BRITAIN & OVERSEAS

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

Autumn 1996 Vol. 26, No. 3

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Published quarterly by

The Economic Research Council

239 Shaftesbury Avenue, London WC2H 8PJ

Price: U.K. £12 Australia $25 Canada $25 New Zealand $35 U.S.A. $25 Japan ¥4,000

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NATIONALISM AND EURO-JINGOISM

Extracts from a talk by the Rt. Hon. Norman Lamont M.P., Chancellor of the Exchequer from 1990 to 1993 and currently prospective Parliamentary Candidate for Harrogate and Knaresborough, to members of the Economic Research Council on Wednesday 19th June 1996.

We seem to be enduring a quite ferocious debate about Xenophobia. Kenneth Clarke's remark that the Tory Party is "patriotic, but not nationalistic" seems to mirror the general Schizophrenia in attitudes to nationalism in which people feel sympathetic to nationalism when it is emerging, aspiring or separatist but unsympathetic when it is noticed in developed countries.

The Value of Nationalism

This antipathy to nationalism in developed countries however, ignores its more positive aspects. Nationalism creates a sense of obligation and of duty when the State and Nation are the same. The Nation-State has to ask people not just to pay their taxes but sometimes to give their lives for it. And whether we call these obligations and duties nationalism or patriotism it does not, in itself, imply superiority or aggression to one's neighbour States.

An intellectual understanding of the notion of non-aggressive nationalism goes back to the 18th Century German Philosopher, Johann Herder. Herder focused on the idea of 'belonging'. He believed that just as people need to eat, drink and have security and freedom of movement, so they need to belong to a group. In the words of Isaiah Berlin "Deprived of this they feel cut off and lonely, diminished, unhappy. To be human must be to be able to feel at home somewhere with your own kind". Herder argued that each group has its own Volksgeist, a set of customs, a way of perceiving and behaving that is of value solely because it is their own – "a country we can call our own". The whole of cultural life is shaped from within the particular stream of tradition that comes from collective historical experience shared only by the members of the group.

Herder argued that anyone who proclaimed the superiority of one people over another was saying something false and he believed in a variety of national cultures, all of which could, in his view, peacefully co-exist. Since each culture is thus equal in value the real villains of history are great conquerors such as Alexander the Great, Caesar or that hero of the European Union, Charlemagne, because they stamped out native cultures.

Nationalist Aggression

What is it that can transform the aspiration of self determination into nationalist aggression? Isaiah Berlin has written that a wounded Volksgeist is like a bent twig forced down so severely that when released it lashes back with fury. "(Aggressive) nationalism is created by wounds inflicted by stress. Today Georgians, Armenians and Azerbaijanies are trying to recover their submerged pasts."

Thus nationalism is most likely to lead to violence and unrest when it is suppressed as in, for example, the Austro/Hungarian Empire which included modern Yugoslavia. Some historians have argued that Louis XlV was principally responsible for the beginnings of German nationalism in the 17th Century. Certainly, in our time, the consequences of German humiliations in the Napoleonic Wars and the Treaty of Versailles are obvious.

An Alternative To Nationalism?

Allow me to quote Isaiah Berlin, in support of Herder's benevolent, non-aggressive nationalism, at some length. Berlin felt that "loneliness is not just the absence of others, but loneliness is also living among people who do not understand what you are saying. They can truly understand only if they belong to a community where communication is instinctive and effortless". Furthermore, he rejects the idea that American values and the consumerist culture that pervades every corner of the globe through mass media will render the old nationalism irrelevant. "The spectacles through which the young in Bangkok and Valparaiso see Madonna are not the same … if you think that this will one day give way to one universal language, not just for learned purposes, politics or business, but to convey emotional nuances to express inner lives, then I suppose that what you suggest could happen: This would not be one culture but the death of culture." Isaiah Berlin goes on to say he is glad that he is as old as he is! Sooner or later people will rebel against imposed uniformity and attempts at global solutions of any sort.

So why should it be unrealistic to believe in a world that is a reasonably peaceful coat of many colours, each portion of which develops its own distinct cultural identity and is tolerant of others. Why should that be an empty aspiration?

Government, States And Europe

"Who governs us?" is a familiar rhetorical cry, usually in the form of "Brussels or Westminster." We have to be governed within some defined geographical unit. One can't just draw lines in the sand as the British Empire did neatly, call it a country and say "this is how we will be governed". Princes and Kings could do that but you can't just do that in a democracy. De Gaulle's apparently puzzling remark that "the nation state and democracy are the same thing" is perfectly true and whilst not all nation states are democracies all democracies are indeed nation states. Democratic nation states define themselves and define the boundaries within which we are ruled – Governments rule for a people. It follows that "Europe" cannot be a democratic state because there is no European demos. There is no European public opinion.

Nationalism is not only cultural nationalism – it is not just about peasant costumes and folk music – it is not just a question of warm beer and old ladies cycling to Communion. Ultimately it is about whether people feel themselves to be a people and

whether they wish to make laws for themselves through their own Parliament.

It is far too soon to write off the nation state, and if we are not careful the bent twig will lash back again. Perhaps one day there will be a Europe that inspires affection that comes together naturally and spontaneously but that is not what we have at the moment. At present, Europe is integrating too fast, too far ahead of the wishes of its citizens.

So, given the troubled history of multi-cultural, multi-lingual federations it is odd indeed that the EU seeks to assume to itself, in the name of international co-operation, the symbols and trappings of such an organisation – a flag, an anthem and a passport.

Is there such a thing as Euro-jingoism? Yes, certainly. But it belongs to the bureaucrats and politicians, not to real people.

