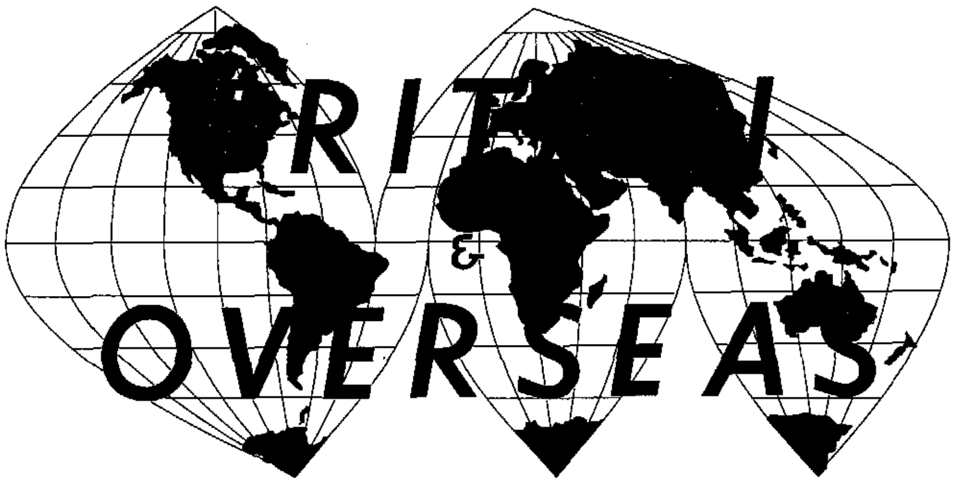

A DIGEST OF NEWS AND VIEWS ON BRITAIN'S ECONOMY
AND OUR ROLE IN OVERSEAS TRADE AND PAYMENTS

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RISK AND REWARD

by Damon de Laszlo

The Stock Markets of the world have over the last year or so experienced an unprecedented boom. By contrast, individuals and businesses outside the financial sectors, as well as many in the financial sector, have experienced rapid change, a euphemism for recession.

There is a convergence of a number of trends with changes to fundamental post-war assumptions that make the future more uncertain than usual.

The changing of the relationship between East and West, and the collapse of the Communist system is apparent and covered in many learned tomes. This dramatic movement in conventional wisdom produces dramatic economic changes some of which are relatively obvious, such as the peace dividend or decline in military expenditure, with its knock-on industrial effect in companies that serve and make armaments and related technologies. What is less clear, and perhaps is coincidence, is the rapid economic growth in areas of the world such as Latin America. Countries whose governments are no longer the target of destabilization by the KGB or CIA can move to a more middle of the road political system. Where left wing or right wing Generals rule, economic growth is unusual. That is the good news, the bad news is that post Cold-War re-alignment along cultural lines as opposed to ideological lines is producing conflict only too much in evidence in Bosnia and other flashpoints.

Another fundamental that is changing is inflation. For the first time in a long time, low single figure inflation is endemic in the OECD countries and beyond, with a few notable exceptions in politically unstable areas. Low inflation requires a radical change of thinking by both Governments and industry, as it means that debt is no longer generally self liquidating and therefore must be incurred with much greater prudence than has been exercised in the recent past.

The finish of the GATT round and the massive increase in global trade means that productivity between nations is a truly competitive weapon. National governments are discovering that their ability to influence markets in their area and consequently employment and revenue raising is becoming more and more circumscribed.

The appearance on the world scene of China, the fastest growing homogenous region of the world, containing nearly one-third of the world's population, is going to change the political and economic balances that we are accustomed to. By the end of the decade or very shortly thereafter, China is likely to equal America in GDP.

Apart from the political and economic changes mentioned above, there is a core change in industry taking place. The application of technology to management systems, production, design, engineering and sales and distribution, is producing huge increases in versatility of production and the delivery of products and services to markets. Large is definitely no longer beautiful and we read daily of the down-sizing of major companies and corporate structures. The computer is coming into its own as the ubiquitous tool of industrial man and is having an effect which I believe is as significant as steam was to the Industrial Revolution, and the internal combustion engine to 20th Century economic development.

Against this background the question of Risk and Reward needs to be thought about. The performances of stock markets in the last few years and the decline in interest rates have got to the point where linear extrapolation is no longer valid. The greater the risks that investors have taken have been, for the last few years, rewarded by greater returns. It is said that markets run on greed and fear and over the last few years greed has been rewarded more than the fearsome. The fearful investor has seen returns decline from his Building Society account dramatically from double figures to low single figures.

On a scale of risk, Bond investors have also made capital returns while their income has declined and so on in a cascade, producing a movement proclaimed in our newspapers every day where the fearful investor or depositor is turning to Bonds, the Bond Investor is turning to lower grade or junk instruments, the investors in this area are themselves moving into equities. Risk inured equity investors are looking for higher and higher returns in hedge funds and derivatives and moving from domestic to so-called Global markets, while international investors look for "emerging markets".

Warren Buffet, my favourite economic sage, makes two fundamental observations on Risk and Reward. "What is wrong with growing rich slowly?" – the investment world has forgotten that, say, a 5 or 6% return was considered exceedingly good a decade or so ago – and my second favourite observation of his is, "The less prudence with which others conduct their affairs, the greater prudence with which we should conduct our own affairs".

