



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

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THE GOVERNMENT'S REGIONAL AGENDA

A talk given by Richard Caborn M.P., Minister of State for the Regions, Regeneration and Planning at the Department of the Environment, Transport and the Regions, to members of the Economic Research Council on Wednesday 10th February 1999.

The Labour Government was elected with a clear mandate to take forward substantial and far reaching reforms, to revitalise the way we run our country and its institutions. The electorate agreed it was time to take a fresh look at the way Government business is done, and how we involve people in it, and to put matters on a footing more appropriate to the 21st century.

In Scotland, and Wales, as we promised in our Manifesto, we have embarked upon devolution of powers to a Scottish Parliament and a Welsh Assembly, responding to demands from the Scottish and Welsh people. In London, we are proceeding with our plans for a Greater London Assembly and Mayor, following the 'Yes' vote secured in the London referendum. And in the English regions, we are taking a first important step towards decentralising decision-taking. The needs and interests of England's regions have for many years been neglected, and not commanded the attention they deserve. We want to redress that balance and give people in the regions the opportunity to influence their own future in a way that has not previously been possible. The first step has been to establish Regional Development Agencies in each English region outside London. The arrangements for the London Development Agency are in the Greater London Authority Bill which is progressing through Parliament.

Regional Chambers

We have also encouraged the formation of Regional Chambers. These are partnerships made up from local authority members and representatives of regional stakeholders. We have published guidance on the general principles for designation of the Chambers. This expands on the criteria we set out in the White Paper, and also indicates the principles that a Chamber needs to consider before it can be designated. We have seen a positive response to the Chamber from business, local authorities and the other regional stakeholders, all of whom are playing their part. We want to see representatives of all the main regional stakeholders involved as partners in this process. That is crucial to our vision of partnership. As the Chambers are being developed on a voluntary basis, by interested parties in each region, it would be wrong of us to impose a uniform, rigid framework. It is much better for the partners in each Chamber to be able to agree arrangements that suit their region.

The RDA will be expected to consult the Chamber at various stages in its work and in particular on the regional strategy and corporate plan. The Chamber will also have a scrutiny role which could take the form of an annual hearing to discuss the corporate plan. But the RDA's relationship with the Chamber should not be to the detriment of consultation with other specific groups or individuals. We intend for RDAs to consult and take account of a wide variety of regional interest groups on aspects of their work, including plans for specific programmes.

Broader Regional Agenda

Of course there are many people in the regions who would like us to go further. We have shown that we are committed to more accountable regional government in England. But there is a lot we believe we can do within the present arrangements to decentralise decision taking and to encourage the development of regional solutions to regional problems. Pressing ahead with our regional agenda obviously raises questions about how the interests of the English regions are to be properly reflected and debated at Westminster. The Leader of the House of Commons will shortly be submitting a memorandum to the House Modernisation Committee inviting it to examine the possibility of reviving and adapting the standing committee on regional affairs already allowed for under the Standing Orders of the House. We remain committed to move to directly elected regional government where there is a demand for it. How quickly we move in that direction will depend in large part on the success of the RDAs and Regional Chambers. If they take the opportunity we are giving them to take decisions in their regions, regional identities are likely to be strengthened and people may want to take a further step down the road.

House of Lords reform

Looking further ahead, our White Paper on House of Lords reform "Modernising Parliament, reforming the House of Lords," recognises that by the time a fully reformed second chamber can be put in place, there will be devolved institutions in Scotland, Wales, and Northern Ireland. London will have its directly elected authority and English regionalism will be increasingly recognised through RDAs and regional chambers.

The possible relationship of the second chamber to those bodies will be a significant part of the Royal Commission's deliberations, as it could have a marked impact on both the second chamber's functions and how its members are selected.

One of the questions the Royal Commission will need to consider is whether functions of the reformed second chamber should include some overt role as the representative of the regions or of regional bodies.

Progress on Establishing RDAs

But the first step is to address the economic deficit. In the modern world, with regional and global markets crucial to the economic success of the UK, we must make efforts to improve regional economic performance. Most of our regions are performing well below the European average. Indeed, the most recently published statistics from Eurostat for 1996, show that out of all the UK's regions, only London and the South East are performing above the EU average. By contrast, 6 out of 11 do so in Italy and 10 out of 16 in Germany. Setting up RDAs enables us better to tackle this deficit.

RDAs have now been established. The Chairmen and Board members were announced in December. RDA boards are business led and have a wide range of experience including business, local government, rural affairs, education, trade unions and voluntary sectors. They are, therefore, well equipped to meet the challenge we have set them. They have made a good start and are on target to become fully operational on 1 April. The functions of RDAs are wide-ranging. We want them to have a degree of influence and authority in their regions which will enable them to make a real difference to regional economies and regional competitiveness. They will have significant budgets of over £800 million a year. We want RDAs to work in partnership with all regional stakeholders: employers, TECs and Business Links, academia, local authorities and the voluntary sector.

