consequences are evident. Britain has slowly but surely emasculated her industrial sector – now only partly compensated for by the 'leap-frog' effect of imported Japanese productive capacity. Britain inside of the rigid framework of a single European currency can only look forward to much more of the same. The outlook is grim indeed. Japan, by her policy choice has progressively expanded the export sector to the neglect of domestic affairs, creating a wonderful export machine but a poor quality of life at home.

Unhappily it seems pure pie in the sky to imagine that countries can adjust to pre-set exchange rates rather than exchange rates to the country. For Britain to succeed in exports despite a high exchange rate would require not only a highly disciplined low wage activity by export industry workers but a cut in returns to *all* activities – accountants, school fees, small shop keepers' incomes and all the rest which form the background of the costs of the myriad inputs to firms creating goods for export. It actually can't be done though it might be partially achieved through a very severe recession. For Japan to succeed in raising imports despite a low exchange rate would require not only super-human initiative on the part of both domestic and foreign importers (and there are lots of books published to encourage firms into just such an unrewarding course of action) but ultimately a rise in the incomes and costs of every firm in Japan *apart* from those engaged in imports. It is, frankly speaking, asking for the moon, to ask micro policy to compensate for macro policy mistakes.

It is also worth looking at things empirically from a long range viewpoint. Think of our twentieth century world as consisting mainly of 3 trading areas: the Western European countries, America and the Far East. At the beginning the Europeans were way ahead and had high exchange rates. America had modest exchange rates and the Far East very low ones. The Far East has the inherent advantage of labour qualities of diligence and, quite simply, skilled fingers. Inexorably, the Far East was bound to develop spectacularly. We first noticed the impact of these skills in simple things like textiles from Japan and Hong Kong – big winners from First World War clothing orders. Later industries of all kinds developed until today the performance of the East Asian 'Tigers' plus Japan – and soon China itself has become superbly export-effective.

Now, long term, this has simply meant that at first European currencies had to trend downwards against America and East Asia and then both Europe and America had to trend downwards against East Asian currencies. This brings us to recent years.

So what has happened? America has 'taken the brunt' of East Asian exports *before* Europe. In doing so the American exchange rate has fallen heavily against the Yen and, in the process, has fallen somewhat against European currencies. East Asia has, so to speak, 'gunned down' the dollar – but not yet European currencies. The benefits have gone to America in this process -it is America that has succeeded in enjoying the highest standard of living and it is America that, having faced up to the adjustment process first is now in the best position for further growth. I view East Asian imports into America, not as 'American mistakes' but as 'American courage' – with a pay-off.

Now European currencies must fall. American manufactured exports to Europe are surging. Japanese cars are pouring into Germany and the German export surplus is collapsing. Through holding up exchange rates the exports of European countries to America and to other countries are constantly whittled away by Far Eastern efforts. Land Rovers are hardly to be seen in the markets they used to dominate in Africa; Australians drive around mostly in Japanese cars. The market which in the 1960s VW carved out for itself in America has been taken over by Toyota. Restrictions on the Japanese are quite useless because for every Japanese item held back a Taiwanese, Malasian or Chinese article reaches the consumer.

And so European exchange rates even if they remain relatively constant against each other (thus perpetuating existing disparities of activity) must fall against those of the Far East and in so doing, fall to a lesser extent against that currency which has raced ahead of them in this adjustment process – the dollar. Happily this need not be an inflationary process since Far Eastern success is based in cost cutting efficiency. It is merely a part of the advantage of having these goods at ever cheaper prices which needs to be abandoned.

The results of accepting lower European exchange rates against Far Eastern currencies (and to a lesser extent against the dollar) could be surprising. In addition to the obvious assistance that our manufacturers would thus receive – in terms of export opportunities and import substitution, we would be able to free ourselves from a great many of the bureaucratic impediments associated with 'Voluntary Export Restraints'. 'Trade Friction' could be substantially reduced – indeed, in principle, eliminated.