THE ECONOMICS OF LOCAL EXCHANGE TRADING SYSTEMS (LETS)

By Christopher Houghton Budd

Under the heading "Hour is nigh for the greenback", Peter Beaumont reported in the Observer *of 18th August, the progress of local currencies in America. He began by stating "Paul Glover is to upper New York State what the governor of the Bank of England is to Britain. Every couple of months the 'bicycling central banker' of Ithica (pop. 30,000), a town of trees and gorges, pedals off to local businesses to check the money supply is not overheating. The currency is not dollars, though, but Ithica Hours – the world's most successful 'local currency' – exchangeable in place of the greenback for everything from books and food to plumbing services." "Transactions, over five years, to the value of $2 million have been made and Glover has become a guru to rank with Keynes, Friedman or Adam Smith."*

Ithica is not alone in this. Such schemes have been started in many parts of the world, and so Britain and Overseas *invited Christopher Houghton Budd to explain the economics involved.*

Local Exchange Trading Systems are increasing in number in many parts of the world, principally in the US, Australia and Britain. Since detailed information about them is readily available,[1] the purpose of this article will not be to repeat what has already been said, but to look from a perspective that is economic rather than social. Insofar as they are clubs of like-minded people who trade with one another using a currency of their own choosing and invention, LETS are generally known as multi-barter groups, and less kindly referred to by some as glorified baby-sitting circles. The UK tax authorities regard LETS trading as exchanges of 'social favours',

1 See: P Lang, *Lets Work,* Grover, 1994.

transactions that one would not normally account for, because, importantly, one would finance them out of post-tax disposable income. In other words, they are generally seen as being to the side of main economic development and outside the sphere of the productive or generative economy. This is not strictly true, but it does describe the preferred mode of many LETS members and the generally low level of LETS activity. There is a more thoroughgoing side of LETS, however, which I would like to outline here

Firstly, a brief description of how LETS works. A group of people form a club, the objects of which are generally concerned with social and economic regeneration through the medium of trading locally using a localised currency. The currency is one of their own invention. (In the case of my local group in Canterbury it is *tales;* in nearby Whitstable it is *yawls,* after the local fishing boats. Manchester uses *bobbins,* and so on.) Parity is usually said to be more or less 1:1, but for tax purposes it is 1:1 exactly. The arguments for deciding parity on any other terms lead into convoluted and unresolved debate about the value of money. In fact, whatever theoretical basis is put forward, everything collapses into the labour theory of value that prevails in modern economics. Moreover, no-one thinks of such things when trading. The value of a trade to each of its two parties is determined subconsciously at the time of its making. Either the goods or services being bought are value for money to the recipient or they are not. The decision is dependent on the individual, there being no objective price for anything. Payment is effected using one of the club's cheque books and the transaction is recorded as a debit to the buyer-member and a credit to the seller-member. The two accounts together – that is, the accounts of the system as such – thus total zero, and will always do so. It is understood that the individual member will in time also bring his account back to zero; that is to say, it is up to him to balance his LETS economy. As there is no interest or any other charge for the money thus created (except a charge for processing the cheques, levied on a 'cost of service' basis), debit balances do not incur costs and credit balances do not receive benefits. The thought then arises: I am the balancer of my economy, which I do through trading with other people. When all our needs are met, all accounts come to zero.

Such a description is not usual to LETS literature, and many will not be comfortable with it. But it is true. When one strips away LETS's undeniable effects in terms of overcoming modern life's social and economic anonymity, its economic basis is very simple. It is also very potent. For LETS demonstrates the ancient understanding that money is not, or should not become, something other than the things it represents. The fact that the accounts of the system always total zero and cannot do otherwise proves that no money is created by LETS. Strictly speaking, the accounts track the circulation of values, not money. Thus the law, general to most countries today, that the creation of money is the sole prerogative of the central bank is not contradicted. In addition, since LETS money used to earn income or in other before-tax contexts is treated as ordinary money by the tax and other authorities, it is both legal and above board. (It is true that some LETS members think or hope that LETS provides a tax haven, but this view is ill-advised.)

If one were to go beyond the name ‘LETS’ to describe the system it refers to, then what I have said so far becomes reinforced. In the history of alternative or localised currencies, the particular contribution of LETS is twofold. Firstly, a LET System provides a legal framework in which such money can circulate. Secondly, it aims to keep the focus deliberately local, so that money cannot ‘leak’ out of or arbitrarily come into a community; enabling the community to generate and control its own wealth. To my mind, however, while these are laudable aims expressed in a way that many people understand, they are economically both unclear and uncertain. They assume that a community of modern human beings, with a range of needs and interests far beyond that of basic physical needs, can be locally self-subsistent. They also assume that local money is the answer to today’s currency problems. So it is said that one needs to trade locally, that supermarket chains or multinationals should not come in. While logs may be locally available, of course, what about the solenoid for the car? Yoghourt does not need to come from another country, but are citrus fruits to be restricted only to those who live in sunny climes?

My point is, that ‘local’ means nothing on its own, although it feels as if it means a lot and people of course invest it with precise meanings of their own. It is usually expressed as a reaction to conventional currencies, that is to say, to national currencies. But this is a false starting point. For all their widespread use, national currencies are economically false. Today, every new country thinks it has to be born with its own currency and its own central bank. But that is only a recent historical phenomenon and one that will not last. In a wider view of history a national currency only makes sense if the nation it refers to is tantamount to an ‘optimal currency area’, to use some jargon. But what does that mean? It means that a national currency has meaning only if it refers to a region in which everyone in it freely uses the one currency. In essence, provided a currency (money in circulation) is proxy and not something in itself, it can be and has been denominated in anything from cowrie shells to electronic impulses. The denomination is irrelevant except insofar as it identifies the form of money that those who choose to use it mutually recognise. The region of the currency is thus determined by the location and circumstances of those who use it. Its true area is demarcated by those of like minds; consciousness, in other words.

This is not to say anything new; currencies have always been determined by consciousness. Only if a national currency equates with a synonymity of consciousness can it optimise its area, and then only on the side of geography. The other side, that of trading, requires it to circulate among all things necessary to the population thus united in their awareness. But by this measure no national currency can achieve optimality. Indeed, it is not technically possible for one to do so. The two poles of economic existence are those of the individual human being and the world as a whole. A nation is neither of those things. Economic history describes the great journey from ages past, when the world as a whole was unknown and the individual took a place in the social order that was prescribed for him (sons followed fathers, guilds, etc.), to today, when the world as a whole is known in great detail and when the only universal element in it is the individual, but now in a self-conscious, self-directing form. The nations have arisen along this road, but they are by definition neither agglomerations of individuals nor are they humanity as a whole. Their relevance is overstated and their historical validity long past. Notwithstanding its widespread use, the invention of the nation state economy at the end of World War One was an aberration and a mistake. It continues because on the whole we have not yet achieved the cosmopolitan form of individual consciousness that the age demands. Global economy – the overriding reality of our times – calls for global consciousness. In this it is thwarted by national consciousness. This has a role to play in matters political, but economically it is a misfit.