Regional Strategies

The most important task for the RDAs will be to produce strategies for their regions. The aim will be to improve regional economic performance and enhance competitiveness. I believe that this can only be done successfully by taking an integrated and sustainable approach to economic problems. This means not just tackling business competitiveness, but addressing also the underlying problems of unemployment, skills shortages, social exclusion and physical decay. It means getting everyone working together behind a common agenda. It means taking an inclusive approach to the development of the strategy, proceeding in dialogue with regional partners and working to secure the support of the regional interests. This is what we have asked RDAs to do. With skilled and dynamic people at the helm, a proven track record of business

success and acumen and the excellent start they have made, I am confident that they will rise to the challenge.

Purpose of Strategy

Our aim is that RDAs' strategies will provide a framework for economic decision making in the regions. They will give better strategic focus for economic activity, whether by the Agency, or by other regional, sub-regional or local organisations. They will need to support and enhance national policies while addressing the particular needs of the region. And they will provide an opportunity for the regions to influence development of Government policies.

The success and effectiveness of an Agency's strategy will depend in large measure on the degree of support it commands among regional players. The aim should, therefore, be wherever possible to proceed through dialogue, working in an open and transparent way, so as to develop a strategy and agreed priorities for action which recognise the principle of subsidiarity, and will provide a focus for all economic development and regeneration work in the region. This will reduce the scope for duplication of effort and ensure that the region as a whole secures value for money for the resources available to it.

Timetable for producing strategies

The RDAs are not yet fully up and running, but all of them recognise the need to move fast on developing strategies to engage regional partners. They have all set work in train. It is for each board to decide how best to approach matters in the regions.

But we can expect some imaginative approaches – for example Lord Thomas and his board in NW region are adopting a wide ranging and transparent approach to the involvement of regional interests, holding oral evidence sessions, rather along the lines of a Parliamentary Select Committee. In my own region of Yorkshire and the Humber, preparatory work has involved commissioning a State of the Region report, recently published. The aim is to produce draft versions of the strategies for consultation over the summer. The final document is to be submitted to Ministers by October.

RDAs' Inheritance

RDAs are not, of course, starting their strategic work from scratch. Foundations have been laid in the regions on which they can build. Much good economic work is already taking place at the regional level, both in terms of economic

analysis and the development of regional partnerships. In many regions, there has already been a good deal of work to bring together partners, sharing information, expertise and ideas. Government Offices have made an important contribution to this process. RDAs will be able to capitalise on established relationships and use them as a key resource.

At the regional and local levels, plans and strategies have been produced covering a wide range of areas. Skills strategies for example will be part of the RDAs' inheritance, with other documents like the regional regeneration frameworks and regional competitiveness and innovation strategies.

Sustainable Development

RDAs are specifically required to contribute to sustainable development which they will have to reflect in their strategies. Sustainable development is about ensuring better quality of life for everyone now and for generations to come. It is about achieving economic growth while protecting and, where possible, enhancing the environment. It is about making sure the economic and environmental benefits are available to everyone. In the past, increased affluence and social benefits have led to environmental decline – climate change, global warming, air, land and water pollution and loss of biodiversity. Cleaning up the environment has then been a cost. Sustainable development is about looking for different ways of doing things where quality of life is enhanced by safeguarding the environment while still having economic growth and social progress.

RDAs have the framework to adopt an integrated approach to policy making, incorporating economic, social and environmental objectives. These objectives can be mutually reinforcing. A region with a properly educated workforce, supporting infrastructure and businesses that are ready to invest will be able to provide high living standards and job opportunities in all fields. Environmental improvements such as energy efficiency and better environmental management can bring business significant efficiency gains and create jobs in the environmental industries. Improving regional capacity building and employment skills will maintain and help regenerate communities.

Regeneration

RDAs have a key role in the realisation of the Government's regeneration policies. They will be instrumental in shaping these policies in the coming years. They will also contribute towards the better co-ordination of regeneration programmes by taking on the administration of the Single Regeneration Budget,

together with the regional regeneration activities of English Partnerships and the Rural Development Commission.

These programmes aim to achieve the physical, social and economic regeneration of the most deprived areas of the country by:

- enhancing the employment prospects, education and skills of local people;
- tackling social exclusion;
- promoting sustainable regeneration, improving and protecting the environment and physical infrastructure;
- supporting and promoting growth in local economies and businesses;
- tackling crime and drug abuse and improving community safety.

Integration of key regeneration programmes within RDAs will, in itself, provide a useful opportunity for better co-ordination of these different programmes. Under present arrangements these often end up multi-funding the same activities on the ground, and these activities often operate to different bidding timetables, financial regimes, appraisal criteria and so forth. The scope for better co-ordination will be further improved as they take on a leading role in the EU Structural Funds process.

Of course, the commitments the RDAs will inherit for continuing to support regeneration schemes already underway will shape developments in the short term. Taking this into account, the Government will be looking to the Agencies to adopt a twin track approach – first to the regeneration of communities and secondly to the regeneration of land and property.