By nature, I am inclined to optimism while always examining the downside fully. As one sees the advertisements in the papers and on the Tube for institutions offering investment advice and management, there appears to be an inflationary pattern forming and that is the suggestion that higher and higher historical returns can be made, not 5% on your investments, not 10%, but 15% is commonplace, and numbers like 20% and above are not unusual. This inflation in expected return is historically completely unsustainable. A rapidly changing world means that there are opportunities for exceptional returns but they are as rare and unusual as the winner of the Pools compared with the number of people participating.

While I am very optimistic about the opportunities for industrial and commercial growth over the next decade; bringing opportunities for wealth creation along with improvements in the standard of living, there are I think also great dangers for investors and savers.

Enormous improvements in business efficiency mean that the West is tending to generate cash. This added to the savings resulting from the 'greying' of the population means that cash is losing its status as King. There are huge increases in the amount of money moving around the globe and into markets that are far less regulated and liquid than those of New York and London. Huge amounts of money are also pursuing more and more esoteric investments. In fact, only a few years ago many of the products being bought would not be regarded as investment – more akin to a bet on the 2.30. The admonishment of 'Caveat Emptor' could gain harsh and sudden meaning in this frothy environment in the not too distant future.

THE GARDEN CITY – A SUSTAINABLE CITY

A talk given by Mr Alan Spence to members of the Economic Research Council on Wednesday 23rd February 1994

Britain entered the 19th century embroiled in a costly war with France, an economy well into the creation of an industrial society, and a National Debt mounting at such a pace that it was a source of alarm and contention amongst members of the government and the concerned public.

Customs duties and the tax on land had been sufficient to meet the bulk of government expenses until the advent of the Napoleonic wars – 1793 to 1815,

National Debt in	1694 –	£1,200,000
	1800 –	£200,000,000
	1815 –	£800,000,000

To pay for this increase in the Debt excise duties could have been raised. Given though the general poverty of the working population, as it made the transition from an agricultural work force to an industrial one, increasing these would probably have led to rioting. Industrial manufacturing was already struggling to pay high land costs, whilst engaged in financing the trial and error period of the adolescence of the industrial revolution. The government could have increased land taxes, and this could have been borne by the wealthiest aristocracy and landed gentry in Europe.

In a parliament, however, dominated by the latter, this was not to be. Therefore IOU's (or government bonds as they are euphemistically known) were sold to the public, and their beneficiaries, as often as not, were the financiers and the landed elite, who benefited from the annual interest the bonds provided, plus the return of the investment when the IOU's were sold back to the government.

Hence, today we have a National Debt, which is a perpetual drain on the purses of the citizens of this country and continues to grow on an increasing scale. Even at the beginning of World War One, £448M was still owed to pay for the Napoleonic Wars.

Today the National Debt is about £250bn with annual interest at approx. £20bn.

In effect, this means we are asking future generations to pay for what we are spending today or spent yesterday

Had the views of Adam Smith (1723-1790) on land taxation been heeded, 18/19th century spending would have been paid for by 18/19th century benefactors. He said:

> 'Ground rents are a still more proper subject of taxation than the rents of houses. It would fall altogether upon the owner of the ground rent, who acts always as a monopolist and exacts the greatest rent which can be got for the use of his ground.'

The Taxation of Urban Land, A.R. Prest, Manchester University Press 1981

David Ricardo, 1772-1823 supported this view of Dr Smith, and he was also a leading advocate for the issue of paper money, and believed that the issuing authority for that money should be a body separate from the Government, but responsible to Parliament.

> ' ... in a free country with an enlightened legislature the power of issuing paper money might be safely lodged in the hands of commissioners appointed for that special purpose, and they might be totally independent of the control of ministers.'
>
> Ricardo, *Principles and Political Economy* , p. 243

Banks in Ricardo's scheme purchase paper money from the Issuing Commission and would have paid 100% in bullion (gold or silver) then, from the loans they made to the public and the interest they charged for that loan, pay their way in the financial world.

Twenty five years after Ricardo's death, this scheme was adopted by the Government of the day and became the Peel Act of 1845, and this was the foundation of the gold standard which lasted until abolished in 1928.

East India Company

James Mill, a friend of Ricardo, and the person primarily responsible for persuading him to write his classic 'Principles of Political Economy and Taxation' in 1821, was an Executive Officer for the East India Company and used that position to ensure that land rent on company property (the company was the effective ruler of India and other colonial territories until taken over by the British Government in 1858) was solely between the company and peasant, or whoever, and therefore no landowner or middleman existed in the James Mill scheme of things.

This policy was supported by Thomas Mallhas, another friend of Ricardo – albeit in spite of their constant intellectual bickering – who was the professor of political economy at the training college of the East India Co at Haileybury. Administrators taught at Haileybury and directed by Mills, achieved by the mid 1850's:

> '....rent doctrine has triumphed in large measure in the forming and the assessment theory and method of land revenue systems of India, which together constituted the great administrative achievement of the British Raj'
>
> Prest, p.11, Quoting Stokes, 1959, p. 159.