Political life proper clearly has a national dimension, since laws are by definition predicated on agglomerations of individuals and are not, at any rate not yet, capable of global formulation and implementation. But cultural life and economic life are both global today. Ideas can no more be confined to the boundaries of a nation than can economic categories, at least not without their enforcement by artificial means. Today we each live as an individual in the world, and the great currency question is how do we conceive and use modern money in its proxy sense? Its optimal area is undoubtedly the globe, but our individual minds have great difficulty embracing such a vastness. We therefore seek to localise what is global. In terms of consciousness this is quite understandable, even unavoidable. But in terms of practical economic life it is difficult to achieve.

It seems to make sense, for example, to describe trade between the US and Britain as international, while London to Canterbury is local. Now go to mainland Europe and consider trade between Lille and Brussels, towns no farther apart than London and Canterbury. Is this international or local? The ordinary thinking is focused on national differences, but the salient *economic* point is one of distance. And it is the economic point that has greater and decisive weight under global economic conditions. Just as 'local' is an imprecise reaction to national, so 'international' is an imprecise term for global. We need, therefore, to let drop the nation state paradigm in economics because it unsuits our understanding to what is going on. The issue is simply how can we make understandable and manageable (localise) global economic realities. Even in these terms, local is not that helpful. From my village nearby, Canterbury is more local than London, of course; but the shop in the village is more local than those in Canterbury, and the one at the top of the street where I live more local than the one at the bottom. Economically seen, the term is so relative as to be useless on its own. What would make better sense is not some abstract geographical or regional notion, but precise identification of the actual trade taking place, which will always be bounded by a shared awareness. The economics of car solenoids is global because of (a) their universal usage and (b) the non-universal distribution of unmined copper. Honey, on the other hand, can sensibly be confined to the area encompassed by the foraging flights of the bees that produce it. If the meaning of 'local' is not made precise, therefore, the word is as much a red herring as is 'national'.

What then is LETS money if it is not 'local' money? The answer is that it is a form of money that circulates consciously between people who not only think money should not be something other than the goods and services it represents, but who manage its circulation so as to manifest that understanding. It is not meaningful to compare local and national monies, for neither term has economic substance. It is significant, on the other hand, to compare money that circulates as a proxy and money that does not; money that incurs no interest, and money that does; money that places conscious trading between individuals at the centre of economic management, and money that acts at the behest of so-called market forces, marginalising human beings and the earth they inhabit; money that arises when a value (good or service) comes into being and disappears as this value is used up; and money that is supposed to have a separate existence, that can be put into or taken out of the economy and thus cause the rise or fall of production.

In the debate over money, LETS sits firmly in the interest free, money-as-proxy camp. Although it is unclear to me to what extent either its ‘inventor’, Michael Linton, or the many adherents of the 600 or so systems now in operation around the world appreciate its full economic historical significance, the innovation of LETS is its use of the club form and of zero account balancing. These two devices respectively protect it from being outlawed and provide it with a means of seeing (through the zero) the true nature of money and thus of conducting economic management accordingly.

On these firm foundations, it is possible to give greater attention to the lesser-realised aspect of LETS – its potential for economic regeneration. Given that there is no thought or intention that LETS money should be outside normal tax requirements, and the fact that LETS money can function as a supplement to the ever insufficient national currency, the tax gatherers should be able to understand the potential of LETS for increasing, not diminishing, their take. The only technical problem at the moment is the reluctance of tax gatherers to accept LETS money in lieu of national currency. Not a lot of ingenuity is needed to overcome this obstacle, however. It is more a matter of time than anything else and, as with all acquirers of LETS money, of being able to pass the stuff on. This is no different to trying to pay one’s tax in England with French francs. There again (for the moment!) the national dimension intrudes, but what will happen when the Euro takes over?[2] The national definition will have been widened (made more global and thus more economically meaningful) and the currency will circulate in a wider area. No one who has used or promoted reserve currencies will have any qualms about this, for it is not new under the twentieth century sun. It is not then a matter of circulating a false money within abstract areas, but of circulating real money wherever people will trade with one another by its means. And since the Inland Revenue does not eat the money it takes in, but either spends it on the goods and services purchased to run its offices, or else passes it on for expenditure on goods and services by others, acceptance of local money by the tax authorities could be no more than a matter of using people on the

2 For those readers who are opposed to a single European currency, I would ask them to consider that the issue is not only that such a currency as proposed is part of and parcel of a political union. Whether such a currency is proxy or something unto itself is a possibly greater question. The debate so far has not considered a proxy currency and at the very least should be rethought in such terms. There may well be a paradox involved, which may cast in a different light what I have here anyway said only in passing.

nearby LETSystem to fix broken electrics, type letters and so on. There is nothing more mysterious or impracticable to it than that. Indeed, if the Inland Revenue were first to use a LETS electrician or typist, thus going into local money debit, it might be only too willing to tax at least those people in local money in order to return its account to zero. The effect would be moreover that it would have stretched/reduced its sterling budget by the local money amount!

DISINTEGRATING EUROPE: THE TWILIGHT OF THE EUROPEAN CONSTRUCTION

by Noriko Hama
Adamantine Studies on the Changing European Order, No 8. Adamantine Press Limited, London 1996. 126 pages

Books on Japan by Europeans and Americans are two a penny; a book on Europe by a Japanese authoress is the literary equivalent of woman bites dog. It is worth reading for that reason, but not for that reason alone. The book is brilliantly written, the English awesomely good and the style vivacious. The following quote, my favourite, will suffice to prove the point. “The (Maastricht) convergence criteria are like the innkeeper who has only one bed so chops the lodger’s feet off if they protrude from it, or stretches him with pulleys if he is too short for it. Either way, much pain and no gain.” Later quotations will also serve to support this point (and much of the descriptive text that follows lacks quotation marks, which would otherwise become too profuse).

Hamasan’s thesis is also unusual. The book is neither Europhobe nor Europhile. It argues instead that the present European construct is time-warped in the notions of an era past, the world as it was, post world war two and pre cold war one’s demise. European political, economic and monetary union has become unattractive. Demands for greater integration between nations have lost their force and, as people have become alienated from governments, demands for greater regional autonomy within nations have taken their place. Unwittingly the Maastricht Treaty’s architects helped unleash them.

