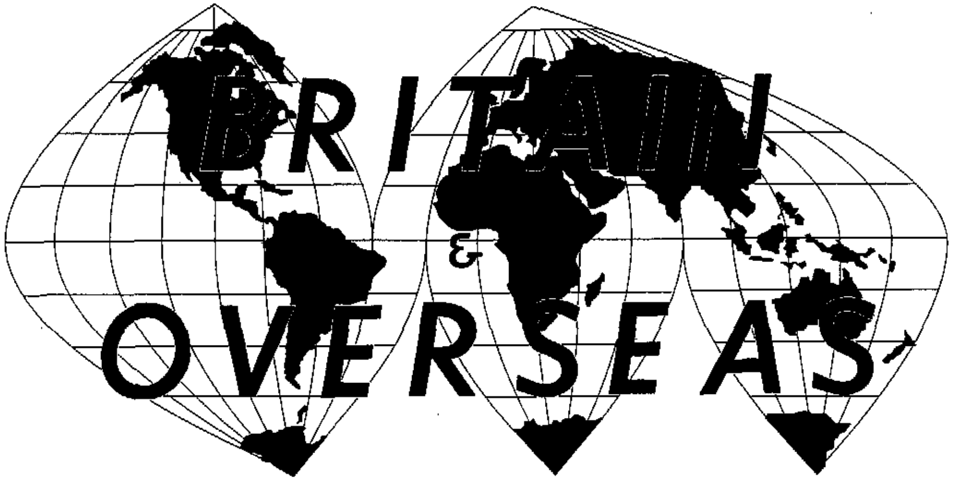

A DIGEST OF NEWS AND VIEWS ON BRITAIN'S ECONOMY
AND OUR ROLE IN OVERSEAS TRADE AND PAYMENTS

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THE GREAT WORLD BOOM 1993–2013*

By Brian Reading

This article examines an idea. It is that the world is on the brink of the biggest boom in its history. This view is based upon two simple propositions.

- More countries than ever before are industrialising.
- The later a country industrialises, the faster it grows.

Proving these propositions is not simple. Data is needed for many countries over many years. Testing the first involved digging out statistics back to 1967 for over 100 countries. Testing the second involved unearthing growth and population estimates for Britain, the US, Germany, Japan, Korea and China for as far back into the past as possible – in Britain's case back to 1700.

Growth and population statistics were collected for 101 countries covering the last quarter of a century, 1967–1992. (The former Soviet Union and the Eastern European countries now in transition from command to market economies were excluded.) During this period, "world" (ie, the total for the 101 countries) GDP grew by 3½% a year, world population rose by 2% a year and real incomes by 1½%. There were 21 countries in which real incomes rose by 3% a year or more, together they accounted for 37% of world population and a quarter of WGDP. Plausible assumptions, discussed below, suggest that over the next two decades the number of countries achieving over 3% real income growth could more than double. It is possible for real incomes to double by 2013 in countries which now account for 70% of the world's population and 44% of world output. Add in central Europe and the former Soviet Union, and these numbers rise to three quarters and a half. If these figures seem outrageous, it need only be noticed that six countries – China, India, the former Soviet Union, Indonesia, Brazil and Mexico – account for over half the world's population and a quarter of its GDP. Every one of them is likely to exceed 3½% a year real income growth over the next two decades.

Start Later, Grow Faster

Until Britain led the way into the industrial revolution in the late 18th century, real income growth was rare. Agrarian output expanded with the world population, but from one century to the next, real income was largely static. It varied from place to place and year to year with the vagaries of the harvest and changing climate. But until industrialisation, living standards in one age differed little from those a century earlier or a century later. Growth only became the norm after economies began to industrialise, which they did at different times. Real income growth was combined with rising populations to

* Based on an analysis in *Lombard Street Research Monthly International Review*, August 1993

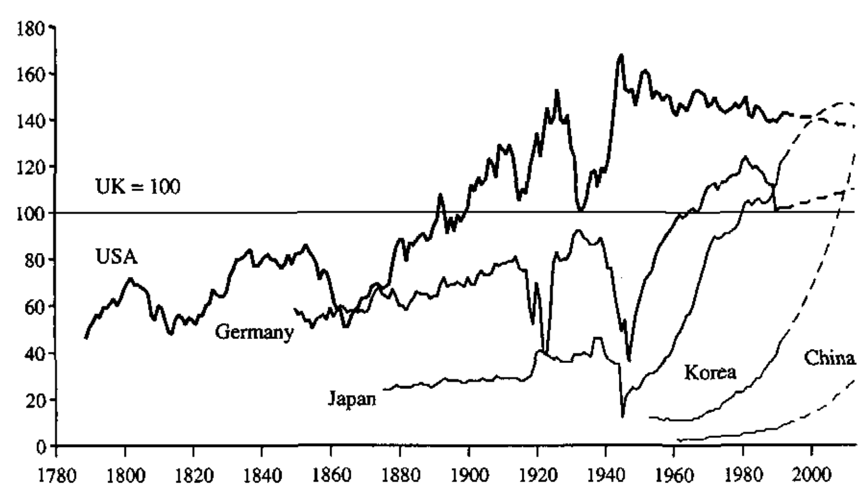
produce more rapid real GDP growth.

BRITAIN's industrial revolution is reckoned to have begun around 1780. Real GDP rose by about 0.7% a year from 1700 to 1780. But this was only marginally faster than the rise in population and real incomes expanded at barely half this rate. Output and population growth both accelerated in the closing decades of the 18th century, but real income growth actually slowed down. It was not until the first three decades of the 19th century that it started rising significantly, by around 3/4% a year. From 1831 to 1849 real income growth climbed to 1% and from 1850 to 1874 to 1½%. Then the "Great Depression" struck and real income growth slowed to 1% again. The first half of the 20th century was everywhere a disaster. Two wars meant that from 1914 to 1949 British real income growth averaged only around 1% a year. Thereafter, Britain made up some lost ground. Even so, real income growth averaged only a modest 2% over 1950–92. For the period from 1780 to 1992 as a whole, real incomes rose only 1.1% a year. Fast growth comes from starting far behind the field and catching up. Being the leader, Britain has never had the chance to do so. It has grown slower than other major economies, but that's because it has been growing far longer. (As most ages pass on to posterity a proportion of the material products they inherit or create, Britain's accumulated wealth is probably amongst the highest in the world.)

Chart 1 shows how real incomes in other countries have caught up with, or overtaken, Britain's.