This policy, though, did not suit most commercial types who went out to India and elsewhere; they wanted the rent in their pockets, not the company's and the government's. They hacked away sufficiently to undermine the system, which finally gave way when the British Raj decided, after the Indian Mutiny, that they should create a class of people loyal to it and thus ended Mill's policy by changing the rent collectors into freehold owners of their areas of collection.

Today, descendants of these landowners rack rent their tenancy into the poverty so sadly evident in contemporary India. Fortunately, though, the land taxing policy of Adam Smith, James Mill and Ricardo, and the concept of a currency issuing authority arm's length from a government, with this currency backed by 100% bullion payment to that authority, did take root and has remained with us until today – and that place, oddly enough is the British Crown Colony of Hong Kong.

Hong Kong and, for the record, the independent City state of Singapore, were founded or under the tutelage of the British East India Company. The tradition of Mills was deeply embedded in this colonial policy and the fact that an extra part of today's Hong Kong was taken in 1897 on a 100 year lease for the Chinese Government, helped with its retention.

All in all, therefore, the result has been that all land in Hong Kong is a Crown Possession (until 1997), there is no separate class of landowners, and the land is leased by the government through auctions for a certain number of years, according to the type of usage for which the land has planning permission.

Hence, two sound reasons for the success of the colony lie in (i) the *fiscal system* whereby the government obtains from land usage some 40% of its revenue; and (ii) its *monetary policy* which prevents a balance of payment problem from getting out of hand, ensuring that via prudent handling by the monetary authority a reserve balance of some $26bn in H.K. is being achieved.

And in case the tales of bowls of rice living standards are still circulating, let it be added that longevity is longer there than in the U.K. or the U.S., and according to the new Governor, Chris Patten, the income per head will exceed the U.K.'s by next year.

By now, the drift of the claim for a sustainable city, I think, is apparent. It needs to have fiscal revenue from ground taxes, and monetary affairs controlled by a system wherein local currency is backed by 100% bullion (in modern usage foreign currencies, usually dollars, which replaced the £ sterling of the colonial monetary system) and money without trade, of course, is unthinkable, hence our self-sustaining city must also be a trading city.

Abu Sina Medical Village

It is for this reason that the architectural partnership of which I am a member, when asked to prepare (see Appendix 1) a scheme for a new hospital specialising in haematological problems by the government of Tatarstan, a republic in the Russian Federation, decided to aim for a hospital village whereby the revenue and expenditure of the village (apart from the hospital itself which, naturally, is to be a government funded entity) would come from taxes on the land, and these would be paid, in the main, from four industrial estates specialising in the manufacture and trading in world markets of medical and surgical equipment.

The inspiration for this approach was from two main sources. One was the industrial village of New Lanark, founded by Robert Owen (1771-1858) in the beginning of the Industrial Revolution. The other source was the Garden City of Letchworth, founded by

Ebenezer Howard in 1903 on a 4,000 acre estate with some 1,000 residents. New Lanark, a new built village for a cotton mill on the Scottish borders, thrived industrially, profitably and socially as it catered for the general health and wellbeing of its employees and their families, besides its shareholders. It foundered because of its specialisation in one product, and when the trade cycle moved against that product, it had to close down.

Letchworth Garden City has a contrary story to relate. Today, a town of 34,000, it has prospered more than most during the recession which has hit the U.K. during the early 1980s. And, more to the point, and what struck us as being unique, was that the town had the resources to buy out empty factory buildings and unused land and develop a reconstruction programme, amongst which were providing a new Business Park, designed for high-tech producers and, in conjunction with the local education authorities, funded computer programs to train students for the new opportunities once the downswing in the trade cycle began moving upwards.

It was able to do this *only* because of prudent management by the trust which oversees the Estate, of the revenue raised from ground rent and its trading activity.

In his book "Garden Cities of Tomorrow" Howard had stipulated that as the value of land increased with population, industry and commerce, so should the rent for leasing it increase.

Put into a 'sinking fund' the debt (£140,000) for the purchase of the Estate would be paid via this rent and thereafter, the excess of revenue over expenses put into a reserve fund to improve the infrastructure of the town, and to improve welfare arrangements for its citizens. Ninety years later, on an Estate now worth £54m, a Town Meeting is held annually to agree on the improvements the surplus revenue should pay for and the amount to be put into reserves.

So, like Hong Kong (and Singapore) when afflicted with a down turn in the trade cycle, they can spend on infrastructure; taking advantage of cheaper costs, and significantly stimulate trade and help industry and commerce to climb back to prosperity.

Thus, prudent management and the accumulation of a reserve fund from revenue from land and elsewhere, is a *third* requirement for the sustainable City.

Garden Cities – Post 1945

The success of Letchworth was an inspiration to the generation of electors of the 1930's and led to the New Town's Act of 1946. This planned a series of Letchworth's throughout the country – 32 as it has happened: and this with no political party divisions in Parliament and only one dissenting voice from the 600+ MP's.