“It is surely a contradiction in terms,” writes Hamasan, “to insert the notion of subsidiarity into the Maastricht Treaty. The Maastricht Treaty is, after all, a document setting out the blue print for closer integration, while subsidiarity is quintessentially a devolutionist concept. It speaks much for the waning allure of the European Construction when such fundamental inconsistencies have to be endured in order to quell doubts or convince the suspicious. From the Pandora’s Box of subsidiarity may emerge forces of radical separatism and fragmentation. Giving rein to such forces may lead to chaos. Yet chaos is a great deal more creative than struggling to maintain a stifling and outmoded *status quo*. The avid quest for regional identity is virtually the only, totally unaccounted for, (in the European blueprint – reviewer’s addition) factor that has emerged in the period between the signing of the Treaties of Rome and today."

The book is based on an eight part series of articles, written in Japanese and originally published in *The Mainichi Economist* in the spring of 1993, which were published as a book by Nikkei Shimbum publishers in July 1994. The authoress herself translated the book into English. She was educated at Hitotsubashi University in Tokyo in international economics, after which she joined the Mitsubishi Research Institute. That was in 1975. It was not until 1990 that she was appointed to a post in London. Her command over the English language (and others) is thus the more remarkable.

The first chapter gives thumbnail sketches of where Britain, Germany and France stand in turn-of-the-century Europe. Britain, opines Hamasan, has already had a taste of life with a single currency during its brief membership of the European exchange rate mechanism – and quickly spat it out. She is doubtful whether Britain could compete without a policy of aggressive competitive depreciation. But while we could not tolerate the discipline of an exchange rate straitjacket, she wonders whether "for an economy with limited capacity, trying to serve both the domestic and European markets at the same time, it may just be too costly in terms of inflation." Hamasan is certainly not amongst those who believe in a British economic miracle. In her view we are damned if we are in and damned if we are out of Europe.

In Germany the traumas of unification and the deepest recession in fifty years have made the post-war economic miracle seem like a distant dream. The social market is crumbling as the social partners, unions, management and government no longer co-operate to share out ever increasing real incomes. There is no longer, as I would have put it, a plate full of cookies to be shared out each year where not being greedy this year means extra cookies for all next year. Instead a collecting plate is now being passed round to which nobody wishes to contribute. The inability to offer renewed real income growth lies at the heart of Germany's problems. One solution lies in Germany joining the game of competitive depreciation, something which Hamasan says the Bundesbank and European partners would never accept. Another is for Germany to look eastwards, finding salvation in the closer ties with rapidly growing former communist economies. Broadening rather than deepening the European Union seems a more sensible aim for the sclerotic German economy.

France with its *franc fort* is pursuing a policy of "suicidal masochism". Its objective is not price stability – that has been achieved – it is a device for tying Germany down to a path leading to monetary union, at the centre of which the D-mark and the French franc would co-exist as key currencies. But it is dangerous to apply economic tools for the sake of political objectives. The result of debilitating the economy to keep the franc strong may ultimately prove counter-productive and self-defeating, making the franc weak instead. Hamasan sees the time coming when France must choose between the economics of full employment and the politics of *franc fort*, while Germany will be forced to choose between the economics of unification and of the Bonn-Paris axis. The marriage of convenience between France and Germany is becoming increasingly burdensome to both parties.

The second chapter gives a potted history of Europe's post-war development. Half of it deals with Britain's relationship with Europe. Britain, called Europe's "most mercenary-minded" member, provides a yardstick with which to measure whether progress towards greater integration is going well or badly. Britain, unlike Germany and France, puts business before politics. In periods when things are going well, Britain is co-operative and Europe advances; when things are going badly it isn't and it doesn't.

The third chapter would have betrayed the book's early 1990s newspaper provenance, had that not already been admitted. Entitled 'The Crumbling Cornerstone of Unity' it discusses the history of the European exchange rate mechanism, ERM, as "the chosen vehicle by which the European Union means to arrive at monetary union". Clearly, if a quasi-fixed exchange rate system can be made to work successfully, the switch to a single currency ought to be readily achieved. But in 1992-93, when the original articles on which the book is based were written, the ERM itself was far from working successfully. Britain and Italy had been pushed out in September 1992 and the August 1993 crisis resulted in the widening of fluctuation margins from 2.25% to 15%.

Hamasan maintains that there are three ways in which a fixed rate system can operate successfully – where rates are completely fixed, as in the old gold standard, leading to automatic economic adjustment with economies; where the system is dominated by a single strong and stable economy, on which all others are forced to converge; or where complete convergence has already been achieved in some other way. None of these conditions applied to the ERM in the early 1990s (and none do today) and therefore, far from providing the gateway to the single currency, the ERM itself was more likely to collapse, leading to competitive exchange rate depreciation. Indeed Hamasan compares the situation in the ERM in the early 1990s with the collapse of the gold standard in 1931-36.

The crumbling ERM is seen against a rising groundswell of opposition to deeper European unity. The political leaders who negotiated the Maastricht Treaty did so with little regard to how public opinion might react. They were taken aback by the strength of the opposition to it and provided the sop of subsidiarity (referred to above) in an attempt to dispel people's suspicions. But "the golden dream', writes Hamasan, "of a united Europe loses much of its attraction when there are no readily identifiable gains to be displayed before the people. The dream can in fact all too easily turn into a nightmarish image of oppression in the eyes of the people, giving rise to nationalist forces of fragmentation and disintegration."

Prospects of united Europe offering anything much to anyone seem bleak, according to Hamasan in the next chapter. Closer unity in the single market and ERM did not save Europe from its worst post-war recession in the early 1990s, indeed it contributed to it. The EU needs to become competitive to create jobs and restore prosperity, but is opposed to competition within Europe if the result is an erosion of social security and an increasingly inequitable distribution of income. The EU might be revitalised by eastern enlargement, but this would impose strains on its Franco-German axis. Moreover, as long as the EU as a region remains "entrapped within the confines of the Maastricht blueprint" it will be ill-placed to compete with the growing regionalism of America (ie, NAFTA) or the dynamic economies of the Asian region.