More importantly however there would be opportunities to reduce interest rates in Europe and, in consequence in Japan. This, plus reduced exchange rate decline risks would allow Japan to invest its massive savings surplus abroad – and a large part of that would reach our shores. Freed in this way, Japan could become an even better market for Western products and a momentum towards world economic growth could begin.

"A" IS FOR ACHIEVEMENT

By Dr Tony Barnes *

How much does education contribute to the performance of a nation's economy? The question is worth asking because it is clear that the government's successive reforms in education are all intended to be part of its overall purpose of reviving the British economy.

However, while it might be accepted that there is some link between education and the state of the economy, it is still useful to ask whether the government's current approach is the right one. Is it sensible, for instance, to focus so closely on the *content* and *organisation* of education or might the desired results be better achieved by giving greater attention to its *value basis?* Then again, is it realistic to expect any pay-off for the economy over a period of time anything less than twenty years?

All these questions are relevant because some time ago a friend lent me a box-load of late eighteenth and nineteenth century children's reading books and school texts. Browsing through them was a revelation! There was, for example, a detailed English grammar full of improving passages, such as one entitled *Industry and Indolence contrasted, A Moral Tale*. There were similar messages in a reader for younger children called *Little Crumbs for Little Mouths*, while for older children there was a volume of sterner pieces which adjured its readers, among other things, to "fly, therefore, from idleness, as the certain parent both of guilt and of ruin".

The whole selection formed a sharp contrast to the books currently read by children. Although virtuous behaviour still gets a favourable mention nowadays, somehow the hard, competitive edge is missing: there is both less idealism and less concern with the harsh realities of life; but at the same time more emphasis on fun and adventure, humour and agreeable companionship. Slowly and perhaps imperceptibly over a century or more society's values have changed, and this change has been reflected in the content of the books our children read.

There is nothing new in making this kind of comparison. Over forty years ago the Harvard psychologist, David McClelland, began to use children's early reading material as some of the evidence in his attempts to isolate and identify one particular aspect of human motivation.

McClelland was concerned to explain why relatively few people seemed to be challenged by adverse economic circumstances, while the majority were not motivated. Building on the Weber and Tawney thesis of the Protestant Ethic, he reasoned that there appeared to exist in some people a deep psychological need for achievement (as opposed, for example, to other psychological needs, such as sense of duty or "affiliation", i.e. friendship).

McClelland asked people to describe a series of neutrally cued pictures and then found by using objective scoring techniques that it was possible to measure an individual's level of achievement motivation and assign to him a *n* Ach (need for achievement) score.

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As a result of these researches McClelland was able to offer some kind of profile of individuals with high achievement motivation. They are people who consistently set themselves moderately difficult but potentially achievable goals; they are also more concerned with a sense of personal achievement than the subsequent rewards of success; for this reason they are not inclined to engage in activities where they have little control over the outcome (e.g. gambling). Not surprisingly, they are most likely to be found in entrepreneurial activities where they receive the regular feedback on performance that their achievement motivation needs.

Why do some individuals exhibit higher levels of achievement motivation? According to McClelland, the evidence suggests that this is the result of special training they receive in childhood from parents who encourage early independence, set moderately difficult achievement goals and who are warm, encouraging and non-authoritarian in helping their children attain these goals.

At the macro level McClelland's theories have been shown to have substantial predictive validity. Samples of children's early reading material from a large number of countries have been subjected to content analysis for "achievement imagery" (words and phrases like "concentration", "effort") to yield *n* Ach scores. These can both reflect the existing condition of a nation's economy and its future potential, when after twenty five or more years the children have grown up and reached their most productive period economically.

In the 1920s, when her economy was perhaps somewhat stronger than some other nations (although it might not have felt like it at the time) Britain's *n* Ach score ranked fifth out of twenty five countries. In the early 1950s her economy was still relatively buoyant compared with her international competitors, reflecting the 1920s *n* Ach score. However, the 1950s *n* Ach score, based on children's early reading material then available, showed a marked decline in relative terms: Britain had fallen to twenty seventh position out of thirty nine countries. On the basis of this fall McClelland predicted economic problems for this country by the early 1970s and in the years following. This prediction we have all had some cause to rue.