These New Towns could have become Letchworth's "Gold Mines of the Future" as they were once described by a president of the Chartered Surveyors. Unfortunately, all but the Scottish New Towns have been fragmented and sold to the private sector under the Thatcherist privatisation programme of the 1980's.

The contrary is the case in Hong Kong. Here, the reserves have been used to fund a series of improvements to its housing, education, environment, mass transport etc.

The architects and town planners who went out to the colony after its liberation from Japan, had been educated in an environment heavily influenced with Garden City ideas, and they planned Hong Kong accordingly. Not, however, in the Arts and Crafts traditions, which motivated Raymond Unwin and Barry Parker, the architects of Letchworth, but in accordance with Hong Kong's topography and history.

Hong Kong is extremely mountainous, has a large population density and little agricultural land. So a policy was adopted of reclaiming land from the sea, levelling the tops of mountains and using the soil for infill and for conserving as much land for agricultural purposes as possible. This led to a policy of high-rise dwellings as being the only practicable way to house its growing population of 2 million in 1950, 6 million today. To carry through this programme required the creation of an adequate Town Planning Programme.

Because Hong Kong is the landowner, it can finance from reserves a development programme, and is the town planning authority: it has evolved arguably the most sophisticated built environment system in the world. Particularly is this so when it is noted that it takes into consideration the area as a whole (which is about the same size as the former Greater London Council) so as to achieve a spread of industry and amenities to all its citizens.

Town And Country

You will see that the diagram (Appendix 2) of Garden Cities prepared by Howard consisted of some half dozen towns surrounded each with its own country belt to provide it with its agricultural needs: and this model has been followed in the plan we have prepared for Abu Sina, i.e.

> 'A Garden City is a Town designed for healthy living and industry, of a size that makes possible a full measure of social life, but not larger; surrounded by a rural belt; the whole of the land being in public ownership or held in Trust for the community.'
>
> Howard, p. 26

You will also see that the diagram includes a larger city at its centre, which Howard called Central City – the whole of this he described as a 'cluster', a constellation of towns with a population of approximately 250,000 people.

In Britain, following the early success of Letchworth, Welwyn, Harlow etc, a new generation was decided upon by the government. This differed from the small scale towns in the first batch of New Towns, and proposed the building of new cities such as Milton Keynes, Telford, or the upgrading to this size of such towns as Peterborough, Northampton, and the Preston-Chorley-Leyland cluster for Central Lancs. Regrettably these fell foul of the bigoted dogma of the 1979-90 years for they were stopped halfway through their development programmes – or, as already mentioned, sold to the private sector.

Unlike Hong Kong, where the colonial government decided upon a policy of building new cities in its hinterland and, to date, it has built, or is building, eight New Towns, with populations from the size of that of Milton Keynes, to that of Glasgow and Manchester, housing, in all, some three million people, balanced, be it noted, 'for a full measure of industry ... and social life ... surrounded by a rural belt'.

The Garden City of London

On the last page of his book, Howard wrote:

> 'The time for the complete reconstruction of London ... has ... however, not yet come. A simpler problem must first be solved, one small Garden City must be built as a working model, and then a group of cities ... These tasks done, and done well, the reconstruction of London must inevitably follow....'

In the 90 years since this was written, the 'task' has been done well over and over again. No more proof is needed, simply the political will to bring it about. Bringing it about, however, is where the task becomes difficult.

Letchworth owns all the land on which its town is built, and Hong Kong's land is a Crown Possession. Whereas the UK has thousands of landowners, albeit also some very large ones.

However, a start could be made by taking on board the view that the Uniform Business Rate should be based on the annual site rental of the land, and exempt all buildings from that assessment.\It seems counter productive to business initiative to penalise that initiative when it sets about improving its premises. In any case, as every property developer knows, what determines the value of land is:

1) The market, is it in an upward cycle or a downward one?
2) What is its planning use?
3) What is its location, location, location? – for that adds the icing to the cake.

Therefore, without much difficulty Inland Revenue officers could do the next re-rating on this modified criteria. To give the officers some practice, the 200,000 hectares of unused land could be brought immediately within the UBR umbrella. This would be beneficial to the Treasury, for it would bring in extra revenue, and business opportunities would, I think, be effected dramatically.

Central city sites lying unused for years, sometimes generations, would be activated into use, or pay the UBR penalty for lying idle.

Also we should reactivate the philosophy of the Garden City movement, and legislate on these principles for the restructuring of our towns and cities – using the experience gained in the past from industrial towns such as Telford, Peterborough, etc, eschewing like the plague the fiasco of London's Docklands Development Project. Furthermore, just as Hong Kong planners learnt from the UK, so should we learn from them; particularly their form of land registration and the sophisticated they have

developed the 'Metro Plan' and also the Regional Plan for their area as a whole.

Nothing I have said is remarkably new – not Adam Smith or Ricardo, or the East India Co, or Letchworth – it is simply that we have been temporarily side tracked by siren-like voices and self-interested speculators. A fair minded look at my talk will, I think show that the concept of the Garden City is a sustainable one, and has the evidence to, at the very least, suggest its close examination.

Appendix 1: Abu Sina Hospital and Medical Village, Republic of Tatarstan Russian Federation

The Tatarstan Government identified the need for a hospital specialising in Haematology and asked the partnership to suggest a planning outline and ways of funding a building programme.