In conclusion, the authoress states, four questions must be addressed. Whether closer union promotes increased prosperity? Whether it is feasible to maintain the goal of monetary union? Whether economic gain should be the sole criterion for closer union? And what growing internal regionalism means for Europe? Her answers are that closer union can no longer deliver the goods, largely because Europe can no longer rely on the driving force of the German locomotive. Monetary union is not worth the costs it imposes. It may be required to complete the single market, but both require real convergence which the Maastricht criteria cannot impose artificially. There are times when politics should rightly take precedence over economics, as in the immediate post-war years when greater unity could be seen as a means of preventing further European wars. But there is no such pressing political reason today for enduring the costs of economic union. On the contrary, one should probably look to the growth of greater regionalism within Europe as a driving force for renewed dynamism in the twenty-first century.

Hamasan concludes on a note of deep pessimism:

> " if all the European Union can do is to cling to the Valhalla of Maastricht, built according to the basic architecture of the post-war framework, only endless night can lie beyond the twilight of the twentieth century."

This is an excellent book which, I believe, reaches the right conclusions. It seems churlish to find fault, but the job of a reviewer to criticise as well as to describe. The book inevitably shows its age. Originally written in 1993 and now published in 1996, the importance it attaches to the ERM and its travails is exaggerated. Today attention is focused on problems of budgetary convergence.

This could have been foreseen had the underlying economic analysis been less conventional and more penetrating. Hamasan, for instance, makes no mention of Eurosclerosis in the early to mid-1980s as giving a push to the creation of a single market, but rather claims that there were "seven years of almost total bliss which lasted up to 1990". This claim is based on the stability of exchange rates in the ERM during this period which she puts down to "the presence of an essentially robust German economy". But the West German Economy was far from robust in the 1980s. Its economic growth was inferior to the rest of the EU's. From 1979 to 1987 it averaged only 1.3% against the rest of the EU's over 2%. German growth accelerated in 1988-89, but was still less than 4% a year and for the decade as a whole the German average was 1.9% with the rest of the EU almost 1% faster. Germany was no locomotive but a brake-van, with imports climbing slower than other countries' and exports climbing faster. Its growth spurt came at other countries' expense from the rise in its current account surplus to almost 5% of GDP in 1989.

The trouble for the ERM in the early 1990s was caused by the German post-unification boom, when the German current account surplus turned into a deficit as surplus West German savings were needed to bail out east Germany. This was because countries with their currencies pegged to the D-mark had to imitate the monetary stringency which the Bundesbank imposed to counter the inflationary consequences of the fiscal profligacy which unification spawned. As their fiscal policies were, at least initially, more austere, excessively tight monetary policies caused them to suffer their worst post-war recession. The balance of payments adjustment between Germany and the rest of Europe was achieved by depressing other European countries' growth and hence their imports.

The correct response to the structural shock of unification should have been a substantial appreciation of the D-mark in the ERM. The rest of Europe's trade with Germany would then have adjusted through a change in relative prices instead of a change in relative activity rates. But this was not allowed to happen (except belatedly for Britain and Italy). A loss of control of budget balances by other EU countries, to combat recession imported from Germany, was an inevitable consequence. Forced to imitate Bundesbank fiscal stringency, we all (particularly Mr Major's Government in Britain during ERM membership) began to imitate German fiscal profligacy. Hence the problems now posed by Maastricht budget criteria.

Hamasan fails to grasp the workings of the ERM and accepts conventional wisdom on both the undesirability and consequences of competitive devaluation. She buys the French view that it is immoral and won't work. Devaluation does not work in a sellers' market, where the initial competitive gain from a nominal exchange rate fall is eroded by the faster inflation which rising import prices spawn. But in the buyers' market of recession, exchange rate depreciation lowers export prices in the appreciating currency country instead of raising them in the depreciating one. That is why rising British inflation did not follow from sterling's departure from the ERM. On the contrary, Britain's inflation continued to fall and we did gain a competitive advantage leading to faster growth.

Competitive exchange rate depreciation is not immoral. It is sensible. It is far better for everybody than the policy of competitive deflation embodied in the French *franc fort*. If, during a recession, everybody plays at competitive depreciation in a currency war which nobody wins, monetary policy everywhere ends up easier boosting growth all round. If everyone plays at competitive deflation which nobody wins, monetary policy ends up tighter all round and the severity of the recession is increased.

The fundamental objection to the single currency is that it prevents adjustments in relative costs and prices through exchange rate changes. Deprived of the ability to ease national monetary policy and with counter-cyclical fiscal policy proscribed by Maastricht criteria, stability pacts or simply the excessive size of budget deficits and government debts, the only remaining form of adjustment is through relative growth rates. This means in effect that either the single monetary policy must be relaxed enough to cause over-heating in countries with a cost-competitive advantage, leading to European inflation, or so restrictive to prevent that overheating that it leads to persistent depression in countries with a cost-competitive disadvantage. Disintegrating Europe would have been better explained in terms of the EU's failure to meet the characteristic required of an optimal currency area. And while the concept of growing regionalism captures the essence of the alternative, Hamasan fails to explain the reason why it does so. A single market should not have level playing fields. It should involve competition between rival fiscal, regulatory, labour market systems and monetary policies. The best, those that delivered the greatest prosperity to their citizens, would then win out. Countries would be forced to choose individually and explicitly how much growth they were willing to sacrifice on the altar of equity and welfare generosity. They should not be encouraged to impose the cost of their social preferences on others. They are the social dumpers, not Britain as Hamasan supposes.

Brian Reading

THE ORIGINS OF JAPANESE TRADE SUPREMACY

By Christopher Howe. Published by Hurst 1996 Price £39.50

This is just a history book – the finest economic history account of Japan up to 1939 yet written. The combination of quotation, analysis, detailed industry sector accounts, perception of political with economic interactions, distanced sympathetic understanding of strengths and weaknesses and above all, access to a vast collection of sources and statistics all brought together into a text as stimulating and understandable as a novel, make this a book well worth the attention of specialist and layman alike.

Subtitled the "Development and Technology in Asia from 1540 to the Pacific War" there are four 'parts' – part 1 details Japan's economic abilities, ideas, exports (yes – *exports*) and institutions prior to the Meiji restoration and up to 1890. By the end of this period we see the Japanese, with government help busy with import substitution and textile export industries and foreign officials beginning to fret over trade disabilities – a French minister complaining that French businessmen were too attached to the 'happiness of family life' in France to commit themselves to long term work in Japan, and British consular officials bemoaning the complacency of British firms who made no effort to understand the Japanese market, send technical experts or learn basic Japanese. And this was in the 1880s.

