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AND OUR ROLE IN OVERSEAS TRADE AND PAYMENTS

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THE EUROPEAN UNION AND A SINGLE CURRENCY

A talk by the Rt. Hon. John Redwood M.P. to Members of the Economic Research Council on Monday 4th December 1995

The European economies are not working very well. Indeed Europe is not working well. We must ask why this is. Why is it that one in five Spaniards are out of work? Why is it than one in seven of all Irish people wanting jobs can't get them? Why is that one in eight of all French people who could work are unable to because of unemployment? Unemployment is disfiguring the continent of Europe.

Fortunately the United Kingdom has got a few things right so our unemployment is well below the European average. It is well below those three countries that I have mentioned, which are sore thumbs even within a Continent of high unemployment. It is no accident that Europe has become an area of high unemployment. It is the result of specific economic and social policies that are being driven from Brussels, as well as some of the economic and social policies that have been invented in the individual nations of Western Europe.

If I can begin my argument with a little history, I think we should look at the way in which the exchange rate mechanism developed. Before we entered the exchange rate mechanism in 1989, 1 set out why I thought the exchange rate mechanism far from stabilising the Western European economies would rapidly become a force de-stabilising them. I took the view that if you decided to hold currencies stable when the economies of Western Europe were not fully aligned one with another, then the pressures and tensions would have to come out somewhere else. It seemed very likely to me, that the pressures and tensions would come out in the real economy, factory closures in one place, overheating in another place. The exchange rate could no longer perform its function, as a price, trying to mediate the competing claims and balance the respective economies of Western Europe.

I went further. I argued that there was no right rate of exchange between Britain and Germany or between France and Germany, that would remain right for a realistic length of time. I argued that, if you chose the rate of exchange which was too low, then you would set off a big price inflation. If your currency is too low and markets are still trading the currency, the currency wants to rise. So the authorities do two things – they first of all cut interest rates, which in its turn stokes up the economy and they start printing or creating their own currency and selling it across the exchanges in a desperate effort to keep its value down. That money doesn't disappear. It goes into the banking system and it usually comes back to the country in due course and helps trigger a major lending explosion. When I wrote this in 1989 I was not sure that is what would happen if we entered exchange rate mechanism, as I didn't then know the rate at which we would enter. When we were shadowing the Deutschmark we attempted to keep the pound down, when the currency kept on wanting to go up, so the government kept on cutting interest rates and it kept on printing money, to sell across the exchanges. In the year 1988 we had a £40 billion credit explosion. One of the untold parts of the story is the role that lower interest rates and the bigger reserve asset base in the banks (because of foreign exchange intervention) played in creating that lending explosion. Quite a lot of economic history has suggested that the error was cutting taxes in the budget, while clearly changing the mortgage interest relief was something which added to the spiked top in the housing market. The underlying cause was the massive expansion in the banking sector that resulted from the intervention policy and the interest rate policy being pursued in an effort to keep the pound down.

I then argued that it could go the other way. If your currency went in at too high a level, or reached a level which was too high, and the currency wanted to come down, then of course you would have the reverse instability. If your currency wants to come down there are two responses. First of all, the authorities put interest rates up. That intensifies any recessionary pressures in the economy and will tend to exaggerate the budget deficit, thereby necessitating even higher interest rates. Secondly you will be buying in your currency in an effort to prop it up. If you buy in your currency you might as well tip it in the middle of the Atlantic, because you are destroying or removing credit from the system. Unfortunately, we did both. We had a period with very high inflation because we had too low a level for the pound. Then the pound was too high, so we had a period of defending the pound at the cost of very high nominal and real interest rates (particularly towards the latter end of the period) and a big credit contraction compared with the very dramatic credit explosion we'd seen at the end of the eighties. I trust this experience will not only have taught us a lesson, but will have taught the other countries of western Europe a lesson. It does seem to illustrate that in an effort to make things easier for business, a very genuine effort to take out the exchange risk between the European currencies, you can make things a lot more difficult for business in the areas that matter even more.

It raises fundamental issues like how much demand you have, whether you can sell your product and what your cost structure looks like, apart from the cost of foreign exchange dealings. One might argue, as some do, that nonetheless this is a purely British problem. Somehow we weren't committed enough to the idea, that we left it too long, that we weren't supportive enough of the theory and so it's bound to go wrong for us. Why then was it virtually the same for practically every other member of the exchange rate mechanism? We did live through a period of many months when a large number of currencies were bombed out of the exchange rate mechanism completely. Some struggled to survive in the exchange rate mechanism, only by having a change in parity to find a new level which might be supportable. The evidence is very clear from the ERM disaster: it is extremely difficult keeping currencies together. The results of doing so can be very damaging on other things.

It's always dangerous to believe politicians about anything. You might think that I have a reason for arguing like this (after all we know John Redwood is deeply suspicious of Europe). I am just trying to do the best of interpreting the evidence I've seen before my eyes and interpret the anger of the nation about all the lost jobs and factory closures and lower house prices that that monetary experiment created. Some academic work has been done. That is the good news and the bad news. I confess it was done in Liverpool. (*laughter*) Nonetheless I think it has been well based. It gives an arithmetic and graphical expression making it 'kosher' for economists and statisticians. The Liverpool people have plotted variability of output and prices for different countries under different scenarios. They have shown, as you'd expect, that you get far less variability of output and price if you have floating rates. You get much more variability of output and price if you have stable rates because the management of stable rates creates other instabilities. That seems to me to be very good academic evidence backing up what I would have thought was a self evident truth, which is that no government can walk on water and if you try to, you do tend to get wet. It is quite impossible for a government to manage all the instabilities in any individual economy, let alone a group of different economies, without discovering that when you make one thing more stable you will de-stabilize others, because the economies are always trying to adjust to these very competitive changing conditions.

So what then is the relevance for this little history lesson to where we are today? There are two overwhelming reasons why Europe has long dole queues. The first reason has been much argued in the British Parliament and the British Press. It has become an issue that divides the two major parties. The issue is social costs and social inflexibility. If politicians believe that they can legislate to protect jobs you will have fewer jobs. By legislating they are increasing the price of labour. They are increasing the risks to the employer by diminishing the risks to the employee. That shift of risk from employee to employer means employers will either hire much less labour (because it is too well protected) or they will find informal and flexible ways of employing labour (out with the regulations). If we look at the European countries both those patterns of behaviour are very clear. Companies are employing far fewer core workers protected by all the panoply of legal controls from Brussels and domestic legislatures. They are offsetting that fall in employment to some extent by hiring people who are self employed or part time or have other types of contract which are not amenable to quite the same controls.