The partnership has designed a new type of hospital which (briefly) is circular in form, has a day room around each nursing ward, surrounded by an outside veranda – closed or open, according to the season. This form allows more space for patients and staff, including caring by family. The day room, significantly, has the further advantage of allowing it to become an extension of the existing ward. This permits the hospital to increase its normal capacity of 500 beds to 900 bed spaces.

'The United Nations could, we suggest, use this 400 bed space, or part thereof, as an Emergency First Aid Hospital.'

A site of 2.5 sq km has already been earmarked. It is abutted by a main highway, near to a railway and Kazan's Airport.

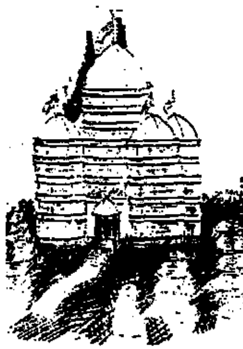
The village would be a new settlement for 5,000 people accommodated in 4 separate neighbourhoods, plus a village centre. There would be 4 industrial estates specialising in the manufacture of advanced medical and surgical equipment. This also provides work for non-hospital employees.

The government of Tatarstan would pay part of the capital costs, provide the land and service it. Other funds would be sought from governments with a need for this speciality on the basis of them 'buying beds' as a contribution to capital costs, with these beds reserved for the use of their own nationals.

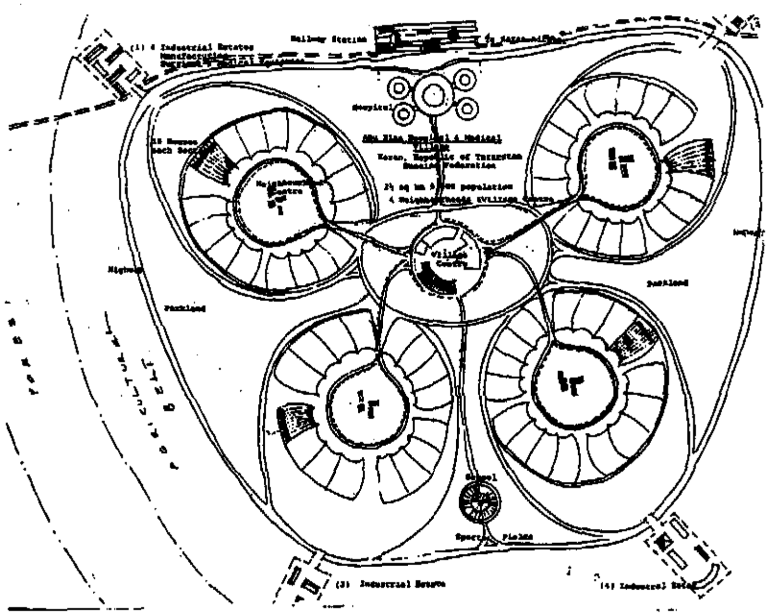
Additionally, the USA would be asked to make a contribution via its new aid programme to Russia. The United Nations and International Red Cross would be asked to assist with funding the hospital aspect of the programme.

The resident population will be encouraged to train as medical and clinical auxiliaries and, thus, stand in for normal staff so that the hospital can be ready within 24 hours for an emergency.