But part 2 contains the economic analysis so inadequately dealt with in other accounts. Here we learn that in both the early 1880s and the period 1925-35, both periods of international trade depression, Japan, unlike other countries, *improved* her trade position as a result of strong domestic deflationary policies and remarkable productivity gains. Here we learn of Japan's crucial trade gains in India after 1893 when India went on the gold standard, "a move that took account of British imperial interests and the need to protect the value of the pensions and savings of British expatriate civil servants more than the Indian need for export competitiveness". Here we learn generally that Japan pursued policies aimed at holding down her exchange rates – including the spectacular 45% devaluation against the dollar in 1932. The importance of cotton, of the impact of World War 1, of gains in technology, management and trade organisation lead us to a fascinating chapter on 1930s trade friction and managed trade proposals. This part ends with the foreboding conclusion that "While Japan was learning the arts necessary to live with trade restrictions, many Japanese continued to question whether their country should not itself rationalise and expand its own imperial system, creating an economic bloc that would lessen Japanese vulnerability to economic fluctuations and to political factors beyond the control of Japanese policy-makers."

Part 3 – "The role of technology" contains the DIY gen for the student from a less developed country – or maybe Britain today. We learn of technology transfer, the development of education, the use of foreign advisors, of government industry policies. But we also learn that this was effective because it was welded on to the human capital of earlier generations – "nurtured during the long Tokugawa peace during which demand expanded and practical craftsmen responded with innovation, and for the first time began to circulate manuals and pattern-books containing what had once been secret, family-based skills".

Part 4 – "War, empire, trade and investment", displays the Japanese businessman not so very different from his counterpart today – but sharply distinguished in attitude and interests from the militarists in political control. In fact Japan's economic achievements were impressive – Manchuria achieving a higher income per head than any other part of China. The real failure of the Japanese as expansionists, as we all know, lay then, as now in the failure of Japanese culture, language and attitudes to take root and be accepted in other countries.

J. B.

EMU – THE ISSUES LABOUR MUST CONFRONT

By Brian Burkitt, Phillip Whyman and Mark Baimbridge.
Published by the Labour Euro-Safeguards Campaign,
72 Albert Street, London, NWl 7NR. Price £2.00

We are constantly reminded of the divisions within the Conservative Party on the subject of the EU's proposals for a single currency. But what of the Labour Party?

This straightforward and highly readable Occasional Paper lists yet again, but within a Labour Party context, the questions which should be asked and the lessons which can help to provide some answers. It is not cheerful reading but, coming from a group that includes such well known members as Peter Shore, Austin Mitchell, Nigel Spearing, Tony Benn and Lord Stoddart, will serve every reader with notice that this debate within Labour remains healthy and well informed. It should most certainly not be ignored.

J. B.

WHAT'S SAUCE FOR THE GOOSE IS SAUCE FOR THE GANDER

Britain's Euro-enthusiasts, subject of so much criticism over the vexed question of EMU membership now have a chance to restore the balance somewhat and do a real service for the debate.

The normally somewhat timid *Campaign for an Independent Britain* has published in its summer edition of "Independence" an extensive list of companies who have given substantial financial grants to the *Campaign*'s opponents – the European Movement, the Federal Trust and the Action Centre for Europe with its allied bodies.

This list is certainly surprising. One normally imagines that funds for these organisations originate from Brussels, from City banks or perhaps from wealthy continental immigrants. Not so, it seems. The list includes British Petroleum, British Telecom, Andersen Consulting, BMW, Glaxo Wellcome, Grand Metropolitan, Jaguar Cars Export Ltd, Mitsubishi Corporation International, Ockhams Holdings and, (as well as some predictable banks) David Sainsbury who alone has recently provided some £400,000.

The *Campaign* says that the total "war chest" waiting to be spent against it in the coming battle for public opinion on EMU is thus massive. These funds will be spent on hiring the best marketing experts, commissioning the most ruthless advertising agency (Saachi and Saachi?), paying the best speakers, publishing endless "free" handouts, placing television contracts, wining and dining politicians, holding meetings, making research grants for sympathetic academics, subsidising book publication, commissioning opinion polls with the "right" questions and making available friendly, up-to-the minute, well documented press material to journalists, newscasters and any other "opinion formers" (such as teachers) who might have a casual or serious interest in understanding the issues – or just in completing an assignment for which they can be paid.

This, of course, is all very reminiscent of the 1975 Referendum Campaign when such tactics worked so well. But times have surely changed. The *Campaign for an Independent Britain* and its allied bodies have had time to learn from the injustices of the past and time to canvass Britain's Corporate world.

Unless Parliament takes a strong line one way or the other on EMU membership, the battle for public opinion looks set to thunder through in a way which will make the coming election campaign look like an April shower. This list from the *Campaign* is an opening shot. Now we wait for – indeed we need to have – a list from the European Movement of supporters and the sums involved going to opponents of EMU membership. To restore the balance "Britain and Overseas" would be delighted to publish this information if supplied by the European Movement.

LABOUR OR LIBERTY

By Eric de Maré
A seven page collection of quotations available from him at £1
at Dynevor House, New Street, Painswick, GL6 6UN.

A "review" of this publication seems hardly appropriate because little in the way of new argument or thesis is involved. The introduction gives a restatement of some of the basic ideas underlying the frequently heard call for reforms of the banking system, both here and abroad, reiterates the author's suspicions of fractional reserve banking and appears to confuse money with credit which although in conceptual terms may be much the same were certainly not seen as such by many of the authors quoted.

Such quibbles aside however, the reason why this short paper is interesting and rather impressive is that it provides a remarkable and useful compendium of odd and intriguing quotations, many of which should provide just that introduction or note of authority which the financial journalist needs to lay hands on or which the academic writer would otherwise spend weeks tracking down. The author has – must have been – keeping a file of relevant quotations over many years and has simply published them as a rich source of inspiration for others. In other words, for the history and practice of banking this is a miniature and admittedly highly selective dictionary of quotations.

Before reading this, I for one had no idea what Bismarck said about the death of Lincoln, what William Cobbett said about the National Debt, what Aristotle said about automation, how Disraeli, Eric Fromm, George Orwell and John Maynard Keynes contrasted work and leisure and how money and credit relate to the visions of Sir Winston Churchill and Jesus Christ.