US GDP estimates are available annually back to 1789. US real incomes rose more rapidly than Britain's into the early years of the 19th century. Real GDP grew much faster due to the more rapidly rising US population. But American growth was initially

Chart 1 Real incomes 1780–2013



the result of exploiting unlimited tracts of fertile temperate zone land, rather than due to industrial take-off. The US suffered a setback during the War of 1812 against Britain. It recovered rapidly from 1820–40, then gained only limited ground over the next two decades until the Civil War produced another severe setback. Industrialisation really got into its stride following the Civil War and by the last decade of the 19th century, US real income had reached British levels. After a sharp break due to the 1930s depression, which was mild in Britain but horrendous in the US, American real income rose to a peak 50% higher than British by the middle of the 20th century. But since 1950 the US has lost ground. Over the whole period from 1789 to 1992, US real income grew 1¾%, beating Britain's by ¾%.

GERMAN statistics (covering the countries which comprised the pre-1913 German Empire) go back to 1850. Real income was then some 60% of the British level and almost double the level the US enjoyed in 1789. But given German industrialisation began before 1850, this is not surprising. German real income caught up with Britain's less rapidly than America's did. By 1913 it was still only 80% of the British level, although with a larger population Germany was the bigger economy. World Wars destroyed Germany twice in the first half of the 20th century. But following the second, Germany made up for lost time. In 1965 German real income reached the British level and by 1975 it was 20% higher. But following the first oil shock, Germany's real income growth dropped below British. It lost ground throughout the 1980s. Unification in 1990, leading to the collapse in east German GDP, cut all-German real income back to the British level. Nonetheless, west German real income growth from 1850 to 1992 averaged nearly 2%, almost double the British longer term rate and ¼% a year faster than the American.

The start of JAPANESE industrialisation can be dated more precisely than other countries'. Virtually no industrialisation took place between 1637 and 1853, the period of *Sakoku* when the Tokugawa Shogunate bolted Japanese doors against the rest of the world. It only started in earnest after the Meiji Restoration in 1868, but was interrupted by civil war in 1873. The starting point for Japanese statistics, 1875, is thus reasonably close to the industrial take-off date. Japan's industrialisation was limited during its first 40 years. It received a powerful boost during the First World War, but faded in the 1920s and was disrupted again by war with China, starting in 1936. By 1945 Japanese real incomes had sunk to barely 10% of the British level. The explosive growth which followed demonstrated how rapidly a country with an educated and hard working labour force can catch up. From 1875 to 1992 Japanese real incomes grew by 2¾%, that is ¾% faster than German.

SOUTH KOREA was chosen for this study simply because a longer run of historical statistics was available than for any other Asian NIC. (There was not time to consult national sources.) The IMF used to publish Taiwanese statistics, but discontinued doing so many years ago. Hong Kong, a British colony, is not a member of the IMF. Singapore did not break away from Malaysia until 1965. From the end of the Korean war in 1953 to 1992, South Korean real incomes have risen by around 5½%, twice the Japanese long term rate. Chinese real income growth since 1961 has averaged over 5¾% a year. *The proposition that the later starters grow faster seems firmly established.*

Table 1 Distribution of Real Income Growth, % per annum 1967–92

Singapore	7.4	W Germany	2.4	Nepal	0.9
Botswana	7.1	Turkey	2.4	Jordan	0.9
Hong Kong	7.1	Syria	2.4	Guatemala	0.8
Taiwan	7.0	France	2.3	Myanmar	0.6
Korea	6.9	Canada	2.3	Netherlands	0.4
Malta	6.4	Paraguay	2.1	Bangladesh	0.4
Oman	6.1	Colombia	2.1	South Africa	0.2
China	5.5	Nigeria	2.1	Cameroon	0.2
Thailand	4.6	Morocco	2.0	Venezuela	0.0
Dominican Rep	4.4	India	2.0	Haiti	0.0
Yemen AR	4.3	Ecuador	1.9	Rwanda	0.0
Indonesia	4.3	Pakistan	1.8	Sierra Leone	-0.1
Japan	4.1	United Kingdom	1.8	Bolivia	-0.1
Malaysia	4.0	Denmark	1.8	Soloman Is	-0.2
Egypt	3.8	Costa Rica	1.8	Chad	-0.3
Tunisia	3.7	Switzerland	1.8	Trinidad	-0.3
Ireland	3.6	Australia	1.7	Argentina	-0.4
Portugal	3.5	Saudi Arabia	1.5	Ghana	-0.4
Luxembourg	3.5	Mexico	1.5	Tanzania	-0.4
Israel	3.5	Yugoslavia	1.5	El Salvadore	-0.4
Mauritius	3.4	Burundi	1.5	Senegal	-0.5
Seychelles	3.2	Burkina	1.5	Belgium	-0.5
Austria	3.0	Sweden	1.4	Jamaica	-0.6
Barbados	2.9	USA	1.4	Romania	-0.8
Greece	2.8	Kenya	1.4	Peru	-0.9
Finland	2.8	Norway	1.2	Togo	-1.1
Spain	2.8	Uruguay	1.2	Madagascar	-1.4
Italy	2.7	Malawi	1.1	Nicaragua	-1.5
Honduras	2.7	New Zealand	1.1	Zambia	-2.1
Hungary	2.6	Chile	1.1	Zaire	-2.1
Sri Lanka	2.6	Zimbabwe	1.0	Liberia	-3.2
Brazil	2.5	Iran	0.9	Uganda	-6.1
Panama	2.5	Papua	0.9	Kuwait	-6.3
Swaziland	2.4	Philippines	0.9		

As a matter of simple arithmetic, if economies grow at unchanging but different rates, world growth accelerates. Fast growers account over time for a increasing share in world GDP.

Table 1 shows that real income growth rates have varied widely over the past quarter of a century. Wars and civil wars have taken their toll in a number of countries, but mostly small. Few are shown here, because such upheavals interrupt the supply of statistics. Major economies suffered set-backs from the two oil price explosions and subsequent inflationary excesses. Most lesser developed countries lost a decade of growth following the 1982 debt crisis. Nonetheless WGDP rose by $3\frac{1}{2}\%$ a year over 1967–92, which gave $1\frac{1}{2}\%$ real income growth after allowing for the 2% a year population increase. If GDP grows at exactly the same rate in every country for the next 20 years, WGDP growth will accelerate to $4\frac{1}{4}\%$ and real income growth to $2\frac{1}{4}\%$. But world population growth is declining. Over the next two decades it is set to rise by about $1\frac{1}{2}\%$ a year, $\frac{1}{2}\%$ slower than during the past quarter century. Nonetheless, if real income growth is unchanged in every country, WGDP growth will still accelerate by $\frac{1}{4}\%$ a year to $3\frac{3}{4}\%$.