The Government's community regeneration policy is based on targeting the needs of local communities and areas. It is strongly linked to its wider policies to address social exclusion, poverty and disadvantage. The target is that, in future, 80% of Single Regeneration Budget resources nationally should be directed at the areas with the greatest deprivation, with the remaining 20% tackling smaller pockets of deprivation outside the most deprived areas. The overarching objective for the regeneration of land and property is the same as that for community regeneration – improving the quality of life for local people. However, the way land and property regeneration needs and priorities are assessed and resources allocated by the RDAs may differ.

Instead of the 80/20 split adopted for community regeneration purposes the RDAs will be asked to co-ordinate their investment with that of other bodies active in economic development; to achieve sustainable economic growth and environmental improvement; and to focus resources on the areas of greatest need identified in their regional strategies. Our regeneration priority is to enhance the quality of life of local people in areas of need by reducing the

gaps between deprived and other areas and between different groups. The re-focusing of regeneration programmes and the opportunity for integrating and co-ordinating them more effectively through the RDAs, will bring a step change in the help available to those trapped by multiple deprivation. It will emphasise our commitment to partnership working and the development of community based approaches and new working methods. And it will help to deliver our vision for future regeneration activity – of locally driven initiatives by inclusive local partnerships which contribute to and complement the wider strategies of the RDAs.

Conclusion

I want to conclude on the theme of partnership. It is an important theme for all that the RDAs will have to do. Involving the partners and stakeholders and pushing for consensus and co-operation is, I believe, the key. Unless the RDAs bring people with them, and unite them around shared goals, they will not be successful. This is a Government that believes in the partnership approach. Of course, we can't achieve everything straight away. Nor can Governments achieve very much by working on their own.

We believe it is absolutely crucial to involve all the players. That is why I believe so strongly in our regional agenda, to improve the prosperity of the regions for all the people who work and live there, and for the greater benefit of the country, and for Europe as a whole. Our regional agenda may not have captured the overwhelming attention of the editors and sub-editors of our national dailies. Perhaps that's not surprising – indeed it reflects the neglect of regional interests.

But there is a quiet revolution going on – of which RDAs are just a start. Where we will be in five or ten years' time I cannot predict. There are many changes going on both domestically and in Europe. But it is safe to say that the regional agenda is here, and thankfully, it is here to stay.

JAPAN, OPEN YOUR CLOSED INTELLECTUAL SHOP

*Extracts from a talk given by Professor Ivan Hall, Economic Historian
at Gakushuin University, to members of the Economic Research Council
on Tuesday 27th October 1998.*

It is one of the great anomalies about present-day Japan that, having learned so much from and about the outside world, its intellectual institutions – including the media, universities, law and scientific laboratories – remain so closed to meaningful participation by non-Japanese.

Japan's cultural ambitions for the 21st century include status as an "information superpower" and an interlocutory role bridging East and West. Information, however, is a two-way street, and bridges normally carry traffic both ways.

Too often Japanese intellectuals have forgotten how much their wide reporting of foreign news, the copious enrichment of their academic disciplines, the ability of their lawyers to promote the country's commercial interests abroad and the development of Japan's advanced technology, have all depended on the generous access they themselves have enjoyed in other industrial democracies.

Indeed, one of Japan's most urgent tasks in the new century will be to dismantle what I have called in a recent book its "cartels of the mind," and to reciprocate and repay in part the intellectual benefits it has received from more open societies.

These professional barriers are no longer worthy of an economic superpower aspiring to global and regional political leadership. They are supporting buttresses for the increasingly discredited old structure of closed, exclusive, non-transparent institutions now under popular attack in the political, bureaucratic and financial spheres. And they needlessly hurt the interests of both Japanese and Japan's foreign partners. For example:

- The so-called "kisha" (reporters) clubs, embracing a select group of national dailies and TV networks, control access to all major Japanese news sources to the exclusion not only of foreign correspondents but of Japan's lesser media and its entire magazine press as well.

In May 1998, foreign journalists were even kept out of Prime Minister Ryutaro Hashimoto's press conference announcing sanctions against India for its underground nuclear tests – a news event of worldwide interest. Apart from the functional inconvenience and financial loss imposed on the foreign press by this system – when Japanese correspondents enjoy a free

run in the West – the collusion of reporters among themselves and with sources to put their own spin on the news deprives the Japanese public of its fundamental democratic “right to know.”

- Another example of organizing an intellectual activity along a criterion of nationality rather than functional performance has been the systematic denial of long-term tenure to foreign scholars at Japan’s national universities and research laboratories, and their segregation for a century into a special category of “gaikokujin kyoshi” (foreign instructors) without academic titles or the right to participate in faculty meetings. This is something that I have called “academic apartheid.”