Significantly, the same pattern has been shown to occur in societies as disparate as Ancient Greece and modern industrial societies: a rise (or fall) in *n* Ach levels in a nation's popular literature and children's early reading material will signal the bursts of economic activity (or periods of stagnation and decline) likely to occur a generation later.

If one accepts McClelland's theories – and they have undergone extensive testing over the years – the short-term economic indications for our own society are distinctly discouraging. A cross-cultural survey of children's reading primers published in 1973 showed that of the thirteen countries examined the British sample contained the least number of references to the subject of work and at the same time managed to have almost the most frequent mentions of play. This was by no means an isolated picture: subsequent surveys of public attitudes have continued to suggest that levels of achievement motivation in British society are still in steady decline.

Sadly, the advent of the Conservative party's enterprise culture seems to have led many to exhibit success motivation rather than raise levels of achievement motivation. That is to say, the rewards are valued more highly than the means of achieving them. In consequence, even during the ten years of the Thatcher revolution the British economy managed to grow more slowly than most of the industrialised nations that are our natural trading rivals.

A few years ago there was much heated debate about *il sorpasso* -whether or not Italy had overtaken the United Kingdom in the size of its economy. Now, on the most recent figures there is no doubt: the Gross Domestic Product per capita of the Italian economy is over 12 per cent higher than the British Gross Domestic Product per capita. Our exports as a proportion of world trade in manufactured goods are now lower than ten years ago. In fact, the level of employment in manufacturing industry is about one-third lower than in 1974, although thanks to improvements in productivity (most of it due to technological innovation) output has managed to creep up by seven per cent over the same period.

In the circumstances the government's strategy of reorganising and energising the education system as part of the grand plan to regenerate the nation's economy now appears to be somewhat off-target. There may be little point in castigating the education system (or the government, for that matter!) for failing to produce the particular sets of skills appropriate for economic growth, when the problem is that the population at large does not possess the value orientations needed to effect a dramatic improvement in the British economy.

It is possible, of course, to take a purely fatalistic view and to see the successive stages of economic growth, climax and decline in a nation's history as having a certain inevitable quality, so that resisting economic decline becomes as pointless as trying to stop growing old. At the same time, even if the analogy is appropriate, a prolonged period of gentle decline ought to be preferable to precipitous economic collapse.

However, not all signs are pessimistic. McClelland and his colleagues showed in experimental work conducted in the USA, Mexico, India and other countries that levels of achievement motivation can be raised in adults by the use of short courses designed specifically to stimulate participants to think about achievement goals.

Moreover, even though child-rearing practices cannot be changed overnight, it should be possible via various media to stimulate some public thinking on the subject. Again, more achievement imagery could be included in children's early reading material. However, it is possible that the most immediate results would come from courses for increasing achievement motivation, if these were designed for and used with sixth formers and students in further and higher education.

Even so, it would be unwise to hope for any quick economic return from such developments. It takes time for a genuine enterprise culture to emerge. In the meantime, like the USA, we have a persistent, if reducing, trade deficit.

The pity is that there is little likelihood of anything of this nature occurring. Although a number of major advanced industrial nations, including the USSR, before its demise, have shown interest in McClelland's ideas, reactions in this country have always been notably lukewarm. Can it really be the case that, despite the Conservatives' best efforts, we already feel that our economic prospects are beyond redemption?

THE BOJ IS JAPAN'S MOST PROFITABLE COMPANY

Teikoku Data Bank Ltd, a private credit research agency has reported that the Bank of Japan, Japan's central bank, has become Japan's highest income enterprise.

Citing tax returns filed with taxation authorities, the agency reports that with profits last year of ¥1.61 trillion, the BOJ outranks even the giant Toyota motor company which last year earned only ¥571.87 billion.