The Brussels bureaucrats are of course responding by trying to legislate to get ever more coverage of the different types of labour contract with the protections. If they are successful then it will transfer too much of the risk again and so there will be even fewer jobs on the Continent than there are today. This is one of the reasons why Europe has become a high unemployment zone. It certainly fits with the British experience that we have relatively low unemployment by European standards because we don't have the full panoply of those protections. We still have high unemployment compared with the very competitive and now quite rich, high income economies of Asia and the Americas.

The second reason why the Continent of Europe is now the unemployment centre of the advanced world, is undoubtedly the efforts that are still being made particularly by France and Germany to bind their two currencies and in due course their two economies together. The process is turning out to be very deflationary for France. So why are 5 million French men and women currently on the streets? Why are they thinking of being on the streets should a sunny day come along? The answer is because France is trying to follow the Maastricht convergence criteria. They are insisting on cutting their budget deficit at a time when their economy is not growing fast enough to bring the deficit down by natural means. That is an extremely difficult thing for democratic politicians to succeed in doing. If you have relatively rapid growth (as we did in the 1980s) you can bring both the deficit and the share of GDP going to the public sector down relatively easily, without having to make too many or any really difficult fiscal decisions. If you have a slow growing or stationary economy with a very large budget deficit, you have to make very painful decisions. You can actually end up making the problem worse if you misjudge your decisions, or if you managed to carry some decisions through that were clumsily perceived, because they may rebound against you and create worse problems.

For example, if you sack too many people from the public sector, you might find the cost of unemployment got out of control, because there would be a multiplier effect as they no longer have the income to spend. So France is suffering from the deficit criteria. More importantly it has been suffering in recent years from the currency requirement. It is finding it necessary to maintain extremely high interest rates in real terms, and often in nominal terms, in order to try and keep the Franc somewhere near the ever buoyant and strong Deutschmark. Even after all these years of struggle and sacrifice the people in the markets still don't want to trust the Franc as if it were as good as the Deutschmark, and so they are still putting more pressure on France and Germany. The French economy still has to be put under a more deflationary discipline in order to try and keep the Franc somewhere near the Deutschmark. We have seen some noticeable wobbles in the Franc. Occasionally the Press have written stories that Franc fort is no longer Franc fort but so far within tolerances they've managed to keep it somewhere where they think it should be. The cost in terms of lost jobs and lost French opportunities is now colossal.

Some of our fellow countrymen and women went to France on holiday this summer. Many of them on return pledged not to go there again because they felt it should be 10 Francs to the Pound rather than seven and a half because the prices were so enormously high. If you look at the supermarket shelves now, you will see that price as well as old fashioned Commonwealth loyalty has filled many of the shelves with Australian, Californian and New Zealand wines where before you only saw French wine in bottles. I believe even tonight you have honoured the occasion with a very suitable choice of red. (*laughter*) This demonstrates the wonderful power of the market. If you keep a currency too high it will damage your exports, it will damage your tourist trade, it will destroy jobs in your home economy.

So the question for anyone trying to forecast the future is – How much longer can democratically elected politicians continue with policies that are doing so much damage to the jobs and prospects of their people? Are we going to see Chancellor Kohl and M. Chirac taking these two countries into what I think would be a very ill judged and premature currency union? Or will the political pressure get too great before they get there? Ironically, it is not just the French who are unhappy with the current state of European economic policy but it is also the German people as well.

One of the most ironic developments of recent weeks has been the sight of a very large number of German savers and investors busily piling into the Swiss Franc. Why are they buying the Swiss Franc? Well their logic is impeccable, and they say 'we have always invested in a strong undefiled currency that we know is going to be very prudently run and we have been very lucky to have one at home called the Deutschmark. We now hear they say that all these other unreliable countries, Italy, Spain, Greece and even perhaps the United Kingdom are going to come along and dilute our wonderful currency with a new common currency. So they say, we can no longer trust the Deutschmark because it may be about to be undermined or diluted by joining with others, so we will buy the only currency in Western Europe that will be outside this awful thing called currency union and will clearly remain strong because it is run by authorities who have always taken a very draconian, anti-inflationary, strong money view'. This must in due course begin to make even some impact on Chancellor Kohl who has attempted to tell us all that it is in the interest of Germany and the other European peoples that we should make as rapid a progress as possible to a currency union.

So what should Britain do if you have any sympathy with my analysis so far? I think Britain now should show two things. I think Britain should show that it is an extremely good European, and Britain should show that it can have still considerable influence in European debate. I would like to see the British Government go to the Madrid Conference with a vision of how Europe could be put back to work. I would like us to go to that conference and say the issue as far as the peoples of France, Germany, Britain, Italy and Spain are concerned is not how long it's going to take to get to monetary union, how many more powers the Commission and Council of Ministers and the Central Bank might need, in order to get us to more integration. The issue for the peoples of Western Europe is 'How can we be more prosperous, how can we have more jobs'. The British Government should go on and say that we will not be as prosperous as we would like and we will not generate as many jobs as we want, if we remain wedded to the fallacious notion that you can protect all jobs against market risk and the even more damaging notion that you can make currencies stay together. They don't all wish to get happily married: they obviously think divorce and more informal arrangements are much more tempting than the bliss of holy matrimony. We should be positive about the agenda that could generate more jobs in Western Europe. We should say that jobs come to those countries or groups of countries that are boldest in letting individuals, businesses, families make their own way in the world. They come to those countries that are most prepared to welcome and embrace technical change and new developments. They come to those countries and economies that are in the forefront of pressing for freer, more open trade across the countries and continents, rather than from those countries and businesses that believe they should restrict trade, ignore the competition and try and shut themselves off from the realities of the growing pressures and excitements of the world market place.