As of 1996, there were more tenured foreign professors (68) at one American campus, George Washington University, than at all of Japan’s national universities (66). And the loss to foreigners in stunted academic careers is nothing compared with the putative cost to Japan’s national interest. Because it refuses to keep them beyond a short-term contract, Japan is unable to tap blue-ribbon scientists worldwide.

- Finally, we have the debits all around from Japan’s “cartelized” legal profession. The high fees and low numerical cap on Japan’s “bengoshi,” or attorneys, crimp the average citizen’s access to the courts. The refusal to allow foreign lawyers, or “gaiben,” now permitted a limited practice in Japan, to partner with Japanese bengoshi, makes it harder for American attorneys, for example, to assist U.S. companies in entering the Japanese market. And Japanese business is deprived of the same synergy in entering third-country markets where foreign law firms command the top expertise.

For Japan, much more rides on the removal of these intellectual barriers than the mere convenience of the parties involved – namely, Japan’s overall image abroad and prospects for the growing public sentiment for reform at home.

I think Japan forfeited a precious opportunity to establish an entirely new level of moral, intellectual and political leadership when it failed to open up its markets and intellectual institutions by the late 1980s or early 1990s, despite repeated promises of “internationalization.”

Trust and respect, established at a time when Japan was still the economic cynosure of the world, would have survived the present downturn, much as Britain’s prestige long outlived its actual loss of Empire.

Instead, foreign parties long frustrated by Japan’s closed doors talk deprecatingly of “Japan passing,” while public interest in Asia among my fellow Americans has scampered off to China.

On the domestic front, the economically motivated calls for deregulation, transparency and a shift of power from the bureaucracy to the Diet will all ultimately have to rest on a greater infusion of political liberalism as well, including a livelier party system and more informed and active voter participation.

This, in turn, will require loosening the fetters that Japan's cartels of the mind continue to place on its own citizens' ability to know the truth, to seek individual justice in the courts and to be exposed to all manner of views both Japanese and foreign in the universities and in the media.

And last, but not least, I think most people abroad and many Japanese themselves will not be comfortable with any constitutional revision permitting a major military role for Japan unless and until a more open and transparent "civil society" is firmly in place.

To cultural relativists who may inveigh that Japan's internal arrangements are its own exclusive concern, I would point out the following:

- First, these "intellectual cartels" are the product not of a long cultural heritage but of deliberate political decisions of relatively recent provenance, often sustained by simple corporate or private advantage.

To cite only one example, the kisha clubs, far from being hoary relics of the Heian Period, are the direct lineal descendants of a reorganization of the press for closer governmental supervision under wartime leader Gen. Hideki Tojo's Cabinet – a cozy relationship that continues today among a privileged triangle of elite reporters, top news firms and key sources.

- Second, if there has been any adverse "cultural" impact from the minuscule number of foreign professionals in any of these fields, I would like to know where. Including those 70-odd Western gaiben who, it was feared, would set out – against 15,000 Japanese bengoshi – to transform Japanese lawyering into an adversorial, ambulance-chasing business.
- Third, we are dealing here with a plane of interaction between nations and peoples, with what John Stuart Mill would have called the "other-regarding" – as opposed to purely "self-regarding" – consequences of one's own actions.

If "reciprocity" is deemed too Western a concept for Japan, we need go no further than the unflagging plea of Japan's international spokesmen for "sogo rikai," or "mutual understanding" – because genuine understanding can't be mutual without mutual intellectual access.

THE DOWNSIZING OF ASIA

by François Godement 1999.

Published by Routledge, paperback £14.99

At the risk of over simplifying this complex text the case made by Godement needs briefly summarising. The financial maelstrom that has abruptly stalled the high hopes for the Asia high growth 21st century will require assistance or at least co-operation from the West if there is to be a recovery. But first we must try to understand the causes and the consequences of the crisis.

The Causes

The central thesis is that there is a conflict between liberal, open, legalistically oriented economic practice (as urged upon Japan and the other East Asian countries) and the traditional social and political systems in those countries based on relationships, favours, obligations and personal trust. This is not to be seen as honesty versus corruption but as modernity versus the local traditions. Malpractice (and malpractice exposed) there certainly has been but this is merely a symptom flowing from the inevitable conflict occurring when liberalised wealth creation takes place at too fast a pace within the framework of a social and political environment still largely stuck in a previous age.

In more specific terms the groundwork for the financial crisis was laid in the early 1980s when America and the EEC urged Japan to reflate in order to increase imports. Japan obliged but the result was a bubble in asset values, over investment in capacity and unjustified lending to other East Asian countries. Japan's investment flows were followed by lesser sums from Europe and America attracted to boom economies with currencies apparently tied to the U.S. dollar.

Japan's role is central to the drama because about two thirds of the entire East Asian (including China) GNP is in Japan. Today, nervously nursing mind-boggling bad debts, mercantilist Japan feels defeated and dispirited. Such has been the 'success' of poor policy making in Tokyo for which embassies of the E.U. and the U.S.A. have very effectively lobbied. Japan's recent attempts to forge some sort of political solution through leading an East Asia rescue fund have foundered for lack of American support and the I.M.F. in its rescue packages has been insensitive and doctrinaire.