So this is a service for us all and, whether taken seriously or not, is well worth reading as food for thought, for inspiration and perhaps for further work.

J. B.

OBITUARY

LORD KILLEARN

Lord Killearn, who joined the Economic Research council in 1967 and served as Vice-President from 1970, died on July 27th, aged 76. He was a very loyal, devoted member of the council who regularly attended meetings, usually accompanied by his wife, Nadine. The Council is very grateful for his support through so many years and deeply saddened by his death.

Succeding his father as the 2nd Baron Killearn in 1964, Graham Curtis Lampson was mid-way through a long and distinguished carreer. Born in China where he spent much of his childhood, he was educated at Eton and then at Magdalen College, Oxford. When war broke out he joined the 2nd Battalion Scots Guards and served in the Middle East, first as a platoon commander and then as a signals officer. He ended the war with the rank of major and was awarded the US Bronze Star.

A diplomat by temperament he attended the Nuremberg Trials and later worked in the defence section of the Cabinet Office for a year but then turned to business service. He joined Courtaulds and then from 1960 for 20 years was public relations officer for Morgan Crucible, attending a great number of trade fairs in the Communist bloc and employing his linguistic skills to talk to customers in a variety of languages.

His presence at ERC meetings seemed to epitomise the spirit of quiet understanding and complexity which must accompany the practice of economic policy making if it is to avoid strident simplicity and doctrinaire solutions. His was a friendship to be trusted in every respect and his long association with the Council is an invaluable legacy.

OBITUARY

DANIEL ROBERT HEGINBOTHAM

"Dan" Heginbotham, Professor in Law and Investment, internationally known as a bon viveur, died of heart failure whilst on summer holiday in France. He will be remembered for his lively contributions to ERC meetings and will be sadly missed. His wife Jane, who frequently attended meetings with him has written:

Daniel became a member of the Economic Research Council in October 1962.

He was born on 20th September 1938 in Newcastle-under-Lyme, the youngest of four children, having a brother and two sisters. The family had been farmers, but Daniel's father, having fallen out with his father, was not in farming at that time, but owned a garage. Upon the certainty of war, he bought a farm, first at Bozeat in Northampton, and then Town Farm, Souldrop. Daniel's brother Roy worked the farm.

Daniel started as a day pupil at Bedford Modern School (public school) in 1947, and subsequently became a boarder after his father's death. In the Upper School he joined the classics stream, and left in 1957 having obtained scholarship level passes in Latin and Greek. He was successful in an open scholarship exam for St John's, Cambridge, but declined their offer to go up after National Service. He accepted a place at Manchester in the Law School, which was willing to take him immediately. National Service was abolished the following year, so he escaped that.

At Manchester he pursued his love of fencing and became inter-university champion in epee. For this he was elected to the exclusive 'XXI Club', reserved for graduates who had achieved sporting excellence. He graduated from Manchester in 1960 and took a graduate traineeship position with BICC in Liverpool. He realised this was not his forte and that he wanted to go into the City. He secured a place with Phillips & Drew (now UBS) in 1960, and subsequently held positions in various stockbrokers' offices. He must have joined the Economic Research Council shortly after arriving in London. Whilst stockbroking he also pursued a new hobby - skiing, which he continued to enjoy for the rest of his life. He also embarked on several business ventures, such as a car wash business. His partners and he realised they were not able to give enough time to running their businesses to ensure success.

Daniel had often met E B Jones, the Head of Accounting and Business Studies at the then City of London College. When the College became a polytechnic and wanted to expand, Daniel was invited to apply for a post as law lecturer (about 1967). During his first years at the Poly he took a masters degree there. He taught predominantly business law and company law, but also became involved in short courses. Almost from the time he first joined the Poly he was on Clive Schmitthof's summer course team. He ran courses for starting in business and for civil engineers. He taught Beaver College students, and also for many years taught banking students at the Hong Kong & Shanghai Bank and Barings. He was also moderator for the business law paper of the AAT for many years.

Although he never got beyond the position of Senior Lecturer in Law at the Polytechnic, he did become a visiting professor at the University of Essen in 1976, and lectured to students there every year until 1994.

He retired from the Polytechnic in 1989, but continued to lecture for the short course unit on a very successful series of lectures for private investors, which was sponsored by the Stock Exchange.

His great passion was for the City, theory of investment and the economy. He enjoyed his visits to the ERC and would always put his views forward, however controversial.

LETTERS

A Response to "Britain and Overseas" from
an ERC Member in S. Africa, Mr D. C. Goschen.

Dear Sir

You send me notices of interesting dinners and speeches but I can seldom, if ever, attend. I look forward to reading the speeches in Britain & Overseas.

I fear Britain has become a nation of apologists, overconsiderate and with an exaggerated social conscience. This does nothing for national pride, nor in fact for the creation of wealth, nor for the world. (It shows up in our cricket and at 'Wimbledon!)

I repeatedly read an address given by my great-uncle George Goschen to Members of the Philosophical Society at Edinburgh in 1883 on the subject of Laissez-Faire and Government Interference, which concludes with the words:-

" Let us hope that in the State Socialism of the future, to which some thinkers suggest we are drifting at no slow pace, room will still be left for that self-reliance and independence and natural liberty which, if history has taught us anything, are the main conditions on which depend the strength of the State, the prosperity of the community and the greatness of nations".

The whole address (published by Edward Arnold in "Essays and Addresses by Viscount Goschen") though somewhat lengthy and pompous, is highly pertinent and relevant today.

D. C. Goschen
Mukonde
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Republic of S. Africa

Ethnocentric, multiethnic and polyethnic …
A semantic contribution from Mr B. C. Jones.

Sir,

Please allow me, through your columns, to invent a new word, namely "polyethnic".

Many modern nations are said to be "ethnocentric", meaning that the focus of their citizens' attentions and emotions and much of their sense of loyalty, is devoted to the progress of the particular tribe to which they belong. A major feature of this is an instinctive wish by parents that their offspring should marry within the tribe. Thus we would, for example, think of the Japanese, the Serbs, the Irish, the Croatians, the Israelis and the Swedes as likely fit this description.

By extension, some other nations are combinations of "ethnies". They are "multiethnic" (or "multicultural"). Two or more ethnic groups form a single country – as in former Jugoslavia, modern Belgium, the former Czechoslovakia and quite possibly a future version of the European Union. But the behaviour of ethnocentricity remains Individuals tend not to inter-marry, they strive to preserve separate languages – and their children's separate education. Often they have a heightened sense of religious difference as a means of justifying their distinctiveness.