Which makes one just a little curious to know the true earnings of other central banks!

THE WORST OPTION: THE COMFORTABLE ...

By Sydney Shenton

Conservative policies in domestic and national contexts have not been successful. The social fabric is in bad shape here and in America, the eco-systems most unsatisfactory. It is even more difficult to imagine how conservatism in its modern shape is going to come anywhere near to solving the mounting problems of the world: drought and famine and corrupt inept government across Africa; the struggle for freedom and a decent standard of living in Eastern Europe, and biggest problem of all the awful deterioration in the global environment. The tremendous vision and unselfishness needed in abundance to cope with these awesome problems are significant by their absence from current conservative attitudes and policies. Why then in Britain and across the Atlantic do Conservatives succeed in holding on to power?

John Kenneth Galbraith in his "The Culture of Contentment" (Sinclair-Stevenson £14.95) has given us some answers. In typical lugubrious style, laced with humour he states that the contented and relatively prosperous have now sufficient clout to put into political power conservative forces committed to preserving the status quo. Such coalitions can rule pretty well absolutely against the wishes of the majority of the electorate. The pretence and the rhetoric is that they are acting in the interests of the nation as a whole and the imperfections of democracy and the electoral system give them power for long periods. Their commitment is to individualism and short-termism; to as much profit as possible in the shortest time and to as little state interference as possible. Individualism indicates the belief that individuals deserve what they get and get what they deserve. Any sort of programme that aims to redistribute away from the contented to any others, however deserving, will be rejected. Short-termism comprehends the contented's unwillingness to incur costs now for future benefit, since these gains will be reaped by others.

Private investment is approved but public investment in the infrastructure, education, etc, is suspect. Political conservatism has pandered successfully in hosts of ways to the selfish interests of the contented sector, who have grown to be sufficiently numerous to effectively rule the roost. In economic policies this has enabled emphasis to be placed and given to ideas that have little basis in common sense or produced any effective realistic results, or which have had any support whatever from any impartial considered economic theory. Concentration on single objectives such as inflation reduction, a fairy tale idea if ever there was one, has had disastrous effects on other aspects of the economy such as unemployment. What more fanciful idea than the trickle down principle? Maximum incomes at the top with the minimum of tax will automatically produce wealth redistribution for the benefit of everyone! In fact the idea is sponsored that the well-off require incentives in the form of higher and higher wages and perquisites with lower and lower taxes to encourage them to work harder and not flee to better pastures, whilst the relatively poor need lower and lower benefits to achieve the same ends. The big carrot for one, the stick for the other.

There is no evidence whatever that these policies have produced any economic benefit whatever whilst the social harm mounts before our eyes. Galbraith describes realistically how this constituency of comfort and contentment has exercised decisive power in Britain and up to now in the USA. The rich and secure and those quite contented with their situation ask above everything no upsets, no risks, no disturbance. Our modern Conservatives and American Republicans have constructed policies of lowest possible taxes, least state interference, to appeal to this powerful and numerous sector. The infallibility of the totally free market plus laissez-faire economics which have underpinned this philosophy are showing increasing signs of failure. Many Conservatives are now looking back and taking on board the evidence that the free market is incapable of providing all our needs and all the answers. It is a vital force but must be controlled and manipulated as necessary for the public good. Even the benefits of privatisation are revealing limitations. Our prospects however are extremely grim; there is no need to spell them out. It is interesting and informative to observe that whilst Germany is suffering unification and labour problems both there and in Japan they are doing better than us as their traditions assist both social cohesion and economic prosperity. Our particular Conservatism has never taken root there. In the USA in the last few weeks over a hundred of the most eminent businessmen and economists have signed a statement urging practical measures and a stronger programme to conquer the recession and help unemployment. This was dismissed by President Bush in one sentence. One cannot be sure he even read it. This is typical of how the system operates here as well. To Galbraith's grim picture we can add our own experience in the extraordinary acquiescence and fatalism towards our rising mass unemployment. What a shocking waste paying so many to do nothing! At what level one wonders are we going to be induced to treat the scandal as an issue in its own right rather than just an awkward after effect of other economic policies?