The world economy is dominated by relatively few economies. Between 1967 and 1992 a mere 15 accounted for three quarters of world growth and WGDP. Economically big developed countries, Japan excepted, experience below average growth and lost share (see Chart 2). Some economically small countries, notably China, secured above average growth and gained share. What happens to WGDP growth over the next two

Chart 2 Contributions to World Growth 1967–92

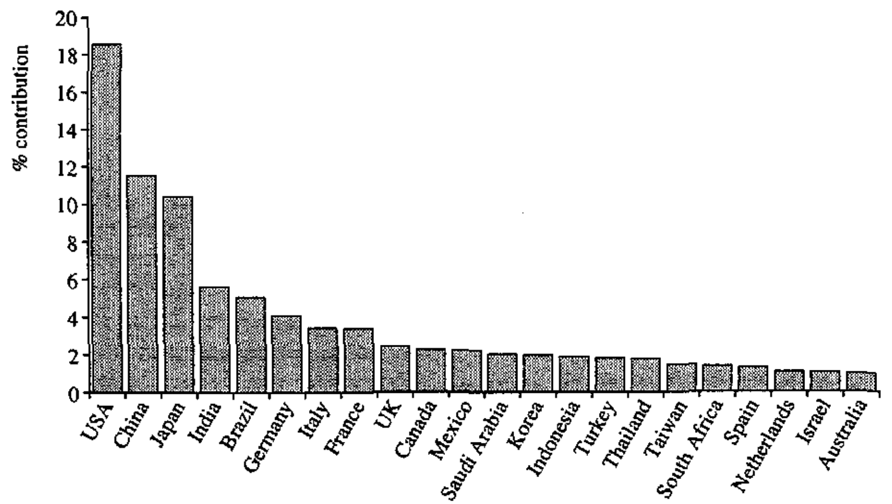


Table 2 Key Assumptions

	GDP share 1992 %	GDP share 2013 %	Population 1965-90 % pa	Population 1993-2013 % pa	Real Income 1967-92 % pa	Real Income 1993-2013 % pa
Advanced economies						
USA	22.47	13.84	1.0	0.6	1.4	1.8
Japan	7.95	5.72	0.9	0.2	4.1	3.0
Germany	4.63	2.66	0.3	-0.2	2.4	2.4
Industrial take-off economies						
China	7.46	16.05	1.9	1.0	5.5	8.0
India	4.72	6.49	2.1	1.6	2.0	5.0
Brazil	3.91	5.22	2.3	1.4	2.5	5.0
Turkey	1.43	1.96	2.4	1.5	2.4	5.0
Indonesia	1.28	3.01	2.2	1.4	4.3	8.0
Argentina	0.79	0.96	1.5	0.9	-0.4	5.0
Thailand	1.15	2.59	2.5	1.2	4.5	8.0
Malaysia	0.51	1.05	2.5	1.7	4.0	7.0

Table 3 Growth Forecasts to 2013

	GDP 1992 $bn (90 PPP)	Growth 1993-2013 % pa Population	Real Income	GDP	GDP 2013 $bn (90 PPP)
OECD					
USA	5,951	0.6	1.8	2.4	9,632
Japan	2,110	0.2	3.0	3.2	3,984
EC	4,999	0.5	2.0	2.5	8,194
Other OECD	1,522	0.5	2.2	2.7	2,573
Total	14,582	0.5	2.1	2.6	24,384
Developing countries					
NECs	4,180	1.3	7.0	8.4	21,124
NICs	709	0.7	7.0	7.7	3,154
Other Asia	376	1.8	2.0	3.9	804
Total Asia	5,265	1.4	6.7	8.1	25,082
W. Hemisphere	2,263	1.5	4.6	6.1	7,374
Africa	1,073	3.4	0.8	4.1	2,484
Mideast and Europe	1,256	2.3	3.1	5.5	3,684
Total					
"World"	24,411	1.5	3.3	4.9	63,008
E. Europe	500	0.2	5.0	5.2	1,375
Former USSR	1,618	1.0	5.0	6.1	5,238
WORLD	26,529	1.5	3.4	4.9	69,621

decades depends on assumptions for a handful of countries. The main assumptions are listed in Table 2. American real income growth is assumed to accelerate somewhat, although only by enough to offset slower population growth. The Japanese economy is certain to slow down. The German projection combines a 2% real income increase in west Germany with 8% in the east. Northern European real income growth is otherwise assumed to be a modest 2% a year, while southern Europe generally catches up with 3% a year growth. China, Indonesia and Thailand are assumed to match the Asian NICs performance of 8% real income growth during the past quarter of a century. The temptation to put their growth higher because they have started to industrialise later was resisted. Malaysian growth is put at 7% and the major western Hemisphere developing economies at 5% and the others at 2%. Countries in transition and the former Soviet Union are assumed to achieve 5% real income growth. None of these numbers is beyond the bounds of possibility. Indeed some may be cautious.

Table 3 shows the results of the complete exercise by main areas. When the heavyweight NECs industrialise, "world" (the original 101 countries) real income growth more than doubles from 1½% in 1967–92 to 3¼% over 1993–2013. Real GDP growth rises from 3½% to nearly 5%. This, as Chart 3 shows, beats the 1950s–1960s by ½%. *The biggest boom in history is a real possibility.*