Britain is in a very strong position to say this. I always find it odd when Mr Blair says that the only way to behave in Europe is to go to Europe to ask the Germans what they would like and then agree with them. (*laughter*) That is a fair summary of what he is saying, because he says Britain should never be isolated. Well, there are times, in my view, when Britain has to be isolated at the beginning. The art of British diplomacy surely is not for the Foreign Office to tell us what the Germans would like (with a view to making us do it), but the art of British diplomacy is to explain to the Germans what we would like to do, in a language and style which makes it an attractive option for them. Now I know this is a very radical proposition, but I think it is one that could serve us very well in the future. You begin to see how it might work. We would go to Madrid and we would say quietly to the Germans 'you do realise that your countrymen want the Deutschmark. This is a colossal success story. You stabilized your currency in the post war period. You created a beacon of price stability and value at a time when many other countries were unable to do so. The Deutschmark has become the very symbol of the post war stability of the German nation and the German economy. Your people don't want it destroyed, shouldn't you listen to them? It wouldn't embarrass us, indeed you may have discovered reading what we've been saying before we'd be delighted if you wanted to keep the Deutschmark because we could then be as proud of your achievement as you should be of your own'. (*laughter*) We should then turn to the French and we should say to the French 'do yourself a favour (*laughter*) *you* don't have to suffer in this way. Life can be more fun, try cutting interest rates and see what happens. The Franc might go down a bit but isn't it better to have some more jobs? To have French factories opening instead of closing? Not to have to protect your markets against competition because you're becoming price competitive? To see the tourists returning? To see the Tesco supermarket shelves filling up with Chateau whatever again, instead of with Australian copies or replicas?' This surely would be a very good policy for France to adopt.

We could also, if we were making no impression upon the Fathers and Architects of premature currency union, rally and lobby all the countries who are clearly feeling they are going to be left out. It is quite obvious to anyone that the Germans and French who will be pretty influential in this, are not going to be over the moon about Greece, Portugal and Spain joining their currency union. They will find it quite difficult persuading their electorates, if not themselves, that this would enhance the stature of the new currency. We could probably persuade the Italians and the Belgians that as they would have to halve their public debt in the next three years in order to qualify, this could be quite a tall order. (*laughter*) I don't see any immediate plans from Italy and Belgium to do this. I'd be intrigued to watch how they might do it, other than by mirrors or having a recount. I don't notice any willingness on the part of the German authorities (quite rightly) to vary that condition in a big way.

If you're going to have a single currency union, you have to control the amount of debt people take into it and the amount of debt they add to it over the years. Because of course you then have a common long term borrowing rate. It would be a very sneaky trick for a country with say double the debt average per head of the other countries to get into the currency union, and re-finance it at the common lower rate, effectively at the expense of the good countries! It would also be a very mean trick to have 7 or 8% of your GNP borrowed each year, if you're only really meant to have 3%, because again you would be taking advantage of a much cheaper rate to borrow your money, and imposing extra risk on the others meaning they'd have to pay more.

A very well controlled country, like Britain, with a very low level of debt to GNP and now a relatively low new borrowing rate (although it should be lower still) would be a net loser from a general interest rate, because we would obviously be paying relatively more, compared with the profligates like Italy and Belgium. We might be able to persuade Greece, Portugal, Spain, Belgium, Italy and maybe quite a lot of others, that they're not going to be allowed into the club. They're going to be upset about this because they tend to like being in the club, and they would think this was in some way going to make them second class citizens. It might even affect their eligibility for community grants, funds and all the rest of it.

You begin to see my drift – with diplomacy, with sensible arguments, with enough smoke-filled rooms, you could begin to build an army of supporters on the Continent who see that this thing is thoroughly implausible. The logical position is there cannot be a single currency under the treaty of Maastricht. Article 109J sets out four principle criteria. No country or currency can meet it because I do interpret the beginning of 109J as meaning you have to be in the narrow bands of exchange rate mechanism for 2 years. No-one has been in those. They may reinterpret that and indeed the latest report suggests they will, and they will form an impression of how stable your currency has been. But you would have to be extremely lenient to allow most of the currencies of Europe into a union on the grounds that they have been stable against the Deutschmark. If you were uncharitable enough to look at the graphs, rather than just commenting on what might have been or what would have been nice to have happened. Under 109J with the deficit criterion and the inflation criterion and the borrowing rate criterion and the currency criterion – there cannot be a single currency under Maastricht.

I still spend my time talking about it (and I don't think I am entirely wasting my breath) because I do believe the two senior politicians on the Continent Chancellor Kohl and M. Chirac are still very keen on this idea. They are trying to drive their countries ever more rapidly towards it. The more reversals there are in preparing, the more they are tempted to say 'we must speed up, it is the transition that is wrong, not the aim in view'. It is a very curious logic but it is one the media all too often allow them to get away with. If you can't get there by honest means, then just get there – and then all will be well by some mysterious process that we have yet to discover. We were told that all would be well once you were in the ERM. It was being outside that made it so difficult. Once we were in it we discovered it still had its little difficulties. The trouble with the single currency is, that once you are in it, it will be mighty difficult (if not impossible) to get out. People would in this country have spent several billion pounds changing all their business equipment and slot machines and they probably wouldn't be too happy if you came along a year later and said 'terribly sorry, I've changed my mind about this thing. We think it's not a bad idea to go back to the pound after all, would you mind buying new machinery?' Obviously the only thing you want to do in those circumstances is to be a slot machine manufacturer, because that would be exceptionally good business! But otherwise it could be rather painful. So, we must make sure that it is right before committing ourselves to this colossal investment and before running the risk of the dislocation that it could cause.

Europe is at a very critical turning point. The diplomatic pressures are becoming quite intense one way, but the democratic pressures (the pressure of what the people want) are becoming very intense the other way. A Spanish Government is being swept aside, Italian Governments are swept aside very regularly (*laughter*) The French people changed M. Mitterrand for M. Chirac hoping that they were going to get a more Euro sceptical European. Instead they got someone who both believes in an independent nuclear deterrent and in surrendering all powers of independent economic action as quickly as possible, to a Frankfurt central bank. They are uneasy about it and they are very worried about the budgetary and economic consequences of the current policy. Last but not least, we see the German people deeply dismayed by the terrible problems, costs, social dislocation that their own rather modest currency union has created between the East and the West. They are now in a state of considerable consternation about what currency union with some or all of their partners in the European community might do to the ever mighty and very proud Deutschmark. It is time for Britain to seize the initiative. It is time for Britain to stress that a global market is being created. If Europe seriously wants to be prosperous, we have to deregulate, we have to open the arteries of trade, we have to get on with a positive agenda for promoting jobs. We should give up this monetary fairy story which could all too easily become a nightmare. (*applause*)

JOHN REDWOOD'S APPROACH TO THE EUROPEAN UNION

Extracts from the vote of thanks by The Rt. Hon. John Biffin M.P.

I would like to thank John Redwood for his speech on three points.