We seem to have adopted Harold Macmillan's suggestion, "Hold on to nurse for fear of worse". It is difficult to understand how this attitude has penetrated across the spectrum. One woman in the North East whose husband and two sons all have lost their jobs in the last two years, when asked why she had voted Conservative replied "We may not have a lot left but we want to hold on to what little we have got. We don't want to

risk that in any economic experiments".

The prescriptions and advice being considered by Conservatism now upon unemployment are still far from any risk-taking or any semblance of Keynsian stimulation by means of public works and reconstruction programmes. Suggestions include limiting the duration of unemployment benefits, stiffer job search screening and more vigorous policies related to training and placement. Exclusively supply side measures. What could possibly help, but is not receiving serious consideration, would be coordinated wage determination where applicable, and, better still, temporary incomes policies with tax-based penalties for excessive wage awards.

The trade and fiscal situation added to mounting unemployment is going to have a big impact on policies before long, including exchange rate adjustments. The comfortable and contented are certain to have to think again in the near future. There is absolutely no way current Conservative policies are going to match up to genuine economic revival and social reunification needs.

Some way or other we are going to have to discover the dynamics of true liberalism. A sounder ethical base reaching beyond greed and personal gain.

Although liberalism has been put to a wide diversity of uses through the years, including excessive freedom and 'do-gooding', there need be no confusion as to its genuine and real meaning. It is for an open and free society with both equal opportunities and consideration for all. Emphasis on the value of community and the basing of decisions upon consent for the benefit of all the people.

It is in essence a continuation of those great streams of thought that motivated the Enlightenment and led us into the Age of Reason; the great voices of Voltaire, Locke, Hume, Kant and so many others. We must hope we do not need wars, civil or otherwise, nor revolt, to unseat the stultifying culture of contentment.

Ideas, liberty, equality, fraternity must prevail. Nobility of purpose must return with greater force into political life.

THE EDWARD HOLLOWAY COLLECTION REVIEW

The Controversy of Zion by Douglas Reed
Published 1978. Currently available from Bloomfield Books,
26 Meadow Lane, Sudbury, CO10 6TD. Price £15.00

This is an incredible book – nearly 600 pages packed with facts and information covering close to three thousand years of world history. It is obviously controversial but at the same time fascinating because it attempts to interpret and evaluate the influence of that minority of Jews who have been known variously down the ages as Levites then Pharisees and now Zionists.

This piece is not a book review – it rather a statement of this reviewer's problem. My first reaction was of a sense of being quite overwhelmed. So much of the accepted wisdom of our age seemed effectively challenged, but despite a normally adequate scope of background knowledge against which to evaluate unusual claims, I confess inadequacy. Just what *is* one to make of a clear argument against the often heard proposition that "Jesus was a Jew"? Just what *is* one to answer to a claim made by an experienced career journalist of our times, that the Press is effectively but subtly censored – when one's own experience of the debate over "Europe" seems bound to lend support? Just how is one to assess the account of arguments *between* Jewish groups from AD to the Ghettoes of 19th Russia to modern Israel? The book is neutral towards Jews as such, but obviously, as the title implies, leads one to a conclusion sharply critical of Zionism.

Now it is true that in a strict sense there is little in the book that is directly relevant to the ERC's concern for business and economics, but nonetheless it *is* a part of the collection of books here being considered. One has a duty not to avoid an awkward subject.

I naturally turned to Jewish colleagues who, I presumed, might have a good knowledge of the subject, would share with me a spirit of academic enquiry, and would be pleased to point out points where the book was right and moments where it had begun false trails. The distressing result of this exercise was simply to be treated with horror for reading the book – and more or less to lose friends instantly unless I profusely apologised for raising the subject.