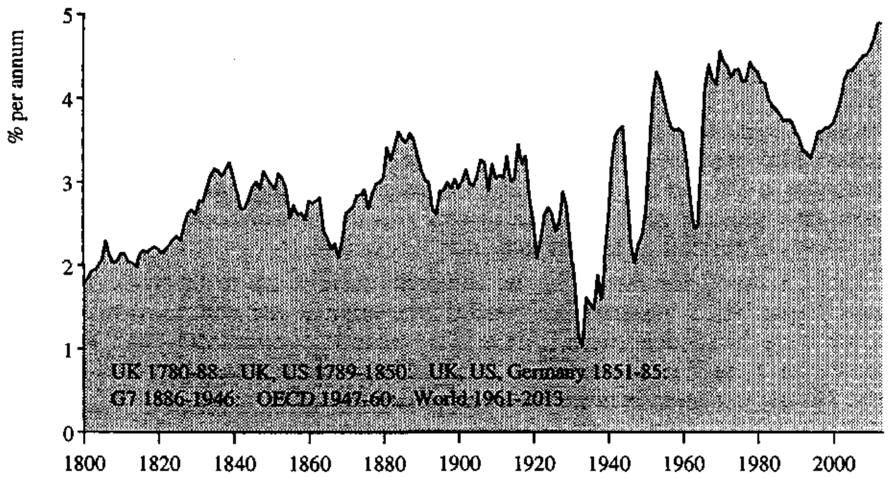
Thoughts on Some Consequences

Fast growth by big countries, such as China, India and Indonesia, means that their economic importance will increase at an incredible rate (see Chart 3). Twenty years hence is not the dim distant future. Yet between now and then China's share in WGDP could more than double, from 7½% to 16% and Asia's rise from 20% to 36%. Meanwhile the OECD share could fall from 55% to 35%, making it less important economically. Moreover, real incomes in Asia will still be substantially below those in the OECD in 2013. The rapid increase in their size and importance will continue well through the next century. The change even from one year to the next is appreciable. Between 1990 and 1992 China's share in WGDP rose from 6¼% to 7½%, Asia's from 18% to 20%. Trade growth will be faster than GDP growth. Trade shares start lower than GDP shares, because less industrialised countries usually export a lower proportion of their output, while big countries' internal trade is always larger relative to external trade than small countries. The developing countries, unless shut out by trade protection, will invade developed countries' markets at a speed and on a scale never before experienced. Structural change outside the OECD will impose change within and at an accelerating pace. Declining industries which took decades to die in the past, could be killed off within just a few years.

Rapidly industrialising countries seldom if ever run current account surpluses. Opportunities for profitable investment are so great, returns so high, that even Asian countries with high savings rates are unlikely to exhaust them. The pattern of expenditure in high savings, high investment, rapidly developing countries skews demand from consumer goods, which they increasingly produce for themselves, to capital goods which they mostly buy abroad. The ability to increase imports becomes the most

Chart 3 "World" Growth 1780–2013

20 year moving average to dates shown



important constraint on their rate of expansion. This is limited by their ability to borrow or earn from rising exports. Such economies normally run flat out until overheating imposes a balance of payments constraint on growth. Activity is then sharply checked. Demand for the advanced products of OECD countries will probably rise explosively. But the business cycle will become increasingly violent.

Inflation redistributes income and wealth. It can be malign or benign. Developing countries will experience benign productivity-driven inflation. When a new factory is built in a small Chinese town, where hitherto most people have worked in the paddy fields, the value of the town's output rises sharply, and so do the incomes of those employed in the factory. The price of services and property promptly rises, so that the higher real incomes from increased output are shared by the whole community. If domestic inflation drives down developing countries' exchange rates, they become increasingly under-valued on the basis of traded goods prices. Industrialisation raises incomes generally in developing countries towards developed country levels. But at the same time, incomes in developed countries for workers making similar products are pulled down by increased competition.

Advanced economies can either surf on the crest of the wave of booming world trade, or be swept under by it. Their fate depends on the rigidity or flexibility of their economies. Liberal trading economies, in which old industries are allowed to die, will benefit greatly. The boom in advanced industries will create, directly and indirectly, many more jobs than are destroyed as old industries contract. But lost jobs are

identifiable and quantifiable, while gained jobs are not. Many governments will make strenuous efforts to prop up the old. In so doing they will place burdens on the new which undermine their chance of success. Europe is in great danger of following this path.

IMAGINATIVE SOLUTIONS

Britain faces many economic problems – inner city decline, unemployment, inflation, an imbalance of trade, a massive government deficit, low or negative economic growth – and much else besides. Commentators describe and despair, economists mostly offer partial solutions involving changing emphasis within existing programs. But there are some ERC members who have more radical ideas – allies not so much of the 19th century *political* radicals as the 1970's group of economists who criticised the then Prime Minister, Edward Heath, in a booklet entitled "Memorial to the Prime Minister" and who called themselves the "Economic Radicals".

'Imaginative Solutions' is intended to be a series within Britain and Overseas of at least five issues in which contributors can describe an unusual but convincing solution to a problem of their choice. The problem must be defined succinctly, the solution outlined and then the case argued. In this first case, the problem chosen is "unemployment".

IMAGINATIVE SOLUTIONS – NO 1: UNEMPLOYMENT

By Jim Bourlet

The problem

Registered unemployment now stands at around 3 million. There is little doubt that if the figures were to be compiled on the basis used 10 to 15 years ago, the number would read well over 4 million. A national average of 12% further ignores the much higher proportions in certain areas, the entirely new experience of mass unemployment in the South East and the baffling fact of modern unemployment amongst many of the most highly educated sections of the population. A whole generation of students who have emerged with good degrees from all our universities during the past few years have now experienced long term unemployment as a start for their careers.

No one doubts the tragedy of this situation and all of us are hurt by it. Beggars, often young men and women in their most productive years, haunt our public places. Police reports show that whilst violent crime against persons shows little or no increase, crimes against property – primarily burglary and car damage, is practically out of control.

Parents have real cause to worry for their children's future. With this level of unemployment amongst all classes, the education system has lost its "raison d'être" and is wallowing in its own crisis, supposedly of standards and subjects, but in fact of justification for its very existence.

Unemployment has been generally rising for many years and looks set to continue ever upward, subject only to temporary downturns – still to unacceptably high levels – during unsustainable "boom" periods. Keynesian "demand management" solutions and monetarist "kill inflation and all will be well" claims have both been tried and been followed by disillusionment.

The solution

Simply put, the solution is to price people into work. On the one hand, there is manifestly much to be done – to repair infrastructure, to tidy and to clean – and to supply goods and services through viable business enterprises and government agencies. On the other hand, there are plenty of people willing and able to work – but not at the wages that might be offered. It is common conversation to say that "anyone who really wants to work can find something to do" but it is equally obvious that what is on offer is unattractive, for what is on offer is truly hard work for a very small reward. Indeed, to understand the present situation we have to understand the concept of a "real job" – that is, one where the income is maybe £200 to £300 per week minimum and can sustain a household – and one that clearly makes it worthwhile to give up the income offered by unemployment pay plus odd jobbery in the black market.

People would be priced into work if they could afford to take what work is available and if employers could develop businesses which would be viable if some wage levels were lower. There seems no lack of *technical* opportunities for business enterprises, only a lack of economically *viable* opportunities.

Those without work, in fact need to be able to take on jobs that pay very little *without* losing their unemployment pay. This is the crux of the matter. The solution therefore is to allow them to have both. How?

The answer is to give *every* member of the workforce a weekly sum roughly equal to the present unemployment pay. The cost of the scheme would be approximately 25 million "participators" times the weekly sum – say £6½ billion per year. Current unemployment payments of £2½bn plus "claw back" arrangements of income tax for those in work will cover this. The net effect will be broadly neutral for the vast majority of people.