First of all it was a masterly assembly of facts, it was a gentle dissertation. There was no harassing or haranguing, it was a portrayal of a developing European situation which requires an assessment on the part not only of the audience here but through this audience of the much wider audience that constitutes the British electorate. I couldn't help but reflect upon the Channel 4 programme last night (which some of you may have seen) of the way in which the negotiations for membership of the community as it then was in 1972, and subsequently the renegotiation was handled by the political good and great, because there can be no doubt in my mind that their purpose was not just to provoke a great debate ranging from the House of Lords to the humble hostelry. It was in fact to gather together all the stratagems that the political elite could contrive to see if it could be put through the British Constitutional system without it being sullied by popular debate in any way whatsoever. (*applause*) I must say you have offered a magnificent contrast and an investment in the future because this is a subject which will proceed, and proceed and proceed until it is integral to almost every aspect of British public life.

Secondly, I would like to pay tribute to the way in which you suggested that here in the United Kingdom the fact that we have a maritime tradition in no way deflects from our European experience. And you offered a number of judgements. Judgements which are obviously very much coloured by your own experience of market economics. They do mark out the United Kingdom somewhat separately from some of our continental neighbours and I've allowed my imagination to race somewhat and reflect upon that quotation about 'saving ourselves by our exertions and Europe by our example'. Let us never be shamed by this, as though in some way or other this thought is vainglorious and not to be spoken in polite Euro company. We have plenty to contribute to the inherent traditions of Europe and we are not obliged to say that the experience of stability, which has been our hallmark, is not there for others to take advantage of. It will be a very sad day for Europe, and a very sad day for this country when we subjugate our own instincts and our own traditions in the belief that it makes us better partners.

Thirdly, I appreciate the whole way in which you put the argument of the British experience and what the British have to contribute. I think I am shameless in having a certain romantic view of the Nation state as the natural instrument of co-operation because of the longevity of that institution in life. I agree with de Gaulle when he said of the Nation state, that it represented the only entity in which, the right to give orders, and the power to be obeyed, was the best. And actually this is at the heart of so much of the current European discussion. Trust can exist between countries, so that whatever is agreed is then actively executed across the length and breadth of the community. But the more the decision-taking process is sub contracted to institutional arrangements depending upon the community as a whole the more it drives a great gulf between reality and intent. It is these kind of matters which will in fact have the most devastating consequences for the efficiency and for the acceptability of the European union.

NOTES ON DR WALTER ELTIS' TALK CONCERNING GERMAN MONETARY POLICY. 24TH OCTOBER 1995

by Geoffrey Gardiner.

I attended the lecture by Dr. Walter Eltis for the same purpose that I attended in 1966 the inaugural lecture of the late Professor Nicholas Kaldor. Kaldor was savagely criticised by the public generally yet kept great influence with his friends in government. I wanted to find out why. As the lecture unfolded the reason became obvious. He carried his audience with him by his presentational skill and mesmeric personality. He received a rapturous response from the large audience. In 1970, at the request of some businessmen I published a criticism of the Kaldor lecture under the title, *"Challenge to the Economists"*. In 1993 when I wrote *Towards True Monetarism* I included a revised version of the paper as Chapter Ten.

The talk confirmed my point: like Kaldor, Dr. Eltis is a brilliant communicator, obviously a very good teacher, and his audience can be forgiven for going along with his argument even if it was defective.

Dr. Eltis takes a completely monetarist view of things. Moreover his monetarism is of the extreme simplistic variety. Like many others he has fallen hook line and sinker for an attractive fallacy. Though not necessarily an original thinker, he has well embroidered the arguments in favour of that fallacy. His success as an economist has perhaps depended on his great skill in articulating easily digested versions of popular theories. Being such a good teacher, he is very dangerous if he is wrong. As I commented in my book, *"Error is a hardy plant and academic error is a poisonous one."*

In his lecture Dr. Eltis took a firm stance against inflation. He showed no sympsthy with those whose think a little inflation is a good thing or with those, such as Brian Reading, who would distinguish between benign and malign types of inflation. He was strongly anti-Keynesian and superficially pro-Friedmanite. As readers will have seen from the printed version, he blamed the Keynesians for inflation and indeed suggested that inflation commenced to be a problem as soon as Keynesian demand management was put into practice. I am dubious about this statement. The long-term graph of inflation shows that the final turn from secular deflation to steady inflation took place in 1951, which happens to be the year in which Bank Rate was raised above 2% for the first time (other than a few days in 1939) since 1932. Of course I discount the war years as a war always causes inflation.

Dr. Eltis's idea of "Keynesian policies" is those of Joan Robinson and other followers of Keynes who exaggerated some of Keynes' ideas after his death. Eltis described Keynesians as arrogant for thinking that they knew how to control the economy. That is a valid criticism of many who claimed to be Keynesians. He may not be aware that Keynes himself made similar criticisms, and that what Eltis calls "Keynesian", Keynes himself described as *"economics turned sour and silly"* in an article which was published after his death. Some of his "supporters" would have preferred to suppress that article. After a meeting with a group of enthusiastic

"Keynesians" in America in the 1940s Keynes said he himself was the only non-Keynesian present. Other evidence of Keynes' condemnation of his own alleged followers is provided by Lord Skidelsky on pages 620 et seq. of the second volume of his life of Keynes. Admittedly Joan Robinson was closer to Keynes than many of his other supporters, but she was not free of the arrogance that Eltis condemns, if the impression I gained at my one evening in her company is valid.

Although it does not appear in the printed version, my recollection is that towards the end of his lecture Eltis said very firmly that **everyone** agreed that raising interest rates was the way to control inflation. He showed no sign of being aware that Milton Friedman, the creator of monetarism, has **never** advocated that interest rates should be used to control the money supply. Those who have read my book will not be surprised that I reacted to his statement by crying out, "I totally disagree."

At the end of the discussion following the lecture I tried to bring his attention to the words of Dr. Don Brash, Governor of the Reserve Bank of New Zealand. Dr. Brash has a contract with the New Zealand Government to keep inflation within a range of 0–2 per cent. But Dr. Brash has written his own definition of the New Zealand Consumer Price Index. He excludes any "shocks" from external sources, so a rise in the price of an important import like oil would be excluded, for obviously no anti-inflationary activity by New Zealand can do anything about that, a point still to be appreciated in Britain. He also excludes changes in government charges. In Britain the government consumes about 40 per cent of GDP, so an average 40 per cent of prices relate to tax charges of one kind or another. Lastly Dr. Brash excludes the effect of interest rate changes. At first I assumed that that meant the exclusion of **all** effects of interest rate changes. But Dr. Brash has since sent me some documentation in which he refers to the exclusion as being similar to that practised in other countries which keep a track of "headline inflation". In a television programme in New Zealand he gave a different impression. The programme was called "Assignment", was transmitted in May 1995, and was all about Dr. Brash and his contract.