In contrast, a quite different set of attitudes can be seen in some other nations. Much of the "new world" including Australia, Brazil, New Zealand and North America, and, I suggest, the United Kingdom, are neither ethnocentric nor multiethnic. In these countries many, if not most, individuals know that their forebears came from a mixture of origins and they are proud to say so.

The UK is historically a mixture of Celts, Romans, Angles, Saxons, Vikings, Normans, Flemish weavers, Hanoverians, Jews, Poles, Hugenots, Indians, West Indians and many others. Over time they have inter-married successfully and created a life and society that is vastly the richer for having done so. In this we are more like the "new world" than our continental neighbours and might be described as "the America of the old world". Newly arriving immigrant groups bring with them the baggage of ethnocentricity (and speak of multiethnic aspirations), but eventually integrate successfully as individuals.

Thus, in this country we have not created and, one hopes, will not create in the future, a multiethnic nation, but something else which I suggest we term "polyethnic".

B. C. Jones
St Lazare
Allington
Wilts.

EMU and Pension Liabilities. A contribution from Mr Norris McWhirter, originally published in The Times

Sir,

The single currency inevitably entails a single balance sheet covering the whole of Europe. On that balance sheet there will appear for the first time the consolidated 15-nation figure for their total unfunded governmental pension debts at a stupefying £10 billion. This will be expressed; of course, in euros.

Because in Britain many pension entitlements have traditionally been funded, or they are self-contributory throughout the beneficiaries' working life, 99.7 per cent of this accumulated mountain of obscene irresponsibility was not even incurred by us. It lies at the doors of our 14 "partners", overwhelmingly due to decades of reckless vote-mongering by French, German and Italian politicians.

Each new British child is today born saddled with a combined national and unfunded pension debt of £9,000. Under the single currency, however, that same child would inherit not only a *per caput* debt of some £39,000 but the lifelong prospect of swingeing levels of taxation to bail out unfunded pensioners from other EU countries.

Yet *still* none of the major parties (even Mr Major's which, thank heavens, in December 1991 secured a British opt-out) will denounce the euro in advance of its planned imposition on December 31, 1998. Any party which fails to end its ambivalence at its 1996 party conference will become deservedly and, one hopes, permanently unelectable.

Norris McWhirter (Chairman)
The Freedom Association,
35 Westminster Bridge Road,
London SEI.

A Comment on Money and Inflation from Mr Anthony Kestin

Sir,

There is almost universal agreement that the sole source of money creation and therefore money growth is the banking system. This is a privilege enjoyed by the banks and no one else (both individual and corporate). With that privilege should go responsibility, namely to lend money in a way which is non-inflationary, i.e. directed towards the increase in supply rather than demand for goods and services i.e. investment rather than consumer spending – thus controlling inflation.

I therefore suggest that instead of using interest rates as a mechanism for steering the economy between inflation and recession (which it has been well argued by Geoffrey Gardiner and others as counterproductive in so many ways) a special progressive tax be levied on banks based on the degree by which money growth (less that brought about by the Bank of England) exceeds growth in GDP in real terms.

Alongside such new means of controlling inflation the price of borrowed money should be left to free and open market forces with binding agreements being made in relation to interest rates between borrower and lender, so that borrowing will no longer be vulnerable to the effects of interest rates changed by Treasury diktat which have wrought so much havoc in people's business and domestic lives in the recent past.

Anthony Kestin
20 Chichester Street
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CH1 4AD

A Response to Comment on "The Cracked Cornucopia"
from the author, Mr Robert M. S. Robertson.

Dear Sir,

It is always nice to be noticed, as on p.21 of B & O, Spring 1996, *26/1*. Admittedly memes can be benign, neutral or malign, but genocide was extended to the killing of a culture by the United Nations and categorised as a crime against humanity. The crime of culture-killing I merely dubbed memocide following Richard Dawkins. I think one has to be careful *not* to approve of one or more nations going to war to exterminate malign memes like those of the Mafia. This horrid problem would have to be done under international law.

Part of the difficulty with *The Cracked Cornucopia* is that it is by necessity highly compressed. 1890 was chosen as the peak of mechanics because the Eiffel Tower and the Forth Cantilever Bridge could be compared with mechanical structures in previous periods. Arriving on the moon was on a post-mechanical line – that of robotics, not shown on the diagram you published. By the way, this diagram has been examined by a mathematician who calculated the formula for the time-spiral winding its way down the surface of a cone! He confirmed the extraordinary accuracy of our dates for the great majority of our estimated peak dates.

When writing about the Industrial Revolution in Period VIII, I should have realised that there was in Period VII' a Medieval Industrial Revolution, described by Jean Gimpel in *The Medieval Machine, the Industrial Revolution of the Middle Ages*, London: Victor Gollancz Ltd., (1977), which plots exactly on the diagram.

I should perhaps have explained more clearly that the Scots, Irish, southern Scandinavians, Icelanders, Provençals, Catalans, Pelasgians, Etruscans, Corsicans etc were all pre-Indo-European in origin; it is these people who once spoke (mainly) a single language, Urestonian. I am preparing a dictionary of prehistoric words found in river and place names. The *grammar* of this very ancient language has been studied by Theo Vennemann of Munich University. These pIE (pre-Indo-European) people belong to the Period VII' and previous Periods marked with a dash.

On p.24 of your excellent review, you give the impression that we (Scots, Swiss etc.) have been out of step with the rest of Europe. Actually it is the other way round, the Indo-Europeans (Germanic people, Hellens, Serbs etc.) are deviant, as the diagram shows.

I should add that it is only the EU which has an office dealing with nationalism and the possible greater contribution of a Europe of the cultures. RUI finds them very understanding and helpful. So I don't feel that 'at this point the book displays a sad naivety' since there are no signs that the essential Indo-European government of Westminster have any inkling of the subjects we discussed in the book, including animosity between pIEs and IEs in N. Ireland, ex Yugoslavia, and elsewhere. Ethnic cleansing has been going on for millennia; sometimes the "Old People" ran away from the IEs; sometimes they were pushed out. It is a delicate subject but must be faced. It has economic consequences.

Robert M. S. Robertson
Dunmore
25 Bonnethill
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