The scheme in operation

We need a new concept which I will call "participating member of the labour force" or a "participator" for short. To qualify for this status any person would need to be below state pension age and have participated in the workforce for a total of 5 years. This could be by being an income tax payer, being a member of the armed forces, being a student at a recognised higher education/YTS establishment or by being self-employed but not claiming benefits. One would also obviously have to be a resident of this country. In

fact, short of emmigration, practically everybody who becomes a "participator" would remain so until retirement age.

"Participators" would then be entitled to (say) £50 per week regardless of whether they are employed or have any other income. For most of those in work this would simply mean that the Inland Revenue would make a contra entry in their tax liabilities of this sum. For those out of work, there would simply be a payment made as unemployment pay is currently made. Obviously the numbers registered as unemployed would rise as "participant" housewives, currently unable to work, signed on .

No questions need be asked by employment offices except the simple one of 'can you produce your certificate to show that you are a "participator"?' and that can be easily checked against the national list. Thus visitors, illegal immigrants, false claimants and those who have yet to prove a commitment to our economy, will be quite properly left aside.

It would be clearly understood that all debts against the state such as parking fines, council rents in arrears, income taxes due, unpaid TV and motor car licences, unpaid council taxes AND debts established by Court Order to private sources such as maintenance payments, mortgages in arrears and bank debts, can be automatically claimed against this state payment, at source. Offenders will always have something to lose.

The case argued

The advantages of this scheme, which has much in common with James Meade's proposal for a "negative income tax allowance", are:

i) No one need fear the loss of unemployment pay by taking a low paying job.
ii) Many businesses who take on low paid workers will be viable.
iii) There will be less pressure generally of "wage inflation".
iv) There will be huge savings in debt collection, especially in the public sector.
v) There will be a general "safety net" which can reduce crime and begging.
vi) Young people will have a huge incentive to work – to qualify for "participator" status. Those with high qualifications will even find it worth their while doing menial tasks for a few years to obtain this status.
vii) As more people are priced into work, exchequer returns will rise.

A major objection could be that the decision to admit someone to "Participator" status will be invidious and difficult but this need not be so if the rules are clear. There need be no difficulty in someone obtaining proof of membership of the armed forces, or attendance at university or payment of income tax. Mostly, the status will be issued automatically and marginal cases need pose no greater difficulty than is currently encountered by social security officers.

THE EDWARD HOLLOWAV COLLECTION REVIEW

Pride, Prejudice and Persuasion by "Cato"
Published by David Rendel Ltd 1972

My favourite recent cartoon showed a picture of the scene from the TV "Mastermind" series. Magnus Magnusson was saying "You have just answered 25 questions on the Maastrict Treaty – I have no idea whether you are right or wrong!"

Such is our state of confusion on the politics of our European Superstate, and it seems well matched by economic achievements – the collapse of economic growth, currency disarray and regulatory excess. Job and career prospects for a whole generation of young people has been and continues to be so bleak that the rest of us can only feel shame and anguish whilst wringing our hands over mounting crime rates. One seriously wonders whether all this must not eventually lead to a moment when the time will be ripe for "the people" to welcome a "strong hand" who, at the expense of our liberties can restore order and prosperity – and take us onwards, no doubt, to glory.

Britain's involvement with this, in truth avoidable, fly paper was determined by the politics of the 1950s and 1960s which led to the pre-referendum entry of the UK to the EEC in 1972. We are therefore obliged to turn to events of more than 20 years ago now in order to explain our current situation. Researchers on "Europe", if independently financed, are increasingly seeking out those publications of that time which, though achieving miserly circulation in comparison to propaganda literature, nevertheless spoke authentically for opposition to EEC membership.

PRIDE, PREJUDICE and PERSUASION, subtitled "How the Establishment got hooked on Europe" ranks with the New Stateman's "Alternative White Paper on the Economics of EEC Membership" as a prime example of such publications. Chapter headings read "Opinion Revolution", "The Common Market and the Conservative Party", "The Labour Party", "Europe, the Civil Service and the press", "The European Movement" and "Conclusions". All are packed with insights by the un-named observer giving the names, events, and above all, the financial sources surrounding this momentous political "achievement". Readers of this 34 page pamphlet are left in no doubt that this was British democracy distorted out of all text-book recognition.

In fact the lesson is simple enough. It is that democracy motorised by the activities of pressure groups can only be truly legitimate IF there is some reasonable balance between the resources of opposing groups. In this case overwhelming funds were provided from the city, and more importantly from outside through EEC "Information Budget" sources over a prolonged period. In retrospect we can see that using volunteer workers and relying on individual contributions in the normal tradition of "tweedy bourgeois participation", the opponents of entry stood no chance of success – even though initial public assessment and long term public sympathy, was on their side.

Thus for those now curious to know how EEC entry was achieved or those simply seeking an education in the techniques of political influence, this little booklet provides exemplary reading.

J.B.

US AND UK UNEMPLOYMENT BETWEEN THE WARS

Kent Matthews and Dan Benjamin
Institute of Economic Affairs "Hobart" paperback 1992, price £12.95

No apology need be made for reviewing this book more than a year after its publication – significant historical accounts are worth more than a passing recognition and take a while to notice amid the welter of publications that afflict economics no less than other pursuits.

The common perception of British economic history from 1918 to the present day goes something like this: "A short post-war boom (1918-1922) was followed by recession and depression caused by aggregate demand deficiency between 1923 and about 1935. During this period high levels of unemployment, which J.M.Keynes labelled in large part *involuntary* (because however hard the unemployed may search for jobs, work was simply unavailable) accompanied idle factories and general waste. Between about 1936 and 1939 the economy recovered under the impetus of armament expenditure. After 1945 Britain accepted Keynesian *demand management* policies which ensured full employment until the mid-1970s. Since then an excessive concern with inflation (caused by the political realisation that there were now sufficient voters standing to gain from stability to swing election results) has enabled governments to posture as *monetarist* thus arranging an extended period of recession which has been inevitably accompanied by high, indeed 1920s levels of unemployment. Thus the solution to today's ills will only be found when the political focus returns to generating real growth and employment even at the risk of some increased inflation. If there is no convenient school of economists to hand to justify this when the time comes, then the line can be adopted that all economists are at odds with each other, inconclusive and discredited."

If the economics profession is to avoid such a fate a first task is to apply dispassionate analysis to the historical account. Politics may be ruled by popular myth but economics can strive for something better. Which is the reason why *US and UK Unemployment Between the Wars* must surely rank as a landmark publication, in my view probably the most important tract published by the IEA for a very long time.