In the programme he is asked about the exclusion of interest rates from the calculation of the Consumer Price Index and his reply was as follows:-

> *"The government quite correctly said no, it should not [include interest rates] because if it does you get into a kind of circular reasoning situation, where, because interest rates rose last quarter and* ***therefore the inflation rate appears to be rising****, then you are forced to raise interest again and you quickly find yourself in a spiral of rising interest rates."*

This led me to think that Brash accepted one of the key arguments of my book, one which Professor Patrick Minford still has doubts about, that raising interest rates is inevitably and immediately inflationary. An implicit corollary of this belief is of course that lowering interest rates must be disinflationary. However it now appears that I assumed too much. Brash has only excluded some interest rate effects, not all. But his words are highly significant, and I thought that Dr. Eltis should hear them.

He was more intent on showing me some graphs of German interest rates and inflation, intending, I assume, to back up his statements with proof. But what I noticed was that if you superimpose the graph for interest rates on that for inflation the two match, evidence surely for my contention that interest rates and inflation correlate.

Interestingly Dr. Brash also supplied graphs to me. I noted that in New Zealand the inflation graph and the graph for ten year government bonds also match quite well. That is very interesting indeed, for it fits with some other important evidence, the two hundred years of evidence which I accused Dr. Eltis of ignoring.

It was in January 1923 that A. H. Gibson first revealed that the graph for the change in the yield on undated gilts matched that for the change in wholesale prices, except for periods of unusual events such as war. His graph covered one hundred years, but he also gave the raw data for the whole period 1791 to 1921. Maynard Keynes was intrigued. He carried the statistics forward and examined the connection with short-term yields as well. That too showed a high correlation, though not so good as for long-term rates of interest. Studies done on later periods produce similar results. A graph of inflation and base rates for the period 1980 to 1993 shows a matching trend which looks significant.

Keynes included Gibsons's and his own figures in his *Treatise on Money*(1930). The reference is page 178 of volume seven of the collected works. There Keynes writes, "*The Gibson paradox* – as we may fairly call it – is one of the most completely established empirical facts within the whole field of quantitative economics, though theoretical economists have mostly ignored it." Keynes himself did not ignore it. Low interest rates were therefore an element of his successful anti-inflationary strategy from 1940 to 1945. The mortgage interest rate dropped from 4¼% to 4% during the Second World War.

However it is likely that everyone would accept that, if interest rates are raised high enough, there is a strong chance that a recession will be precipitated, severe enough, in favourable but rare circumstances, to lead in the long term to reduced inflation, or even deflation. But the short-term effect of higher interest charges **has** to be higher prices, because of the effect on costs. For a businessman, interest is a cost like any other, and it has to reflected in his prices if he is not to be bankrupted. For that reason the raising of interest rates has usually led to **stagflation**, the combination of inflation and stagnant growth. **Stagflation was unknown until the use of the interest rate weapon became common and severe.**

Eltis believes in a different model and argued that the interest rises in recent times were not severe or long enough to achieve the death of inflation. He obviously believes that a really tough policy would have been effective. How any business with a loan could have survived such a policy must be a mystery to everyone but him. He claimed that the fudging of the policy was due to political pressure. This pressure arose from two directions, in his view. Firstly there was representation on the Court of the Bank of England by industrialists and trade unions, and secondly there was the problem that every rise in interest rates immediately affected house buyers because nearly all mortgages in Britain bore variable rates of interest, not fixed rates. Consequently there was always political pressure from mortgagors for lower interest rates.

The latter argument turned one of my favourite points upside down. I have said that one of the reasons why raising interest rates always causes inflation in Britain is because mortgagors are immediately affected by an interest rate increase, and they then press so hard for higher wages that they get them. Surely it is the pressure for higher wages which is the ultimate cause of inflation in Britain, and anything which strengthens such demand is a factor leading to inflation. Naturally I find Eltis's interpretation of the phenomena specious, though in a sense it does hold water, but only if you believe that raising interest rates is the **only** cure for inflation. That I do not accept.

In order to avoid political pressure from mortgagors Eltis wanted the house loan system ("contract" was his word) changed to the continental model, that is the interest rate should be fixed. This is indeed a desirable objective, but its implementation requires mortgagees to have sources of long-term finance at fixed interest rates. Mortgage providers must have assets and liabilities with matching interest rates, and ideally matching maturities too. He did not say how his proposal was to be achieved. German mortgagees are financed by term loans (Pfandbriefe?), though the terms are still short compared with the mortgages. In practice the mismatch of the maturity of assets and liabilities of Germany`s mortgagees must mean that there is a finite limit on the length of time interest rates can be kept high in Germany. Once the deposits which finance the mortgagees come up for renewal, in a period of high interest rates the possibility of a default by the mortgage lenders becomes a real danger. They would be paying more interest than they are receiving, and would have to draw on reserves to do so. In Germany interest rates have never, it seems, been high enough for long enough to destroy the mortgage lenders' reserves. Moreover the level of interest rates has never come anywhere near the highest British levels. In the United States that did happen, and as a direct consequence the US Savings and Loans Associations, which were also accustomed to giving fixed rate mortgages, were bankrupted. The US government had to bail them out at the cost of hundreds of billions of dollars, borrowing the money from the Japanese and others to do so.

It seems to me that the policy Eltis advocates cannot be pursued without drastic changes in the capital market. In fact his suggestion cannot readily be turned into a practical proposition because of the many technical difficulties.

However, a revision of the mortgage system to ensure matching of liabilities and assets by the lenders is a desirable reform. It would also be interesting to see a system where raising interest rates affected new borrowers only, and not existing borrowers. The purpose of raising interest rates is to deter new borrowing. That should be the sole objective and effect of a credit policy. There is no point in inflicting damage on existing borrowers. Keynes made a similar point in 1925 in *The Economic Consequences of Mr. Churchill*.

Eltis said that the board of the German Bundesbank are bankers, not trade unionists or industrialists, and that therefore the Bundesbank always takes its decisions purely on sound monetary principles. This may be academic wishful thinking. Germany is a federation of thirteen states or Länder. The members of the committee of the Bundesbank are the chairmen of the Landesbanks, the regional state banks. Their loyalty and responsibility is no doubt to the welfare of the people of their Länder, and they tend, I have been told, to take note of the condition of industry in their Länder and the views of local industrialists. It is thought that this effect tends to temper interest rate rises. This effect has even been given as one of the good reasons for having an "independent" central bank run on German lines.

