BRITAIN & OVERSEAS

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

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A COMMENTARY ON ECONOMIC POLICY

The full text, with questions and answers, of a talk given by the Rt Hon Francis Maude MP, Shadow Chancellor, to members of the Economic Research Council on Tuesday, 28th September 1999

Continuity Spin …

I would like to say a word about the future of economic policy because we are going through a rather peculiar time in terms of the politics of economic policy. We won the principal economic arguments so decisively during the 18 years that we were in power, that we allowed ourselves to think that the argument was dead and buried. One of the difficulties that we have today is that there is a strong sense that there is just overwhelming continuity in economic policy. There is a great tendency for many newspaper columnists to describe my opposite number Gordon Brown as just another Tory Chancellor. People say that Labour is doing very much what the Conservatives would have done. And that is absolutely what this Labour Government want people to say about them.

They want people to believe that this is not a new Labour Government but a new Conservative Government. As a final political thought before I get on to economic issues, it is important to understand how the perception has come about. At precisely the time that the Conservative Party seemed to me to be losing confidence that Conservative language and Conservative ideas could be made appealing to the public, the Labour party was concluding the exact opposite. They were concluding that the *only* way they could make themselves appealing and electable was to sound like Conservatives. That is why there is a strong perception that there is a golden thread of economic policy running through the Conservative Government into the Labour Government. And Labour is happy to play to the idea that they are essentially carrying forward the work. That perception is wrong; the Government is going wrong and there are things we have got to do right and differently in the future, if this country is to prosper and to thrive.

But Four Areas are going Wrong

There are four areas where the Government is going wrong – some of which are having adverse economic effects now, others are simply storing up trouble for the future. Those four broad areas are Tax, Regulation, Savings and Trade Union reform.

£1,500 Extra Tax per Taxpayer

On Tax, Tony Blair went round before the election saying "We have no plans to increase taxes at all". The economics of this statement matter every bit as much as the politics, because we live in a highly globalised economy. This is not a new phenomenon – a hundred years ago the volume of British trade which was traded internationally was slightly greater than it is today. The First World War put paid to that, and only now are we gradually returning to a very large volume of international trade, and this time, capital flows and cross-border investment. Britain has always been at the crossroads of the global economy and that has been a huge benefit. In the face of international competition it is vitally important that in Britain we have the independence and the ability to set conditions here to encourage as much as possible, this global activity to happen locally – either here in Britain or through here. Tax is a crucial issue if we are to be the hub of the new-world economy.

Tax has to be low to create an attractive climate for mobile business in the New Economy. We moved in that direction – though not far enough – during the 18 years of Conservative rule. In the last 5 years that trend of reduction of tax overall halted. One of the effects of the politics of tax is that it has been particularly harmful to business. If you tax people directly as individuals, as voters, they'll vote against you, which is a perfectly rational response. So if you want to raise taxes, then you have to tax by stealth. The best proxy for taxing people directly is taxing business, but any businessman can tell you that there is no such thing as a tax on business. In the end any tax hits people: your customers, your shareholders, or your pensioners or your employees. Taxes under Labour have gone up by £40bn overall – equivalent to £1500 for every taxpayer. £30bn of that is tax directly on business. Business takes the punishment first and that makes Britain a less competitive place for people to do business in this new highly competitive world economy. That is the way in which trouble is stored up for the future.

Extra Regulation which can Reduce Competition

The second issue where the Government is wrong is on Regulation and the extra burdens it has placed on businesses. Deregulation is not easy – as I found out as Chairman of the last Government's Deregulation Taskforce. The Taskforce produced – if I may say so – some extremely good ideas for how to cut the burden of regulation on business. But it was incredibly difficult to get my old friends and colleagues in the Government, who were Ministers, to carry them through because deregulation is controversial. Getting rid of regulation does not just upset Whitehall, but quite often it is controversial with the business community, let alone with the consumers or employees who feel imperilled by the removal of it. Indeed some big businesses feel that it is useful to have some regulation, as it secures their market position by making it more difficult for new competitors to steal their market share. There is no dynamic upsurge of desire for deregulation. Government has a duty to deregulate because it is the right thing to do. But there is no particular political payback for doing it. It was hard to persuade Conservative ministers who were naturally predisposed towards deregulation. Labour has no such pre-disposition towards deregulation. You will all be familiar with Sir Humphrey's "Politician's syllogism" in Yes, Minister, which was that something must be done; this is something: therefore we must do it.

What comes most easily to hand for politicians is the Statute Book or it is the taxpayers' money. Thus there is a built-in tendency in any Government, in any country, of any political hue, to spend more money and raise taxes and to regulate more. Here it has led Labour to introduce the working time directive and the statutory minimum wage. Neither is a killer blow to any particular business, but both and the many other regulations passed by Parliament incrementally add to the burdens which reduce our competitiveness.