The Consequences

Three quotations are in order:

- The inadvertent Western gains from the situation are stunning. These include a fall in oil prices by 40%, in other primary materials by 30%, lower inflation and interest rates for the economy. In terms of business psychology, there was in 1997–1998 a detectable atmosphere of restored consumer confidence in the strength of Western economies. Above all, no short-term economic, political or social challenge is coming from Asia. (*page 194*)
- The Asian crisis is effectively reducing the fear of inflation in the West and lessening the need for restrictive monetary and credit policies. (But) After the flood of financial capital coming in from Asia, these flows will inevitably dry out. Domestic recession and monetary implosion are wiping out local savings, and the money that's not being invested today in Asia's economies will not produce outflows tomorrow. (*page 211*)
- The good advice that some Western officials and economists are giving to Japan, which is to print more money in order to create liquidities that balance the bad debts, should be reversed and addressed to its own authors. Behind the short-term capital abundance that we are witnessing, there lies a drought when the flow from Asia stops, and Western exports flag down, leading again to the capital shortage experienced by the West through the 1980s. Should the Asian recession tip off a downturn in the West's main stock markets, and especially on Wall Street, the drought would instantly become blistering, for it is in those stock markets that the real potential of monetary creation lies, while the Federal Reserve and the new European Central Bank pursue tight monetary policies. (*page 212*)

Towards Co-operation and Assistance

Godement expresses astonishment that strong voices have not been heard in East Asia calling for restrictions on capital movement. He sees a further crisis arising from Chinese devaluation and the rising imbalance of trade with the West. Eventually the West will have to undertake major negotiations aimed at rescinding Japan and Asia's policy moves.

If, during these negotiations Western nations and banks offer next to nothing to help fund recovery they will face a mercantilists' invasion and political

breakdown in Asia. Somewhere along the way Singapore and/or Hong Kong will suffer enormous damage and cease to function as effective sources of capital.

Therefore, either sooner or later, there must be a more positive reaction by the West which will include co-operation to maintain a reasonable value of the Yen and some sort of organisation to channel funds to viable but bankrupt firms in Asia. Sales of assets at knock-down prices to Western interests (such as Nissan to Renault) would be a politically unacceptable solution.

Godement suggests a kind of “Marshall Plan” to recreate confidence through the establishment of an International Trust Corporation funded by Western governments and banks. This could *then* be followed by renewed encouragement for liberal economic reforms.

Comment

This book needs to be widely read. The text combines a mixture of factual account, impressive interpretation and integrated country-by-country analysis. It leaves one with the impression that at last the catastrophe can be comprehended convincingly in order to build a platform for future decisions. And it was a pleasure to read such a well written book.

J.B.

NOTES ON THE “EURO” CAMPAIGN

The government is committed to holding a referendum before Britain can become a member of the European Monetary Union and adopt the “Euro” in place of the pound sterling. There is to be, it seems, a battle for public support, and, as in many tough battles, both sides are confident of success.

The grounds for confidence amongst opponents are clear enough – the opinion polls, the ERM experience, practicality, sovereignty, the erosion of value of the “Euro” since its launch, telling economic arguments and a far larger spontaneous and indeed professional level of support for opposition than existed against EEC entry in 1972.

What is more subtle are the grounds for confidence amongst proponents of entry. First of all, they know that the opinion polls are really on *their* side. To explain. In 1970 opinion polls which asked “are you for or against?” regularly

reported majorities against EEC membership. But the poll which was truly significant was the one which asked “If the Government were to advise membership, would you vote for or against?” To this question a majority said “for” – and so it was that after the political establishment gave the lead, the people followed. Now in 1999 polls show a mere 32% “definitely against” joining the “Euro” whilst 18% are in favour and a massive 50% have no strong opinion yet – and may be expected to follow a Government lead.

Secondly, the British have a particularly strong attachment to home ownership. House prices are currently rising and under normal circumstances one might expect a rise in interest rates in the near future to head off asset and later general price inflation. But with the need to synchronise with the “Euro” and protect British exports against a high pound, the opportunity exists to hold interest rates substantially lower - at least until the referendum. House prices now look set to rise further and voters will appear to face a choice.

Either they vote for the “Euro” – thus maintaining low interest rates and their house values, or they vote against with the threat of British interest rate rises and a collapse from unsustainable heights of property values. Many who see it that way will vote for their asset values especially if they are convinced that the general arguments are “too complicated for them”.

Meanwhile opponents know that delay is in their favour as leading Conservative supporters grow older. But proponents feel confident that a few profitable contracts will persuade Mr Murdoch to change the editorial policy of The Sun. Proponents hope that leading opponents can be caricatured with “staring eyes” and opponents hope that there will be limits on government expenditures advocating the “Euro” – in line with the Niell Committee proposals.