It is interesting to contrast Dr. Eltis's comments about the influences on the Bank of England with those voiced by Shaun Stewart and Austin Mitchell in the paper they published in late 1995 called *Stop The Rot From The Top!* They claim that the Bank of England does the bidding of the banks and The City, just what Eltis wants. I have pointed out the conflict to Shaun Stewart and suggested that both views are wrong: the Bank of England is under the influence of ivory tower academics like Eltis, not industrialists, "The City", or the banks. Shaun Stewart has given a very different analysis of Germany's performance and in my view a more correct one. His paper, which concerns itself with the effect of exchange rates, is highly commended, except for the minor blemishes of some traditional Labour rhetoric and a slightly prejudiced view of Britain's farming industry and the Common Agricultural Policy.

The historical part of Eltis's address naturally had to include the Hitlerian period. A minor bugbear for him was that Hitler put Keynesian policies into effect immediately he got power, and they were successful. Both consumer and defence industries flourished. Eltis's explanation of why no inflation followed was the following story. Hitler was asked how he would prevent the rise in the money supply being converted into higher wages, and therefore into inflation. Hitler's reply was, *"That is a matter for the S.S. to deal with."* One cannot deny that Hitler would have been characteristically ruthless if the German unions had prejudiced the achievement of his aims, even though the S.S. did not become a major force until two years later, but historians have recorded that Hitler had very little trouble from the unions. This may have been because he achieved such a big fall in unemployment within what is often termed the "political honeymoon" following his appointment as Chancellor. After that he was for some years the most popular politician of the century because of his success, a sad warning to those who deliberately use measures which cause unemployment as an economic weapon.

Although Eltis's arguments were extremely well presented and appeared to be logical, he had in fact ignored the fact that the Germans themselves do not agree with some British monetary theories. He argued that the Germans had raised interest rates enough and in time to be successful in heading off the inflation followed reunification, and had then been able to give Germany the benefit of lower interest rates. Yet the Bundesbank began lowering interest rates **before** British monetarists were expecting a reduction. The Bundesbank gave as its reason that the raising of interest rates tended to cause M3 to mushroom. British monetarists have never understood this phenomenon, even though it is a normal one. The simple reason for it is that when interest rates are high, borrowers who might normally have used the bond market instead borrow from banks while waiting for long-term interest rates to fall. The German authorities assume, on what evidence I know not, that the additional deposits (created by the credit creation process) will circulate, as they are more liquid than a bond. This is a moot point: the expansion of M3 due to the increased use of intermediated credit and decreased use of disintermediated credit may not be significant in increasing demand. As the phenomenon is ignored by British monetarists, its effects have probably not been researched.

What was certainly significant was that higher interest rates made the German banks very much more profitable. I gather that peculiarities of the German banking system lead to a considerable endowment effect when interest rates are raised. The banks tried to cash in on this by increasing lending, and they raised new capital to provide the base for increased lending. In one case I believe the sum raised was DM2.6 billion, enough to allow the creation of at least DM30 billion of weighted assets. The Bundesbank seems to have seen the red lights flashing (having seen what happened in Britain in 1988–90?, or having read Chapter Twelve of *Towards True Monetarism*?) and acted to contain the incipient problem of a credit boom. Very little notice was taken in Britain of these aspects of German policy, no doubt because they were not in accord with Dr. Eltis's analysis.

It is possible that if interest rates are not raised, inflation is automatically self-limiting. This is because as soon as the intermediated credit supply, (alias "The Money Supply") goes up, the banks run up against the limiting effect of capital adequacy ratios, and cannot keep increasing the credit supply without raising more capital. Without the beneficial effect on profits of higher interest rates it may not be so easy to raise additional capital. Building societies are more affected than banks, for with high interest rates the reserves of building societies increase through compounding of interest at a higher exponential rate.

Dr. Don Brash must be right in saying that the raising of interest rates can lead to an interest rate spiral, if one includes the effect of interest rates in the calculation of inflation. This truth has spiked the guns of the more simple-minded monetarists. It is implicit that the immediate effect of higher interest rates is to raise costs and prices. Consequently it follows that the *reason* for using interest rates to control inflation is that raising them brings about a recession and unemployment. As Keynes put it in 1925, *"It is a policy which can only succeed by raising unemployment without limit."*

"Creditary economists", as Christopher Meakin and myself call ourselves, claim that raising interest rates immediately causes inflation of costs and prices, and then causes recession. When interest rates are then lowered to combat recession prices also come down because the cost of interest as a component of industrial costs has been reduced. This model accords with the principles of cost accountancy, with logic, and with experience.

Those who advocate the importance of the defeat of inflation, and the use of interest rates for that purpose, have to be so obsessed with doctrine as to be absolutely heartless about the social consequences. Total control of the credit supply may not be possible because the populace is too ingenious in inventing instruments of credit, but the varying of capital adequacy ratios does provide a simple way of restraining the growth of the intermediated credit supply without causing much pain. That still leaves the direct credit supply unbridled, but as most credit is initially created by banks that may not matter too much. Even the supply of trade credit – part of the direct credit supply – may be limited by a reduction of bank lending, as a bank loan may start or end the chain of trade credit.

There is one more significant distinction between German and British practice which may be of vital importance. Germany has had only two contested takeover bids in fifty years. In Britain the financing of cash-based takeovers has been a primary purpose of much credit creation in recent years. Many bids originate, it is suspected, in blackmail by lending institutions, or by financial advisers seeking commissions. They rarely serve a useful purpose and sometimes lead to bad companies taking over good with disastrous results. Cash takeovers and management buy-outs could be stopped for a while to see if the consequent reduction in asset price inflation led to lower general inflation.

I would like readers to look again at his arguments and bear in mind all the time my contention about the effect of interest rates. In brief Eltis is saying, *"Germany has been able to have low interest rates because it has had low inflation."* But what if it is the other way around? *"Germany has had low inflation largely because it has had low interest rates."* High inflation does not **ensure** that interest rates become high, especially for short-term debt. We chose to have high rates through devotion to an unquestioned theory. Shaun Stewart and Austin Mitchell would maintain that our reason for having high interest rates was primarily nothing to do with inflation, but was for another mistaken purpose, to maintain the exchange value of the pound. The side effect would then be inflation.