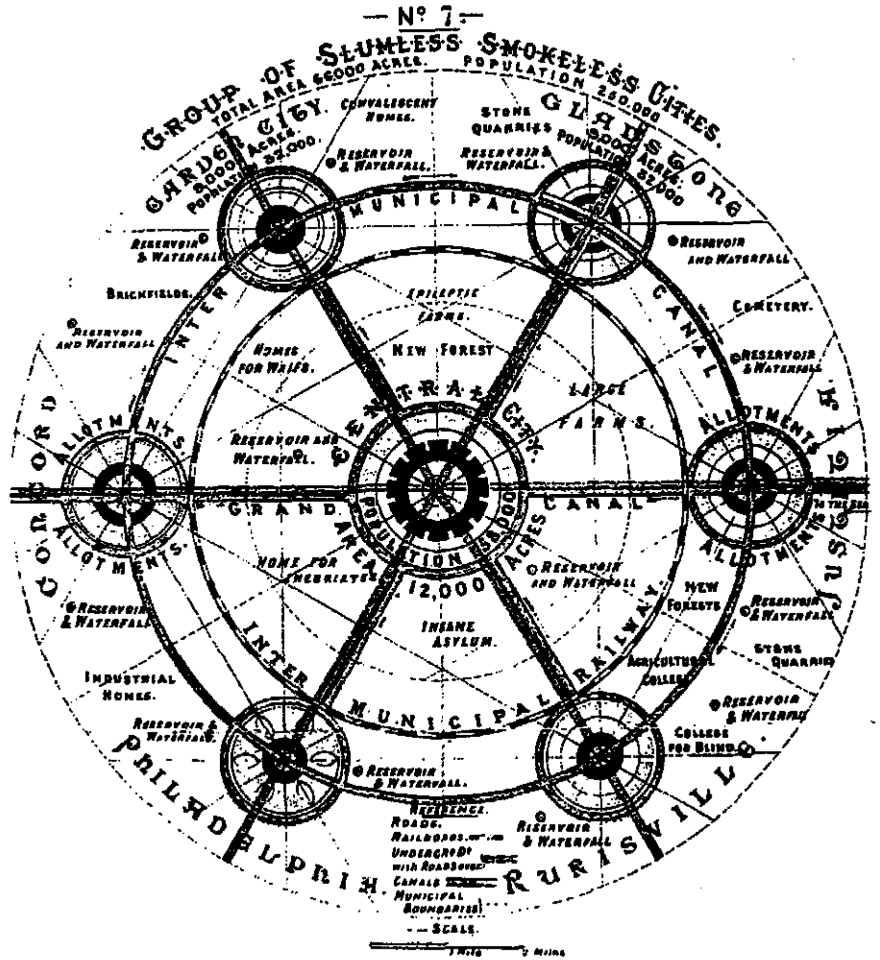
Abu Sina Hospital



500 bed Hospital. Convertible within 24 hours to 900 bed(or part thereof) hospital for Emergency Admissions.



Appendix 2: Social Cities



Ebenezer Howard's Social Cities Diagram, from *Tomorrow: A Peaceful Path to Real Reform*, 1898. Re-issued as *Garden Cities of Tomorrow*, 1903

THE EDWARD HOLLOWAY COLLECTION REVIEW

***The Thirteenth Tribe* by Arthur Koestler**
Published by Random House (New York) and Hutchinson (London) 1976

As a 20 year old student this reviewer, many years ago, took a two week tour in the Soviet Union to visit, as did so many tourists, Moscow and one other city – in my case Volgograd soon after it had changed its name from Stalingrad. Moscow was drab but interesting enough and the main moment of memory was when a contingent of the "people's police" arrested and briefly held two of us for allegedly selling some Beatles records and Marks and Spencers nylon shirts to blackmarketeers!

Volgograd, after a long train journey southwards through poorly cultivated areas of sunflower crops, proved far more exciting. Grandiose architecture overlooked a wide river on which ran hydrofoil ferries. The tractor factory was immense and war memories of the great battles with German forces were all around. A coach outing took us to a magnificently modern wide and highly automated canal – the link between the rivers Don and Volga and a major artery of modern bulk traffic. And for many miles around Volgograd it was clear that there existed a land of great fertility. I remember seeing vineyards and olive trees – a landscape equal to so many attractive lands around the Mediterranean. The thought struck me then – and it was no more than a thought – that this land, so obviously capable of supporting prosperous civilisation, *must* have played a major part in European history yet I was quite ignorant of what that part could have been. What happened here?

Arthur Koestler's *The Thirteenth Tribe* shattered my ignorance and rekindled my interest in this area. His account of *Khazaria* may be a mixture of fact and conjecture but the research detail is impressive and the author's credentials are enough to convince one that the story is a fair witness to the truth.

The vast area north of the Caucasus was inhabited, during the time of the Roman empire, by a variety of tribes – Bulgars, Burtas, Ghuzz, Khazars and others. During the 5th, 6th and 7th centuries, the Khazars, based in the cities of Khazaran-Itil and Sarkel, were able, through great military strength, both to dominate the region and surrounding tribes and to defend this against incursions from the Rus heading southwards and Muslim expansionism from the south. Thus Khazaria became a neutral buffer state forever jealously defending its independence from Russian, Muslim – and (from the West) Christian ambitions. Khazaria itself had no great religion – only a primitive Shamanism parallel perhaps to early Shinto ideas in Japan. As such, Khazaria, perhaps again like Japan, became a tolerant centre for many religious groups which, by Koestler's account existed harmoniously under the rule of Khazaria's rulers – which involved a dual power structure of Kagen (tribal elder or emperor) and Bek (the secular ruler) – again a parallel to Japan under Emperor and Shogun a thousand years later.

My observations of the Volga-Don canal and the fertile lands reflected precisely the basis of wealth enjoyed by Khazaria. Koestler says (p. 46) "...farms and cultivated areas stretched out continuously.. and they had extensive vineyards. Thus Ibn Hawkal: 'In

Khazaria there is a certain city called Samander which has so many orchards and gardens that from Darband to Serir the whole country is covered with gardens and plantations belonging to this city'. However, the royal treasuries' main source of income was foreign trade. The sheer volume of the trading caravans plying their way between central Asia and the Volga-Ural region is indicated by Ibn Fadlan: we remember that the caravan his mission joined at Gurganj consisted of '5000 men and 3000 pack animals'. Making due allowance for exaggeration, it must still have been a mighty caravan, and we do not know how many of these were at any time on the move. Nor what goods they transported – although textiles, dried fruit, honey, wax and spices seem to have played a major part. A second major trade route led across the Caucasus to Armenia, Georgia, Persia and Byzantium. A third consisted of the increasing traffic of Rus merchant fleets down the Volga to the eastern shores of the Khazar Sea, carrying mainly precious furs much in demand among the Muslim aristocracy, and slaves from the north, sold at the slave market of Itil. On all these transit goods, including the slaves, the Khazar ruler levied a tax of ten per cent. Adding to this the tribute paid by Bulgars, Magyars, Burtas and so on, one realises that Khazaria was a prosperous country – but also that its prosperity depended to a large extent on its military power, and the prestige it conveyed on its tax collectors and customs officials."