It is already getting quite interesting.

J.B.

LETTERS

Responses to the Review of 'Bilateral Monetary Theory' from the Author and from Mr. Lee Cheney

Dear Sir

Thank you for reviewing my book in the Winter 1998 edition. I appreciate that this is a particularly difficult task, as my views are so opposed to current teaching.

I readily admit that I am an arch-opponent of European Monetary Union, although I favour the free trading area, and am disappointed that so many countries have so eagerly surrendered their sovereignties. Nevertheless I would not wish my views on this subject to draw attention away from the objective of my book, which is nothing less than to replace current (unilateral) monetary theory with my bilateral version.

Perhaps I may present a clearer picture for readers of why this is necessary. Unilateral monetary theory treats money as a single item and defines it as anything which acts as a medium of exchange, a unit of account or a store of value. This definition is inadequate and, in consequence, dangerously unsound. It has resulted in monetary theory becoming a compilation of false theories. Moreover, it has led to governments adopting wrong economic policies, to their failures in dealing with crises and to the infliction of hardship on disadvantaged people.

How then should money be defined? People trade solely in services valued in cash terms, whether their work is productive or otherwise. Savers are service creditors; borrowers, on spending, become service debtors. Goods are a by-product of the system.

There are two forms of money; (1) basic (credits and debts in services) and (2) nominal (media of exchange and bank deposits). Basic money can be defined as a credit in services of one party and a debt in services of another, measured in a unit of account. Nominal money is then a title to basic money in the same way as a deed is to a house.

Basic money is intangible, so the credits and debts have to be represented by titles and records, i.e. nominal money. This requirement, however, does not transfer its properties, so it is basic money, not nominal, which is the store of value.

The economy is divided into two parts, (1) the trading activity and (2) the settlement systems. Basic money belongs to the former and nominal money to the latter. Settlement lags behind trading.

A feature to note is that basic money is subject to continuous creation and destruction. It is created when savers perform services for borrowers and destroyed in the reverse circumstances. Transactions between parties of like status leave its quantity unchanged. Total service credits always equal total service debts; the latter includes the National Debt.

All payments have to be made with service credits, owned or borrowed, represented by cash, cheque or other title. The passing of these items has the differing effects shown in the previous paragraph. The titles themselves cannot therefore be basic (real) money.

Banks do not create money by lending. They deal solely in the service credits, hold on to about eight per cent of them and recirculate the rest by lending, spending and investment.

The debts are recorded as “Advances” in books of account and elsewhere represented by titles to financial investments. Dealings in such investments take place on a massive scale in domestic and international markets. It is vitally important that depositors’ funds should not be risked by lending in support of these speculative activities, yet the world’s finance ministers have not recognised the need to ban the practice.

Irredeemable losses from business mistakes or speculative misjudgements destroy an equal quantity of credits and debts. Moreover, the domino effects ripple through economies until they burn themselves out. It is not a question of one party’s loss being another’s gain.

The facts really are incontestable. Unilateral monetary theory collapses like a row of dominoes when examined in their light. Even the Quantity Theory of Money does not survive.

The book contains an accounting formula showing total service credits on one side equalling total service debts on the other. All anyone has to do to prove me wrong is to find a way of putting it out of balance!

At this stage the argument may still look like a question of semantics, so consideration must be given to its real importance.

Economists have taken over the central banks and, unaware that their theories are false, have often advocated and applied principles adverse to the running of economies. A yardstick is needed by which to judge their actions.

Every year scientific and technological advances make it easier and cheaper to provide the basic needs of people i.e. food, clothing and shelter. *Ceteris paribus*, these advances should result in all currencies gaining in purchasing power and in prices falling. Such reductions should not be confused with those caused by the effects of irredeemable losses rippling through economies.

The economic objective of the Federal Reserve – the maximum sustainable

growth of the US economy – is the only sensible one. It is compatible with business interests and provides the means to assist people in need.

Conventional folly, however, holds that monetary policy should aim to stabilise inflation. Thus, the best the disadvantaged and the hard-pressed can hope for is a lower level of torture instead of their entitlement to a share of the growing prosperity. As revealed in my book, sensible policies can eliminate inflation.

Sound practice requires that a structure be maintained in place, which protects the monetary, banking and business systems from outside interference, abuses and experiments. Thus, banks should *not* be allowed to fail, viable businesses should be rescued, wages should be paid to date and repayment of deposits in full should be guaranteed by the note-issuing authority in its capacity of lender of last resort.

There are great benefits to be gained from adopting bilateral monetary theory. They include knowing instead of guessing, being able to drive economies in desired directions and the ability to apply precise remedies to specific faults; harmful blanket measures could be abandoned and reliance on dubious forecasts ended.

One issue remains. How do we get the economic establishment to consider first the possibility, secondly the probability and finally the certainty that their teaching is wrong? When the facts are eventually accepted, bilateral monetary theory can become plain monetary theory and the unilateral version can be consigned to history where it belongs.