Matthews and Benjamin convincingly re-write economic history from 1918 to the present. In stark contrast to the above they show that the immediate post war recovery (1918-1920) was followed by 15 years of above average rates of economic growth – prosperity by 19th century growth standards, followed by inflationary pressures as war approached. The high levels of unemployment were the result of measures (notably the 1920 Unemployment Insurance Act) which for many people made being unemployed attractive relative to work. They point out that young people who at the time were not given unemployment insurance cover, had very low unemployment rates and they relate the changing unemployment levels over the years to changes in unemployment insurance policies. After 1945 unemployment pay (they argue) was low relative to pay levels thus explaining the low unemployment figures. But in 1966 and 1973 the law was changed and benefits became much more generous – and in particular the benefits available to 16 year old school leavers dramatically increased. Thus we now have high levels of general unemployment and disastrous levels of youth unemployment. Thus, in principle, the solution to today's ills lies in tipping the balance of incentives back in favour of employment rather than unemployment – a process involving policies for employment, tax, education and apprenticeship as well as realistic reductions in unemployment benefits. The dignity and respect for the classical schools of economics should remain untarnished.

J.B.

BIBLE SLAVE LAW

By L. Clifford Cheney
MEC Publications, 722 S. Cochran, Hobbs, NM 88240, USA

Lee Cheney has long been a correspondent with Edward Holloway and contributor of letters to "Britain and Overseas". It can be said that often these letters seemed to require a wider context before they could be published. Such a context Lee Cheney promised to provide in a book to be reviewed in due course. That 270 page book is now available.

The subject matter is difficult and unorthodox, eclectic and challenging, bizarre yet at the same time thought-provoking. One doubts whether any reader could agree with everything said and many will find prejudice where none is intended – such is the lot of any impassioned author attempting to write that "one book of a lifetime" to explain his conclusions on the strange pressures and forces that seem to dictate the progress of this funny old world that all too many of us rashly assume we understand.

Cheney's motivation can be summed up in the phrase "Man is born free but everywhere is in chains". His ideal is freedom and the concept of "Homestead America" comes as near as he can draw to a picture of the ideal he has in mind – a freedom where proud families stand debt-free on their own property honourably serving God and man in true Christian spirit. The chains he finds are debts of all kinds where even the apparently debt-free individual pays large taxes to pay interest on government debt and where subtle distortions of religious and political beliefs have rendered all save a few incapable of seeing the simple, clear but burdensome precepts for social and national emancipation.

But perhaps this reviewer has already gone too far – for Cheney is not quite prepared to endorse even Christ when he told us to "render unto Caesar that which is Caesar's" – to, without question, pay our taxes. Cheney's challenge is to the masters of *this* world.

Summarising the argument of the book is difficult indeed. Put provocatively one could say that it is along the lines that ancient Jewish belief and texts told that small tribe that they should be the leaders of this world, that they should "lend to every nation but borrow from none" and that the function of non-Jews was simply to be their slaves.

Bondage should be the natural condition of all save the chosen people. Today that is achieved through Jewish bank-lending such that no one can acquire productive assets without placing themselves in debt. Thus the Jews extract tribute from us all. And thus, the very first reform required is to prevent banks from practising fractional reserve lending policies so that new money can be handed "debt-free" (as explained by the Social Credit movement) to citizens rather than lent into circulation at interest by the banks.

At this point readers need to know that Cheney's definition of a Jew is strange indeed. He is *not* referring to just the descendents of the ancient ("1 of the 12") Israeli tribe who lived in Judea (the other ancient Israelis intermarried and migrated westwards and can thus be presumed to be part of all of us today). Nor is he referring to the Khazar converts to Judaism in the 5–6th centuries whose descendents (Eastern European Jews) form the bulk of modern Jewry. Nor of course is he referring to the inhabitants of modern Israel. Instead he has a rather wonderful list which includes "Catholic Jews", Baptist Jews" "Liberal Jews", "Salvation Army Jews", "Mormon Jews", "Anglican Jews" - and indeed anyone, it seems, who gives any credence to the Old Testament in any way. Seen in this light, even the most paranoic Jew would be hard pressed to claim anti-semitism. O.K., so we are not really talking about Jews as commonly understood but simply about everyone who accepts the current laws and institutions of modern capitalism and its banking structure founded as it is on our Judeo-Christian heritage.

Whether one then can follow Cheney's reasoning depends on whether or not one accepts the claim that banks create money improperly and benefit in the manner of an illegal printing press. Here, readers of "Britain and Overseas" are on familiar ground. Followers of Douglas' "Social Credit" and readers of, for example, the letters from Eric de Maré will understand Cheney's concern and perhaps follow him down the paths consequently explored. Those, by contrast, who find themselves swayed by the letters (and book) by T.B.Haran may think otherwise.

But this is to have discussed the mere outline skeleton of this work – the flesh is colourful and curious – even startling when one finds positive thoughts expressed for the likes of Saddam Hussein and Adolf Hitler!

The conclusion must be that this is an odd text and in many ways a poorly structured book but, for the specialist at least, an unusual and interesting challenge. Congratulations are due to the author for a blunt and brave effort but this reviewer must leave the final assessment to other readers.

J.B.

LETTERS

Britain & Overseas is delighted to include this letter from Larry Trimby, with many thanks to an old friend

Sir

As you know I have been a Member since the early days of the late Edward Holloway, but in recent years I have been unable to attend your dinners with their excellent speakers, so I have with the greatest regret decided that in my retirement I must economise and resign my membership. In doing so, may I highlight the issue about which I feel most concerned – the financing of national assets?

One of the greatest burdens carried by the taxpayers of this country is the apparent need to borrow when the Estimates show a budget deficit as between income and expenditure. Indeed Lloyds Bank Economic Profile of Great Britain 1992 (at page 17) puts the estimated figure for debt interest for 1992/93 at £17.6 billion, of a total budget plan for 1992/93 of general government expenditure of £258.5 billion. Figures of this magnitude are unacceptable.

Let it be noted that the Germans in the 1920s allowed the Dm to be issued without control to an impoverished nation leading to uncontrolled inflation with, as we saw, disastrous results.

But, providing state money is issued in payment of assets and their refurbishment, the issue is controlled by the value of the assets produced. £billions can be saved in borrowings with their need to finance interest charges and repayments of the capital borrowed.

The method by which this can be done is by the application of basic accounting principles.

All government expenditure should be divided as between expenditure on capital account and that on current account, as indeed it is at present. But expenditure on capital account should be financed by the Bank of England both at central and local government level. These amounts are readily certifiable by audit.

It is true that in practice the refurbishment of assets is treated as an expense on current account and, therefore, should be excluded from the demand on the Bank of England. But the amounts involved may be small in relation to the whole.