8th Century Khakaria

In the 8th century – Koestler suggests a precise date, 740 – Khazaria became converted to Judaism. The process he documents rather fully within the fragmentary evidence available. Semitic Jews had been forced to flee in waves over the centuries from what we now describe as the Middle East. Most went westwards – mainly to Spain. But a much smaller number found refuge in Khazaria. The Kagen, needing to preserve political independence and neutrality from the encroachments of Moslems and Christians, opted on the advice of this group for Judaism at a time when all religions were proselytizing for converts. Koestler comments: "The world was polarized between the two super-powers representing Christianity and Islam. Their ideological doctrines were welded to power-politics pursued by the classical methods of propaganda, subversion and military conquest. The Khazar empire represented a Third Force, which had proved equal to either of them, both as an adversary and an ally. But it could only maintain its independence by accepting neither Christianity nor Islam – for either choice would have automatically subordinated it to the authority of the Roman Emperor or the Caliph of Bagdad."... "What could have been more logical than to embrace a third creed, which was uncommitted towards either of the two, yet represented the venerable foundation of both?"

The conversion began only as a matter for the Court and as an *official* religion. Koestler says, "the Judaization of the Khazars was a gradual process which... slowly penetrated into the deeper strata of their minds and eventually produced the Messianism of their period of decline. Their religious commitment survived the collapse of their state, and persisted, in the Khazar-Jewish settlements of Russia and Poland."

The Khazar empire reached its peak during the two centuries following conversion but then fell victim, first to incursions southwards from the Russians (Rus-Vikings) and pressure from the south and then was finally destroyed by Mongol forces from the east. The great fortress town of Sarkel was sacked – and is today flooded by a Russian hydro-electric installation. The migration of the Khazar people to the Ukraine, Poland, Hungary and elsewhere in Eastern Europe began around the tenth century and seems to have been largely completed by about the thirteenth century. But the Jewish Khazars retained their identity by living first in their own separate villages voluntarily and later in city Ghettoes somewhat less voluntarily. Thus, in the author's words he has "compiled the historical evidence which indicates that the bulk of Eastern Jewry – and hence of world Jewry – is of Khazar-Turkish, rather than Semitic, origin."

Well now, I feel that I am perhaps beginning to answer the questions which interested me during that student visit to Volgograd.

J.B.

THE JAPANESE ECONOMIC CRISIS

by Jon Woronoff
Published by Macmillan U.K. 1993. Paperback.

Attention is currently focused on Japan's tottering real estate market, her stock market levels near half of their peak and the apparent inability of her consumers and importers to accept more foreign goods. A crisis, of sorts, is certainly here today – but it is mainly a crisis in the financial sector. It is a crisis of bank liquidity, of bad debts and of a high Yen value. Most commentators reasonably assume that beneath this monetary firework display Japan remains wealthy, productive and dynamic.

Which is where Woronoff's updated version of his decade old book "Japan: The Coming Economic Crisis" supplies that wider and more realistic perspective that the student of today's events certainly needs.

The chapter headings tell the story – "Economic miracles and mirages", "The little train that couldn't", "Japan's wasted workers". "Rich nation, poor people", "What quality of life?", "Work is no fun", "Demise of the classless society" and "The crisis cometh". Each chapter gives ample evidence and widespread references to adequately make the criticism intended. To pick just one conclusion typical of many opinions expressed, he notes (page 235), "Education has become a drag, work a bore and organised society an imposition many youngsters try to avoid". This is not quite the view most of us generally expect.

Based on my experience of living in Japan the most memorable chapter both in the original book and still in this greatly improved and expanded version, is "Rich nation, poor people". The theme is familiar, of "workaholics living in rabbit hutches" but this chapter is full explanation of that apparent paradox. Woronoff explains that "virtually everything is expensive" so that "money remains a veil which makes Japan look more affluent than it really is". He uses the apt phrase of saying that the economy is "productive rather than fruitful" as a result of endless examples of incredible waste and gross inefficiency together with "the astonishing freedom the authorities leave producers and distributors to fleece consumers" – a reference to restrictive trading practices. He talks about the lack of company profitability – largely as a result of concentration on market share rather than financial return, plus the determination of many companies to expand when markets just don't warrant it, especially during the 1980s both at home and abroad. And Japanese investments overseas have been heavily depreciated (in Yen terms) as a result of exchange rate changes. Meanwhile, what of high Japanese wages and salaries? Woronoff argues that they have failed to keep pace with productivity gains, that pay whilst off sick is only 60% of normal pay, that much extra time is spent on company business "voluntarily" (ie without pay), and such items as pensions and social security are meagre for many. All this in the context of a weak trade union system based on company unions.