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Grianan
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Dear Sir,

There is an old saying that if people are told a lie often enough they will come to believe that lie to be true. The truth is that it is an outright lie to tell people that banks do not print money when banks make loans.

Every even half educated person in economics and finance understands the accounting process of *loan created deposits* (bank printed money in the context of M1, M2, M3, C, L, etc.).

Some people try to tell us that “the notion that banks create money by lending is a fallacy” (T.B. Haran, B&O p. 24, Vol. 21 No. 2, Summer 1991). But, everybody who knows anything at all about bank accounting knows that banks do, in fact, print (create) money by making loans. Then, of course there are those who play word games with us and try to tell us that banks really do not print (create) “money” because what banks actually do is simply create “credit” (which is interest, debt and tax slavery for everybody else, including the government). And there are those who try to tell us that “the debt/tax slavery scenario is an illusion” (T.B. Haran, B&O p.20, Vol.21, No.3, Autumn 1991).

Everybody who knows anything about income and expenses knows that when a person (or business or government) has more interest, debt and taxes to pay than they have income to pay it with they are bankrupt. Bankrupt simply means “insolvent”. “Insolvent” means to be so heavily burdened with interest, debt, and taxes that there is no hope of paying them, so you’re “bankrupt”.

Well, here are some hard facts that even Mr. Haran can not deny or play word games with: THE UNITED STATES OF AMERICA IS BANKRUPT (INSOLVENT). It is common knowledge in America that the American people must pay 47% of their income in taxes and, according to the Federal Reserve Bank of St. Louis, the American people must pay 81% of their income to pay debt. Now it doesn’t take a genius to figure out that $47\% + 81\% = 128\%$. And that doesn’t even consider the burden of paying interest on that debt. In simple language, it is humanly impossible for the American people to pay the interest, debt and tax burden levied on them by the American Federal Reserve debt/tax slavery money printing banks. This is the bottom line of the debt/tax slavery scenario that Mr. Haran says “is a fallacy”. Internationally, the IMF/World Bank interest/debt/tax slavery money system has the whole world in the same interest/debt/tax slavery mess.

Of course Mr. Haran can propose his “bilateral money theory” from now until doomsday and no doubt there will be those gullible enough to support him and believe him but before people get sucked in too far, they should at least consider that p. 3 of *Modern Money Mechanics*, published by the Federal Reserve Bank of Chicago says “the actual process of money creation takes place in the banks”. And if that doesn’t convince Mr. Haran and his gullible followers that our interest/debt/tax slavery nightmare is a bank caused problem at least consider the statement in *Government Debt and Credit Creation*, Research Report No.9, published by the Economic Research Council, December 1981 which says “the commercial banking net contributions to M1 is called ‘creation of credit ...’”

It is pathetic that people actually believe that banks do not print money when banks make loans and that the debt/tax slavery scenario is an illusion. But it is even more pathetic that NATO is ready to trigger WWII in order to expand this evil IMF/World Bank interest/debt/tax slavery money system into Eastern Europe.

Those interested in understanding more about our global interest/debt/tax slavery nightmare can log on to the Internet at:

<http://www.freeyellow.com/members6/freedomfrombibleslavelaw/index.html>

for information about my book *Freedom from Bible Slave Law*.

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Note

Perhaps the different perspectives of T. B. Haran and Lee Cheney can be clarified by noting that “yes” all credit is money and all money is credit but *some* credit (i.e. notes, coins and simple non/interest-bearing current accounts) bears no interest payments (notes and coins are an interest-free loan by users to the state and current accounts are an interest free loan to banks). This category of credit brings a benefit to the credit issuer which is called “seigniorage” (from the time when it was the Sovereign who collected all such benefit). This is what we have in mind when we see the “printing of money” as illegal and immoral if done privately – i.e. as counterfeiting secretly in a dark cellar. *The rest* of credit created by financial institutions, mainly banks, is placed in accounts which do bear interest payments. These are deposits in savings and “deposit” accounts. Provided that the interest paid on these deposits is driven by competition to levels reasonably close to the interest charges made to borrowers, the charge of wrongful money creation on seigniorage grounds cannot be made. Lee Cheney seems to regard all credit creation as falling within the first category whilst T. B. Haran, in concentrating on the second category seems in danger of losing sight of the first.

Ed.

*Responses to 'The Dangers of Inadequately Considered Constitutional change' by
the Rt. Hon. Michael Ancram, from Mr. Ron Read and Mr. Brian Lewis*

Dear Sir,

I enjoyed Michael Ancram's excellent discourse on the threat posed by current Government policies to the Constitution and existence of the United Kingdom. I was particularly encouraged to learn, in response to the query whether the impetus toward devolution was tribal, even racially based, that, although a born Scot, albeit of mixed origins, he favoured the survival of the Union outside of a Federal Europe and considered the existence of England as a separate democratic entity under threat.