Bear in mind also the statistics which Kenneth Clarke gave in his budget speech in 1993. My recollection is that he claimed that the reduction in interest rates since 1990 was saving industry £36 billion a year. That was the reduction in industry's costs. It equalled about eight per cent of GDP. In the light of those figures how can anyone maintain that high interest rates are not **immediately** inflationary?

Eltis accused the Keynesians of arrogance in their belief that they could fine tune the economy. Was he any less so in his belief he could control inflation by a single weapon?

WHAT IS WRONG WITH ECONOMICS

By John Mills.
Available from The Labour Economic Policy Group,
72 Albert Street, London, NWl 7NR

Labour – at least in the form of the Labour Economic Policy Group – is at last formulating some coherent thoughts on current *political economy* as opposed to partial economic theory.

This latest pamphlet deserves to be widely read. Economic decline, monetarism, social equality, exchange rates, unemployment, the EMU, the City, inflation, investment, education, short termism … and political support. All these aspects and more are succinctly integrated in this remarkable and remarkably optimistic tract.

That many misconceptions about economics exist is central to ERC thought. That macro-economic policy lies behind much that is both distressing and unnecessary are ideas which the ERC has always held. This is a piece which we can all benefit from seeing – and which will no doubt set the pace for much of Labour's policy making before and after the next election.

Your reviewer would quibble over a few points. Comparisons with Japan when considering inflation are often notoriously misleading. Claims that Britain should concentrate on rejuvenating the manufacturing sector have much to be said for them but that is no reason to ignore opportunities in services which are emerging in our "post-Fordist" world. But such lapses in micro-economics are not the heart of this paper. The key macro-economic points are good common sense, realistic politics and show a welcome return to thoughtful and comprehensive as opposed to doctrinaire and partial mainstream economics.

J.B.

PSYCHODARWINISM

By Christopher Badcock
Published by Flamingo 1995 Price £6.99

Your reviewer attended Christopher Badcock's lecture series at the L.S.E. on "The Psychoanalysis of Culture" in 1970. It was a great pleasure therefore to attend a meeting 18 months ago at the Institute of Economic Affairs at which he demonstrated the psychoanalytical basis for market as opposed to managed economies – the strength of indirect co-operation and the superiority of spontaneous order, rather than order based on orders. An ally indeed for the line of Adam Smith and David Hume through to Joseph Shumpeter, Carl Von Mises and Friederich Von Hayek – and onwards to Margaret Thatcher and perhaps John Redwood.

This latest book (for there have been 7 others) finds Badcock busily integrating the thoughts of Charles Darwin and Sigmund Freud in the context of modern genetic discoveries. This may look like a work for specialists but it is not – the thoughts and tentative conclusions affect us all.

We begin with some basic genetics and a restatement of Freud's famous structure of the mind into the 'ID' the 'SUPER EGO' and the 'EGO' but now seen metaphorically as the components of a human version of an Apple Macintosh computer.

We move on to see evolution as a sort of 'random walk' sequence of events where genes mutate, one at a time, leading to 'successful' outcomes. This deals with the argument that Darwin must have been wrong because the mathematical chances of genes getting it right seemed about as likely as a monkey randomly typing a Shakespeare play. Now we have genes with rules so that just as a shopkeeper might follow the rule "restock if sales reach 10 a week" but "discontinue if sales fall below one per week" and thus have a remarkably apt display for his customer's tastes so genes select for success. And what happens physically can it seems apply to behaviour as well.

Thus change. It is fascinating, for example to read a genetic perspective of the conflict between the benefits of 'outbreeding' and those of 'in-breeding' (marrying someone different as in America's 'melting pot' versus marrying a member of one's own 'tribe') Inbreeding (so that everyone has many genes in common and one individual can be sacrificed for the benefit of others knowing that his genes are more likely to multiply as a result) increases co-operation and altruistic behaviour. This leads to numerical increase and expansion – and conflict with the tribe around the corner which is enjoying similar success. Outbreeding creates individual strength through a wider gene pool which leads to greater resistance, for example against diseases. It may lead to larger and more able individuals – certainly it reduces the inclination towards instinctive co-operation thus sharpening individual competition and creating a stronger need for extensive rules and judicial systems. More has to be put in writing – understanding must be explicit. Notions of morality and social responsibility need social reinforcement. Karl Popper's "Open Society" follows from outbreeding in our modern complex world and seems to be winning over the old ethnic nationalisms. Perhaps that is all that our 20th century wars have really decided. Perhaps that is the meaning of American troops in Bosnia today. Perhaps Christ's message that one should "love thy neighbour" saw through it all before Darwin, Freud or Badcock.

Modern socio-biology claims to be able to explain all that we are and all that we do in terms of genetic determinism – and 'Lamarckian' beliefs in the possible inheritance of acquired characteristics are rejected, despite recent findings that genes in simple organisms seem to be able to change in response to environmental circumstances.

But what of other perspectives? Richard Dawkins in *The Selfish Gene* pointed out that ideas, notions and beliefs use people as their 'survival machines' in much the same way as genes do. So similar in character were they that Dawkins named these idea-genes "memes". Just as animals are concerned with the survival of their offspring so those inspired by ideas are keen to pass them on. The survival of memes is probably held in greater esteem than the survival of genes. The childless educator is as respected as the prolific mother – perhaps more so. Nations and individual families which choose small family size and concentrate resources on education look likely to be more successful than those whose strategy is to have many children thus stretching their upbringing resources too thinly. Robert H. S. Robertson, author of *The Cracked Cornucopia* (reviewed in B&O Vol. 24 No. 3) has even claimed 'memicide' as a crime though one can surely think of a few memes, such as the ideas of the Mafia, whose demise could not even be regarded as regrettable!

And what of Friedrich Von Hayek and his lecture at the L.S.E. entitled *The Three Sources of Human Values*. These he listed as i) Genetic ii) the result of reason and calculation and iii) culture. Hayek's 'culture' comes close to Dawkins' 'memes' and he poured scorn on the simplicities of the socio-biologists. Here is another challenge for Badcock to answer.

But for a moment, let us give Badcock the benefit of the doubt and let us accept that somehow all these things can be compressed into those transmitting physical particles called 'genes'. If we can no longer look upon every living thing with wonder as God's creations but must see them as the product of mutating genes then what has been achieved except to transfer our gaze from the being to its code? From the building to the plans? We have returned to the ancient Greek concept that behind everything lies its 'idea'. No actual table, for example, can be quite a perfect manifestation of the 'idea' table. The reality, thought the Greeks, and think I today, is the notion behind the deed.

My sense of wonder may be redirected but it remains intact.