Then Woronoff comes to a favourite theme – the price of imported goods and the Japanese consumer's ability to use the competitive process in the search for better value. He explains how foreign products come to be so expensive in the shops – the tricks of the distribution system, and he adds that Japanese consumers just fail to criticize this system. "Worse (he says), Japanese consumers – especially young women – are moving in the wrong direction. They remain sticklers for quality and service but forget the price factor. They do not engage in enough comparison shopping, nor do they read many consumer magazines, and instead let themselves be guided by fashion and brand names...." So price is not given a high priority and Japanese consumers will continue paying through the nose for many years to come. Woronoff adds, "Perhaps they deserve it".

Finally the chapter considers "government induced waste" – the results of protection, support, the maintenance of cartels and controls. Thus banking has failed savers over charges and interest rates, agriculture has been based on retail rice prices six times higher than elsewhere, supermarket development has been slowed (greatly increasing, incidentally, supermarket profitability) and government largesse has gone to white elephants such as the Mutsu nuclear powered ship, the Seikan tunnel, the Shikoku bridge and even Narita airport.

Readers of this book will surely wonder whether this account is truly a fair assessment, whether a more rosy account might not be justified. But without doubt they will be much the wiser and better informed for having read this stimulating and abrasive account.

J.B.

TOWARDS TRUE MONETARISM

By Geoffrey Gardiner
Published by the Dulwich Press December 1993

This is certainly the best book this reviewer has read for a long time, at least in the field of practical economics. It is an important book in the context of Economic Research Council developments because it is the best clear exposition yet of money creation and the parameters of monetary growth.

Readers of "Britain and Overseas" over many issues will be familiar with the debate – who creates money?, who benefits from this process?, who loses?, what is money? what is not money? are banks victims or conspirators or just ordinary businesses? should banks enjoy a free-for-all regulatory framework or should the government impose controls? if so, what controls?

Geoffrey Gardiner is to be congratulated for sifting the ideas, integrating them with contemporary events, formulating a mature judgement and then having the gift to write a coherent, fast moving, absorbing and convincing text involving just that mix of conventional thought with original perception which can make a book a revelation but

stop short of incredulity.

This reviewer's first reaction was to make a mental list of those to whom he would commend it. One would not be presuming on friends in high places to request to them that they read this book – one would most certainly be earning their gratitude.

The basic starting point Gardiner shares with B&O correspondent, T.B. Haran, that money should be seen as debt rather than asset. We each may see the cash in our hands as assets – part of our wealth. But it is only worth having if someone else will give us something for it. We may have an asset but that other person has a liability – the arithmetic is unchanged. Once money is seen as debt, one realises that cash and bank balances are but a small part of total debts – in fact that part which can be referred to as "intermediated debt". It follows that government policies should address the whole problem rather than just – disastrously – affect the part. Monetary policies during at least the last three decades have been the equivalent of decorating the shop window whilst ignoring the stocks in the shop.

And the detail is both enlightening and entertaining. This reviewer enjoyed the (at least) nine reasons given on page 182 why one should not expect to find a constant relationship between the money supply and the gross national product. The account of Lawson's monetary boom in 1988 is sheer pleasure and comes under the chapter title, "The Money Volcano Erupts". And it is so good to find another who sees the social degradation of the past decade in the same light as oneself – and can give a sensible account for it – page 234-5.

This book may be short on predictions and so may not immediately sell to the City Boys. This is a book for those who NEED TO KNOW and it lays the basis for those who need a way forward towards "True Monetarism".

J.B.

ANNOUNCEMENT

The Economic Research Council is delighted to announce the appointment of two additional Vice-Presidents, The Rt. Hon. John Biffin M.P. and Mr Brian Reading.

John Biffin became Member of Parliament in 1961, has held various senior posts in Government from 1979 onwards, and has made a valuable contribution over the years to the work at the Council.

Brian Reading, journalist, author, broadcaster and financial consultant, has been a frequent contributor to the affairs of the Council and has been a member of the Executive Committee since 1987.

NEW MEMBERS

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

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

OBJECTS

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

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

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

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

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

vi) To encourage the establishment by other countries of bodies having aims similar to those of the Council, and to collaborate with such bodies to the public advantage.

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

BENEFITS

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

SUBSCRIPTION RATES

Individual members	£25 per year
Corporate members	£55 per year (for which they may send up to six nominees to meetings, and receive six copies of publications).
Associate members	£15 per year (Associate members do not receive Occasional Papers or the journal 'Britain and Overseas').
Student members	£10 per year
Educational Institutions	£40 per year (for which they may send up to six nominees to meetings and receive six copies of publications).

APPLICATION

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

APPLICATION FORM

To the Honorary Secretary
Economic Research Council
239 Shaftesbury Avenue
LONDON WC2H 8PJ.

Date ....

APPLICATION FOR MEMBERSHIP

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

This application is for *(delete those non-applicable)*	Individual membership (£25 per year) Corporate membership (£55 per year) Associate membership (£15 per year) Student membership (£10 per year) Educational Institutions (£40 per year)

NAME ....

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

NAME OF ORGANISATION ....

(if corporate)

ADDRESS ....

....

....

PROFESSION OR BUSINESS ....

REMITTANCE HEREWITH ....

SIGNATURE OF APPLICANT ....

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

AND SIGNATURE OF PROPOSER ....