The English are not an ancient people. A mixture of many races, they evolved into the tolerant democratic culture Michael described, exporting those ideals to form a base for other stable democracies throughout the world. It has been in the nature of the prosperous English economy to cause immigration from, rather than emigration to, the Celtic fringe, leaving a high proportion of indigenous people in the population left behind. Often starting near the bottom of the eco-social scale, in England, Celtic immigrants have tended to become active in labour unions and the politics of the left. This is arguably illustrated by the number of Scots in the current Government.

The Scots, Welsh and Irish are largely of Celtic origin: ancient people, which, Talmudic scholars identify as the Gomer mentioned in the Torah (Old Testament). Recent television documentaries have reported genetic linking of human bones exhumed in the west of Ireland with those of the tribes in northern China, which the Great Wall was erected to keep out. Testing that ancient DNA to the living has indicated peoples in the Balkans, including the Serbs, could be of the same stock.

Celtic history indicates a tribal people much given to dispute among themselves: study of clan-tribe wars in Scotland, Ireland and Wales seemingly illustrates this, with recent problems in the Balkans, and the Serbs' role as catalyst for the carnage of the First World War, must give incentive for further study. Simplistically the troubles in Northern Ireland may be argued as war between two tribes, Catholic Celts and Protestant Celts, with the English trying to keep them apart and getting a bad name in the process. English who circulate socially in the North Eastern United States come to realise how bad that name is.

As a recipe for conflict alone I feel devolution should have been avoided. In the context of Europe "divide and rule" is a very old maxim: Michael is right, the UK would have a stronger say in the counsels there as one rather

than as separate parts. Anyone considering the future for a Federal Europe might do well to consider the lessons of the break up of the Austro-Hungarian Empire, the Yugoslav Republic, and the USSR.

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Dear Sir,

I was reflecting on Michael Ancram's talk of 1st December in relation to my perception of how the world has changed over the past 50 years. I am inclined to agree that our entry into Europe will indeed destroy much we have built over the centuries, but I am not sure this is a trend that can be stopped. The British people are not against the European Union *per se*, but are deeply troubled by questions related to a lack of democracy, to a climate of corruption and to a clear incompetence in introducing a common market that benefits ordinary people.

HM Government has already allowed too much of British industry to be owned by foreigners too soon – a clever short-term policy but less so in the long-term (Rover!). The real complaint must be not that the EU is a bad idea but that Brussels is not democratic. If it were democratic then many of the present problems would disappear.

I have been working overseas for nearly 30 years! When I first went to South America in 1961, my contract was for three years with no home leave; not so very different from the time it took to be away to circumnavigate the globe 450 years ago. I did not leave England until I was 21, and my first voyage to France was as exciting as if I had gone to Tibet today. All has now changed. The world has shrunk. Yet Mr Ancram finds it difficult to move with the times. I pity him.

We Europeans all speak a similar Indo-European tongue with quite slight variations due to recent Germanic or Latin influences. I am no longer frightened of foreigners after so many years away, and realise they are much like us. I wonder too whether there is not a large and growing body of people now in existence (like me) that is increasingly international in outlook.

Government clearly does not like this as it begins to lose control. Yet there are plum jobs open to national politicians in Brussels not controlled by democratic vote, which seem be very attractive to men who cannot find work

outside politics.

Yet in spite of it all, I am English (not Scots, Irish nor Welsh – perhaps not even British any more). If I go to live in France, it will be partly because Calais once belonged and may one day be ours again (with a suitable emigration policy). Aquitaine is ours in perpetuity from Eleanor's dowry. Normandy has always been ours. Parts of North Germany belong to us as it was our home before 550 AD, and later Hanover too. Perhaps it is time we went home, and left the Scots, Irish and Welsh to themselves.

Yet agreeing with Michael Ancram, what is happening in Europe troubles me. Rule from Brussels does not seem to be democratic, and politics these days is scarcely an honourable profession (lend me \$500,000 for a new house, please!). If I do not like the way the European Commission is run, remote from democracy and the rule of law, it is not because I am English and isolated from the Continent. There are hundreds of thousands of good Germans, Frenchmen and Italians who share my doubts. If we have doubts about the EU, it is because EU governance is not democratic. This can only build trouble for the future.

There are choices for the individual, and these are new choices different from the past that increase our freedom. I can be truly international, resident nowhere. I can be European. I can remain English. Perhaps a mixture of all three – but beyond the reach of any one government.

It is also defeatist to say that we cannot withdraw. Undoubtedly there would be great constitutional and fiscal turmoil if some time in the future we return once more to our little island. But not impossible. If necessary it could be done if a majority of the English so decided. We can always break away, just as – I seem to remember – thirteen colonies did not so very long ago quite successfully.

We lack confidence! We have to decide one way or another, and stop dithering. Let us introduce a special EU grant of £10,000 for all Englishmen prepared to go and live in Calais and Hanover within the next five years! That would show we are serious!

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