It surely cannot be sensible to borrow from others money to fill up a great gap in our general cash flow caused by overspending on general commitments, when we have a source of cash which can be injected under controlled conditions.

The objective of zero inflation is a false target, exchange rates must be flexible to reflect a flexible market.

But the Chancellor has demonstrated for the second time in a century how an economy can be crippled by such juggling.

Let, therefore, the Royal Prerogative be exercised and money be issued free of interest in the manner shown.

A great burden will be lifted from our shoulders.

In closing may I invite you to publish this letter in *Britain & Overseas* and may that copy be my final act of membership.

Yours sincerely
Larry Trimby
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A response from Emeritus Professor David Bell to
***Can We Achieve Full Employment?* by Bryan Gould M.P.**

Sir

Bryan Gould asked "Can we achieve full employment?" (B & O Summer 1993) but did not define this objective. Sir William Beveridge consolidated his reports to Parliament, which were the basis of our subsequent Social Security system, in a book entitled "Full Employment in a Free Society" (Allen & Unwin, 1944). Beveridge argued that in an economically stable society unemployment was unlikely to fall below 3%: 1% of the nominal work-force being unemployable and 2% serving as a reservoir of labour, in the absence of which there would be wage inflation as a result of employers poaching labour from each other. (Now the question is whether 7% of unemployment or more is needed to discourage organised workers from demanding inflationary wage increases.) Taking account of the lack of jobs for the completely unskilled and the increasing need to match the abilities of the unemployed person to the requirements of a vacancy, I would increase Beveridge's 3% to 4% or in round figures one million out of a work force of 25-26 million.

Unemployment is not a uniquely UK problem.. The OECD carried out a survey of unemployment in 15 countries over the years 1966-83; and the USA, UK and W. Germany, leading manufacturing countries, all had increasing unemployment before 1981.

Full employment cannot be achieved simply by rejuvenating existing UK industry. The increase in productivity as a result of new technology ('automation', 'information technology') and the consequent change in the types of job which will be available and change in the balance between capital investment and wages requires a re-think both of training and of the means of distributing the wealth which can be created.

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A response from Christopher Havergal to
***Can We Achieve Full Employment?* by Bryan Gould M.P.**

Sir,

By far the most exciting thing about Brian Gould's talk – reported in Britain and Overseas, Vol 23, No. 2 – was W.A.P. Manser's Commentary on it, for it was therein that the clean clinical cutting edge of well-informed professionalism exposed, with much courtesy, the heart of the ills that afflict contemporary British civilisation; namely, the apparent widespread ignorance of the inexorable equation which forms the basis of every sovereign Economy – an equation which, incidentally, has already been seen a number of times in your columns.

Since, as W.A.P. Manser says, "all costs are labour costs", this equation is $S = QD$; where S stands for the total manhours worked into an Economy per unit of time, D stands for the total number of currency units coming from all quarters, to be filled with them, per the same unit of time, and Q stands for the proportionality between S and D. It is this relationship that W.A.P. Manser has focused so sharply, by his emphasis on the impoverishing effects of too much greed and self interest, from all strata of the industrial spectrum (with perhaps some special emphasis on board rooms and trades unions), chasing too many paper currency units per unit of time. It is these effects that have clogged the free flow of trade and jobs, so direly, and for so long. Since, however, W.A.P. Manser did not suggest a specific cure I am taking the liberty of doing so hereunder.

As by definition all industrial owners, managers and work forces inevitably work for their neighbours per unit of time, they will obviously fill each hour and currency unit with much more productivity, when they can be induced to love and not hate or ignore the neighbours who, as customers, employ and pay them. And as every hale and hearty person can be a demander only if he also is a supplier or a beneficiary of fortune, it follows that he will be able to demand from the community generously only if he supplies his working hours generously, and that is the dominant motivation we all need to be healthy, wealthy, and wise.

I suggest therefore that British industry most desperately needs a powerful injection of leadership at all levels, leadership that is dedicated to instilling and practising generous co-operative teamwork, to take the place of the heat and strife that has for so long dogged and held back the supply of cheap punctual and efficient British goods and services to all our markets. That surely is the recipe for full employment and plenty for all is it not ? If yes, then where are the young and able unstoppable leaders to organise and take us into that land of promise that is so tantalisingly near in fact, and yet, as seen through our befogged late twentieth century glasses, looks so far far away ?

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A final response from Mr T.B. Haran on Monetary Analysis

Sir

Eric de Maré (Summer 1993) states that my letter (Spring 1993) "purveys ideas that are rapidly carrying the world to calamitous disintegration". Wow! My work in correcting unsound, but currently accepted, monetary theory has not yet won general recognition, so I can assure him that I am not to blame!

In the course of his letter, he touches on three important issues. (1) What is money? (2) How does new money come into being? and (3) Do banks create credit, and hence money, by lending? None of these questions has been satisfactorily answered by the economics profession, so perhaps I may be allowed to set out the true position.

In a primitive society, A performs a service for B on the understanding that the latter will perform a reciprocal one at a later date. Money has been created; it is a credit in services of one party and a debt in services of another. B duly performs the reciprocal service; money has been destroyed. Thus, money is subject to a process of continuous creation and destruction.

As trade developed, it became desirable to have evidence that the credits and debts existed, to value them in common denominators and to have an intervening device, which would allow the services to be exchanged at the times and in the proportions wanted. Money was then defined as anything which acted as a medium of exchange, a unit of account or a store of value.

Thus, this definition completely ignored the true nature of money and, in particular, the fact that it is two-sided, a credit and a debt. Moreover, it made the rational discussion of "money" extremely difficult. To remedy this, I shall use "money" in its accepted sense and "basic or real money" to refer to the debts and credits in services. Money then becomes a title to basic money in the same way as a title deed does to a house. Basic money is the real money, just as the house is the real property.

In a similarly careless manner, the economics profession lumps "goods and services" together as if there were no difference. In fact raw materials and produce are provided free by nature. Consequently, it is only the services involved in production and supply that are paid for. The cost of the services is recouped by the sale of goods, but the material element is always passed on without charge. Thus it is not goods and services, which are being exchanged, but services only. The concurrent creation of wealth is a by-product of the trading system in services.

The population has been misled into believing that money (the titles) and purchasing power (real money) are the same thing. If Britain became a cashless society, savers would use their cash to increase their deposits, while borrowers would reduce their loans. The money supply (taken here as cash plus deposits) would fall, but no-one would lose purchasing power. This situation comes about because of the two-sided nature of real money. Thus, a banknote in the hands of a service creditor is a title to purchasing power, but, on spending on debtor services, changes to evidence that reciprocal services have been performed and real money destroyed.