To whom then, might one turn? It should be interesting to general historians especially for the interpretation of early times. It should be interesting to students of religion – for the subject matter underlies *all* religions. It should be interesting to psychoanalysts who would find this interpretation of culture but one example exposed by their art. It should even be interesting to Japan-Western intercultural specialists for the light shed on the currently popular theme of the Jews and the Japanese being similar as "successful outsiders" (if that be true). It should be interesting to modern historians in a dozen ways from Reed's account of Pearl Harbour to the rise of Ross Perot. And more.

Inadequacy. I frankly don't know what to make of it – but I know it cannot be dismissed as trivial. The best I can do is to make an offer. If any ERC member cares to read the book and provide a suitable review, I'll be delighted to meet and discuss his text with a view to its use in "Britain and Overseas".

J.B.

PROPOSAL FOR RESEARCH STUDY.
WORLD ENERGY TAXATION TO SAVE THE ENVIRONMENT

The problem

Fossil fuels are too cheap because the environmental costs of burning them are not included in the price. Continual underpricing (subsidising) eventually leads to economic disaster, as it did in the Eastern block over 70 years. By subsidising fuel and resultant mobility, the West is also heading for disaster, in the form of clogged roads, unbreathable city air, climate change, desertification, flooding.

The solution – energy-carbon tax

All countries should tax fuel with the environmental costs of burning it, which would have the following benefits:

a) reducing demand, road congestion and air pollution
b) raising exchequer income which could be used to reduce other taxes (e.g. income, VAT etc) and subsidise energy conservation measures (e.g. cycle ways, building insulation, district heating pipes from combined heat-and-power stations).

How much?

The European Commission's proposal for a $10 per barrel of oil equivalent energy-carbon tax by 2000 is a welcome start, but is not enough to do more than scratch the surface of the problem. A principal purpose of the study will be to assess how to set the level and structure of such a tax to be effective and efficient.

Proposal

Anyone willing to join a team to research this, or contribute in any way, such as submitting papers or views, is invited to get in touch with John Kapp, 55 Hove Park Road, Hove, East Sussex, BN3 6LL; tel. 0273 501708.

LETTERS

Responses to The Monetarist Golden Age **by Geoffrey W. Gardiner from Mr Eric de Mare and Mr T.B. Haran.**

Sir,

Why darken the clear waters of reality by printing all those ink-fish ejections? What on earth are Messrs. Gardiner and Haran, for example, trying to say in your last issue? They seem to be talking in meaningless tongues. The cause and cure of our dire man-made situation of poverty amidst plenty and recurring global depressions are known and can be explained in plain words as follows.

Clearly the world's chief trouble is a shortage not of wealth but of the buying power with which wealth can be distributed. I'm not talking of digits galore but of the buying power of the digits. An egregious GAP prevails between available buying power and the aggregate of the prices of goods and services on sale, a gap that increases with the development of technology; total wages, salaries and dividends never add up to total costs of production; we can produce but cannot sell all that is produced. That this absurdity is a fact should be obvious to anyone who reads the daily papers; in any case, the existence of that GAP could be proven and its precise extent ascertained by a few honest statisticians using modern computers. If no GAP exists, why, to take only one blatant example, have 36 million Australian sheep recently been slaughtered for lack of markets when half the world is short of nourishing protein. What is physically possible must be made financially possible.

The Gap is caused by the reliance of the whole monetary network on the monopolistic power of the planet's banking combine to create credits out of nothing as universal debts – a power that mocks democracy and rules us all. It is allowed to persist largely because we still believe in the obsolete Labour Theory of Value – that is on the wage-salary system and its uncivilised ethic of toil. Banks do not lend the money people have deposited with them, as is generally believed; they create credits (debts to us) out of nothing up to ten or more times the value of the deposits, and on these they charge usurious interest that defrauds the human race to a point of calamitous distress.