J. B.

LETTERS

A response to "The Lessons for Britain from the Success of German Counter-Inflation Policy" by Dr. Walter Eltis, from Mr. R. S. K. Seeley

Dear Sir,

I find it very difficult to accept that Germany's success is fundamentally due to the Bundesbank's control of inflation which ignored political and social problems such as unemployment. To survive, such a regime has to have public acceptance - how was that achieved? And what about such other factors as the contribution to the economy of superb engineering skills; a workforce that has been motivated to work and improve cost-effectiveness; and the absence of the staggering UK costs of defence and other international obligations?

I would prefer an analysis which also looked at other successful countries including Japan, Singapore, Malaysia and the US itself.

If acceptability was a key factor for the work of the Bundesbank, this must also be true for the European Union. The EU is already in trouble in various parts of Europe for the constraints it unnecessarily applies over-riding national sovereignty. Will it really be acceptable to have economic government from a European Central Bank making decisions about inflation treating the Union as one entity?

R. S. K. Seeley
83, The Heights
Foxgrove Road
Beckenham
Kent
BR3 2BZ

Unpublished Letter from the Hon. Secretary to The Times, 8th February 1996

The Editor
The Times
LONDON

Dear Sir,

Sir Leon Brittan (Rifkind should beware – Don't pander to the sceptics. The Times 7/2/96) described his – and the EU Commission's success in negotiating a new relationship between the EU and America. "There can be few European policies which dovetail so neatly with British interests" he said. There has been "A substantial advance in transatlantic relations". "This is the way forward" he said "rather than listen to those trying to defend British and British Parliamentary sovereignty."

How can one possibly disagree? But – here is an unelected *civil servant* trumpeting his policy and there is no institution in sight with the strength or the public ear to dispute it.

How very frightening! In this country we would expect a *Minister* and his elected colleagues to defend such a move. And we would expect Her Majesty's Opposition to ask the right questions – is such a bilateral pact a violation of multinational trading principles? Will this deal further distance Britain from other Commonwealth countries? Will a cosy trade deal between trans-Atlantic partners work against Far Eastern countries with politically destabilising implications? – to say nothing of the interests of consumers here. And more …

Yours faithfully,
James Bourlet

ECONOMIC RESEARCH COUNCIL

HONORARY SECRETARY'S REPORT FOR YEAR TO 31ST MARCH 1995

MEMBERS

During the year under review 15 new members were elected, of whom 7 were Ordinary Members, 7 were Honorary Members and 1 a Corporate Member.

MEETINGS

Six dinner meetings were held during the year, as detailed below:

April l9th 1994	Mr Paul Turnbull, Chief Economist at Smith New Court, who spoke on "The Economic Cycle – Inflation and the Financial Markets".
May 17th 1994	Sir Peter Tapsell M.P., who spoke on "The Economy and Our Relationship with Europe".
September 20th 1994	Mr C. Gordon Tether, President of the Society for International Development, who spoke on "The Twilight of Meaningful Economics".
October 25th 1994	Mr John D. Allen, Head of the Economics Faculty of the School of Economic Science, who spoke on "Taxation: Practice – Principles – Prospects".
February 7th 1995	Mr Stephen J. Lewis, Director of Research at the London Bond Broking Company, who spoke on "The Challenges from Financial Deregulation".
March 21st 1995	Mr William Cash M.P., who spoke on "The Maastricht Treaty and the proposals for a European Single Currency".

The dinner meetings were held at the St. Ermin's Hotel, Caxton Street, London, S.W.l. On five occasions Mr Damon de Laszlo took the chair and on February 7th the chair was taken by the Hon. Secretary. The meetings were generally well attended and were followed by lively discussions.

EXECUTIVE COMMITTEE

The Executive Committee met four times during the year, immediately before the dinner meetings, and at the Annual General Meeting.

SECRETARIAL DUTIES

During this year the Executive Secretary, Professor P. Davison has been primarily concerned with the program of meetings, with membership and with the newsletter, the Hon. Secretary has been primarily concerned with editorial duties, including the quarterly journal and the day-to-day work of running the Council has been carried out by Mrs C. R. Wood.

The Honorary Secretary would like to take this opportunity to thank Mrs Wood, yet again for carrying out these tasks. One is reminded of a recent publication by an ERC member which found Scottish secretaries to be "cultured... willing to work hard... are talented, superbly qualified and committed". We are indeed grateful for her work.

PUBLICATIONS

"Britain and Overseas"

The quarterly journal of the Council was published regularly through the year and received favourable comment. The editor takes this opportunity to thank those members who submitted items for publication.

ERC Research Study

The Research Study "VAT – The Unacceptable Face of Taxation?" by John Davison was published in January 1995. This timely contribution to the evolution and possible reform of administration arrangements of this tax was well received and is said to be the subject of constructive discussions within the administration.

FINANCE

The annual accounts were prepared by Mr Alan Parker.

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The Rt Hon Lord Amery
David H Aplin Esq
S G Baker Esq
D M R Bentley Esq
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City Librarian, Bradford
The Agent General, British Columbia House
Paul E O Bryan Esq DSO MC MP
James Buchanan Esq
Mrs Davey, Buckinghamshire County Libraries
C Rogers Esq
D Chapman Esq
L Cheney Esq
John Coleman Esq
Librarian, House of Commons
The Librarian, Commonwealth Economic Ctte
The General Secretary, Commonwealth Institute
Conservative Research Dept.
Douglas H Dale Esq

R A Despard Esq
P Dimond Esq
Thomas Durham Esq
D G Fenter Esq
Head of the Legal Deposit Office
Jack Hornsby Esq
C.J. Houghton Budd Esq
Peter Kruger Esq
Dr J Labia
Library of Congress
The Librarian, Manchester Central Library
Eric de Mare Esq
Donald A Martin Esq
City Librarian, Marylebone Library
Midland Bank Plc
H P Mulleneux Esq
Donald Neale Esq
J Obdam Esq
P J Parr Esq
The Hon Sir John Plowman Kt CBE
J F Purdy Esq MA MSc SM
Ben Rae, Esq
Ms Mary Quinn
R H S Robertson Esq
Rokkodai-Bunkan, Japan
Mrs Renee Roo
A T Smail Esq
J H V Sutcliffe Esq
Tass Agency
Ms M L Thoren
L H Trimby Esq
H G Walburn Esq
The National Library of Wales
M West Esq

Corporate Members

Jim Blake Esq
The Bursar, Sidney Sussex College
R.F. Cooks, Esq

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 ....