Monetarists believe that the quantity of money affects the behaviour of the economy and attempt to measure it with monetary aggregates. They are actually trying to discover how much purchasing power (real money) there is, but succeed only in counting the gross total of the titles to money. They ignore the fact that the correct count for the purchasing power of banknotes is those in circulation less those in the hands of service debtors. This principle also applies to the rest of the monetary aggregates, which at present provide grossly exaggerated answers. Given the evidence, only the most perversely stubborn economists or monetary authorities would continue to use them.

In any event, the quantity of real money is the result of the trading activity in services and not a catalyst, which can affect the economy. Moreover, it is the titles to money, which can have a velocity of circulation, whereas purchasing power can only be used once. Perhaps now, people will begin to realise just how far off the track the economics profession and the monetary authorities have strayed.

The two-sided nature of basic money shows up best in the double entry book-keeping system. Payments from borrowers to depositors increase the real money supply and those in the opposite direction reduce it. The rest between parties of like status alter the constituent parts of the real money supply, but leave the totals unchanged. These, in brief, are "the status rules". Total service credits always equal total service debts and this has been the case since human beings advanced beyond barter.

A borrower incurs two debts, one to the lender in terms of cash and the other, on spending, to the community in terms of services. The service debt has to be repaid by the performance of reciprocal services to obtain the funds to repay the loan. Thus, it is the service debt, which affects the economy, while the loan is simply a private arrangement.

Transactions involving the performance of services, e.g. work or the sale of goods, alter the constituent parts of the real money supply. But those involving only the movement of the titles to real money do not so do. Thus, depositing, withdrawing, borrowing and lending have no effect on the real money supply. The titles simply flow through the banks' hands in response to genuine transactions.

Mr de Maré believes that the goldsmiths engaged in a "con trick" by issuing certificates for a greater value than they held in the metal. He is missing the point. The certificates were titles to real money, not to gold. Even gold can never be more than a title to real money.

Before the goldsmiths commenced business, borrowers had to obtain funds from wealthy citizens. Thus, the practice was already there. The general depositing of the surplus funds forced the borrowers to come to the banks, from whom they borrowed indirectly, instead of directly, the funds of the wealthy citizens, now depositors. Thus, the practice did not change nor did the source of the funds. The banks have, therefore, no need to create credit, but in any case they cannot so do. They have no funds of their own and use their depositors' funds for lending. Moreover, each finances its operations from an overdrawn account in its books entitled, "The Bank's Account Current". Yes, the banks are also bank borrowers and borrow their working capital from deposits!

Mr de Maré says, "Industry doesn't create money nor do governments to any large extent". Again, we have the conflict between money (the titles) and real money. In the example on how real money is created, A performed a service for B without immediate payment. Put another way, B got the services of A on credit. Anyone, therefore, who can obtain goods and/or services on credit creates real money, i.e., credits and debts in services.

In the case of A and B, the credit is obtained directly, but the principle applies equally when the credit is obtained indirectly from a third party, such as via a bank or other deposit-taker. Thus, a credit-worthy mortgager creates the real money, which buys his house, and a credit-worthy company creates the real money to pay its wages, both by spending themselves into debt in terms of services.

The suppliers of goods and services almost always raise capital and obtain borrowing to finance their operations. These actions have no effect on the real money supply, but the subsequent spending into debt in terms of services is the main way in which new basic money is continuously created. Contrary, therefore to Mr de Maré's view, industry is a main creator of real money. Moreover, since industry agrees higher pay levels and recoups the increased costs from higher prices, it is also responsible for inflation. This is why inflation is very largely a twentieth century phenomenon. Yet, management has escaped the blame!

Governments, too, are major service debtors. They create money by spending themselves into debt and, to reduce their indebtedness, levy taxes and charge fees.

Banks create real money by spending themselves into debt, but not by lending. Mr de Maré's list of authorities, who got this issue wrong, is, therefore, irrelevant. How many authorities said that the world was flat? New deposits are titles to real money freshly created by the performance of work by service creditors for service debtors. Remember, there is a service debt for every service credit. In the light of the facts, the Encyclopaedia Britannica may wish to reconsider its stance.

Mr de Maré states that I seem "to be arguing from false assumptions". My work is an analysis and contains no assumptions. It has simply uncovered the facts. I suspect that this has been done before and that the sheer weight of false opinion has buried them, possibly more than once.

The basic situation demonstrated in the example of A and B is unalterable and must always apply to trading activities. Everything else post barter, from cowrie shells to modern technology is simply a development which has made the dealings of the As and Bs of this world, whether individuals or groups, more convenient and more efficient. Thus, they are still the ones who create and destroy real money.

Post barter, every transaction has been settled in some way in accordance with the status rules. Indeed, it is impossible to devise a transaction, which defeats these rules. As a result, the economy is mathematically precise and its problems are not caused by the monetary or banking systems. On the contrary, they lie solely with pay and prices.

As very few parties use their own capital, practically all business activity is financed by credit, If too little is available, the economy cannot perform to its maximum capacity. That is our present position (August) and, in consequence, recovery is most unlikely without appropriate remedial action.

The damage was done by the massive losses sustained in banking, insurance, property and other businesses. These destroyed an equal amount of service credits and

service debts and reduced the capacity of the deposit-takers to lend. To restore the necessary level of credit, pay and prices have to be cut, probably in a series. Less borrowing would then be needed to finance current production and the surplus released would become available to finance growth.

Small businesses are more likely to be a net drag on the economy than a contributory factor to growth, so it is illogical to put faith in them. Pay and price cuts, however, would regenerate marginal activities, would move the rest of industry higher above the danger levels and would price the unemployed into work. Mr de Maré is, therefore, wrong in believing that full employment is out of reach.

The obsession with money (the titles) has led to our real problems not even being discussed. In consequence, no adequate measures have been put in place to ensure recovery and the economy is a sitting duck just waiting to be hit by the next wave of recession.

My analysis is *complete* and proved to the hilt in several ways. Indeed, since the publication of my book - The Monetary Analysis - I have simply found more and better ways of proving my case. I have been accused of such things as "trying to re-invent the wheel" and "being one of those persons who said he would write a book", but no-one has advanced any sound arguments to prove my contentions wrong. Yet, it should be quite simple. One has only to produce a transaction, or event, which defeats the status rules and has all of history post barter to choose from!

Those of your readers, who wish to know more about my contentions, may be interested to learn that the distribution of my book is now being handled by A. L. Fleming, 12 Salisbury Road, Bromley, Kent BR2 9PY. Price £14.95 (hardback).

Yours faithfully
T. B. Haran
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