The most important question now facing us is: How do we fill that GAP? First, remove the debt-generating power of credit creation from the commercial banks and restore it to where it rightly belongs: to the communities that create the real wealth. The banks could continue their useful jobs as accountants and be paid a fair fee for their services. Then the State (in this country under the Crown) could exactly fill the GAP by issuing to retailers new debt-free, interest-free and tax-free credits to allow them to sell their stocks below cost prices – VAT in reverse as it were. These payments, forming Just Prices, would allow us to buy all we make without falling into spurious debt, inflation would be eliminated for good, industry would flourish and the lethal struggles between nations for export markets would end. So also would all those discontents that are bringing civilisation to its close: civil and inter-national wars, social injustices and unrest, over-population, mass hunger, homelessness and ever-increasing, and apparently uncontrollable, pollutions of the environment. Money could at last do its proper job, not as a commodity, but as a convenient token and in a way that need dispossess no-one. Nothing in human affairs can now go right unless we do our money sums correctly; to do so we must realise at the start that money isn't wealth.

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

Sir

In his article, "The Monetarist Golden Age", (Spring 1992 edition), Geoffrey W Gardiner points out that, in regard to all money, there is always both a "debtor party" and a "creditor party" and refers to these descriptions in my terminology. I, however, use them in my book in relation to parties, who are debtor and creditor in terms of *services* to distinguish them from debtors and creditors in terms of *cash*.

A company *spends* funds borrowed from a bank. By so doing, it incurs two debts, the first in terms of cash to the bank and the second in terms of services obtained from the community. By selling its products, the company redeems the service debt and uses the proceeds to repay the bank. Since the bank debt cannot be repaid first, the debt in services is, by far, the more important. It is the one which affects the economy.

The bank loan can now be seen for what it really is – little more than an accounting device or a loan from a friend.

Peter borrows £100 from Robert in the form of five £20 notes. A few days later, Robert asks for repayment. Peter borrows £100 in cash from Ian and repays Robert. None of the M measures is affected, so even an economist would not maintain that money has been created.

Alter the example. Robert pays the banknotes into his deposit account and Peter obtains a bank loan. By chance, he is given the same notes. Robert spends his £100. That is irrelevant, for Peter's loan is now covered by the deposits of someone else, in other words, another Ian.

Deposits are unspent funds, lying idle, and have no effect on the economy. That is why they can be borrowed.

In either case, nothing material to the economy has changed. Yet, the economics profession would have us believe (a) that the bank, by granting credit, has created money, (b) that the procedure causes inflation and (c) that the increase (in deposits) in M4 is the proof!

In truth, all deposits and loans are subject to the same principles as Robert's £100. Thus, neither the movement of funds from the community to the banking system, nor the subsequent lending, has any effect on the quantity of money. Intermediated credit simply becomes credit double counted.

If it were possible to devise an accurate measure of the money supply, the answer would be the outstanding credits (or debts) in services valued in the unit of account, i.e. the pound.

Fortunately, there is no need to measure it, for it is self-regulating. Thus, its quantity is increased by payment from debtor parties to creditor ones and reduced by those in the opposite direction.

It is subject to a process of continuous creation and destruction and the economics profession have gone badly astray in rejecting this principle. Worse still, they have moved further and further in the wrong direction. Thus, in some of their even more unrealistic calculations, they include the sterling equivalent of foreign currency deposits (other countries' money supply!) and also add in liquid assets.

Mr Gardiner has, I fear, allowed himself to be influenced by such unsound practices. Thus, for example, there is a vital difference between (1) cash in hand and (2) deposits and (3) liquid assets (non-intermediated debt). In general, (1) and (2) represents outstanding credits in services, whereas the latter are assets on which credits have been spent. It is quite illogical to add all three together.

All banks are debtor parties. They can, therefore, only create money by spending of their own on the services of creditor parties. Raising capital reduces the real money supply to the extent that it comes from creditor parties. A bank may increase its lending capability in such a way, but only at the equal expense of other financial institutions. Money cannot be created by bank lending.

In truth, the maximum amount of credit available can never exceed the value of the outstanding credits in services. This, the real money supply, has to be created by business activity before it can be obtained and lent by financial institutions. Credit is, therefore, a comparatively scarce resource, which is why our interest rates are high.

Inflation destroys part of the real money supply and ensures that the economy underperforms. Equally serious, however, are other losses.

Those in banking, such as from sovereign lending, reduce the capability of the banks to lend for internal purposes. Production then has to fall.

Losses sustained in business activities destroy part of the money supply and, moreover, have a knock-on effect. Thus, they bring down associated businesses, increase unemployment, reduce the standard of living and cause recessions. There is no economic cycle – only periods of good and bad management decisions. The worst ones have been made by the countries most affected by recessions. Recovery is not, therefore, assured. Indeed, our recession will probably deepen, as more major losses keep coming to light.

Monetarism is based on conclusions – mostly wrong – drawn from a study of empirical evidence. Events have, therefore, to take place, before action can even be considered, far less taken. Thus, it is entirely unsuitable for modern economies, which need immediate responses, when they start to go off course.

The withdrawal of a major borrower from the market-place, such as the government, does allow the banks to lend the released funds elsewhere. This did, of course, happen and house-buyers reaped the benefit. The demand, however, came from them and the banks had no need to create it.

If the economics profession had correctly taught that credit is a scarce resource, banks and building societies would have seen the need to limit the loans to, say, 2 1/2 times one salary and, when more than one was available for repayments, to shorten the periods of the loans. Then, other desirable projects could also have been financed. In the event, excessive prices were paid for property and land and interest rates were forced up to the detriment of industrial and other borrowers. Worse still, the penalty is being paid partly by the present generation of borrowing house-buyers.

What are the monetary authorities for, if not to step in when this market was so obviously going astray? They were, as good monetarists, relying on the interest rate. Well, now the empirical evidence shows that this is a classic example of the misuse of

valuable credit and the ineptitude of interest rate policy, which, incidentally, I roundly condemned in my letter in the Winter 1989 edition.

Monetarists claim that money, once created, has to be held. Thus, they believe that it passes endlessly from hand to hand and, moreover, that its quantity influences the behaviour of the economy. In truth, all transactions have to obey the status rules (see my letter in the Spring 1992 edition). I have challenged five universities to produce a transaction or circumstance, which defeats these rules and breaks the equation -total credits in services always equal total debts in services. Inflation, for example, reduces the purchasing power of the credits and makes the debts less burdensome to the same extent.

So far, there has been no response to this challenge, yet, unless it can be met, monetarism can have no foundation in fact, nor can there be a monetary phenomenon.

Relying on monetarism, the authorities told us in turn (1) that there would not be a recession, (2) that it would be mild and short-lived, (3) that if their policy was not hurting, it was not working, (4) that recovery would be automatic and (5) that the signs of recovery are present in the economy.

Just how hopeless can a policy be? In reality, inflation and losses reduced the real money supply to such an extent that not enough money is being generated in the economy to prevent a continuing fall in the standard of living. Ineffectual monetarism has blinded the authorities to the fact that they should have stepped in long ago to repair the damage, when it could easily have been done. Now, only a series of pay and price cuts can restore the nation's money supply, i.e. its working capital. Fortunately, this would price the unemployed back into work.

The disparity between the rewards at shopfloor and boardroom levels has grown out of all proportion and this, too, should have been prevented.

A government, which claims to care, should realise that economic policies which do not provide for full employment, are both cruel and unnecessary. Economic advisers should, therefore, be instructed to devise a full employment policy or submit their resignations.

Perhaps then, the monetarist golden age will be seen for what it really is – an age of folly.

Yours faithfully

T B Haran
"Grianan"
23 Orchard Road
Bromley, Kent. BR1 2PR

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.

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

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

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

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

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

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

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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.

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