Savings Ratio Halved

The third aspect where the Government is failing is Savings. Savings are hugely important politically and socially. Saving makes people independent of the state, which is a good thing if you believe, as I do as a Tory, in the dispersal of power away from the centre. It took a long time to build up the saving culture in this country but we had broadly done so by 1997. Since then the savings ratio has halved – from 11% to 5% – at a time in the economic cycle when you would frankly have expected it to have risen. The reason is that Labour targets savings. They have abolished popular and simple and generous savings vehicles like PEPs and TESSAs and replaced them with something which is incomprehensible. I found that ten minutes into a briefing on ISAs, my eyes were glazed and my head was swimming. And I'm not alone, as the collapse in the savings ratio confirms.

The Government has also skimmed off £5bn a year out of Pension Funds. The savings psychology has been immensely damaged by people's realisation that putting money into pensions exposes them to more tax. I care very much about the social and the personal and the moral effects of the consequent decline in saving. But it makes it much more difficult to do what I think Government should be doing, which is reducing the size of the state and the extent of peoples' dependency upon it. A nasty side-effect is that the drop in saving reduces the flow of capital available for investment in industry.

Power Back to the Unions

And the fourth aspect is the process of trade union reform. One of my recent discoveries is that Britain is the only country in the world I know of, where there is a programme of trade union reform which is giving power back to trade unions. Everywhere else the process is in reverse because people recognise that the whole notion of corporatist tri-partism is entirely out of date. The New Economy makes no allowances for that approach. Countries that want to be competitive in the global economy are not going back in the direction of enhancing trade union powers. To enhance trades unions' powers will make it less easy to attract people to do business in this country. And we will feel the draught in time.

Conservative Ways Ahead

(i) On the Bank of England

Having analysed Labour's failings, you deserve to hear what our response would be. One area where we are putting in serious thought is on the issue of monetary policy. Labour had said that they would consider the Bank of England's position carefully over a period of time. But in the event, they decided that four days (none of which was a working day because of Bank Holidays) was a perfectly adequate track record on which to give the Bank of England operational independence over monetary policy. Frankly, I don't think that is the way to make policy. It seems to me that if you seriously want to make long-term arrangements for the conduct and operation of monetary policy then you need a bit more than four days' work on Ed Balls' laptop to get the plan right. So I've set up a commission with some very heavy-weight members and we are going to look at the Bank of England's position very carefully. Our task is not to find an "off the peg" solution available somewhere else. Every country is different, and I want to create the right solution for Britain. We need something distinctive and unique and it is my task to make sure, with my colleagues on that commission, that the final monetary policy arrangements will seriously endure and serve this country well into the future. I think that Labour bungled its policy in several ways. The monetary policy committee was not made fully independent: they're appointed for three years by the Chancellor. That compares with eight years for Bundesbank members and fourteen years for members of the Fed. Nor is the MPC properly accountable either. The Fed's accountability to Congress is a bulwark against control by the executive.

(ii) On Clearer National Accounts

We will also want to look at a whole range of fiscal policy issues. Mr Brown has set up something he calls "a Golden Rule". There are two important points to understand about it. It isn't Golden and it isn't a Rule. The Chancellor simply says that he will keep his current budget in balance over the cycle. He does not define what is "current" nor how long the "cycle" is. His definitions of "capital" and "current" change all the time to suit his convenience. So it is an utterly useless constraint on what he can actually do with the nation's finances. We want to do something better – a system of national accounts which are transparent, and which are rigid, which mean that Governments in future can't play with words and economic models to suit themselves. We shall also want to look at some of the issues that have always actually been disguised in the national accounts, including contingent liabilities – the undeclared liabilities that the State has for future, such as pension liabilities. It doesn't seem to me to be satisfactory that these are not declared on the Balance Sheet in any serious way.

(iii) On the New Economy

We need to make the most of the New Economy. We are going through a period where the whole nature of the way in which transactions are done is changing. While Mr Blair does his patter about how Britain will be the centre for e-commerce, there is every sign that we are lagging behind. This is partly because the whole approach of the Government to e-commerce comes back to its attitude to regulation. They see it as something to be feared and controlled. The Internet after all is a wonderful bit of economic innovation which has come about precisely because there has been no regulation. An e-commerce Bill (part of which was drafted by GCHQ to ensure that it is still able to eavesdrop on all electronic information) is a sure fire way to trample all over the internet and the opportunities it offers, by trying to make it Government property. Our attitude to the internet has a great bearing on how we should see higher education. One of the factors that has made America the centre of this New Economy is the huge interaction there between independent universities and business. There is a symbiosis wherein ideas are readily translated into commercial application. We have an opportunity, it seems to me, to put Britain at the cutting edge of the new-world economy, but it will only be done if we make this crucial mental leap of understanding that the great things happen not because of Government but despite it, and that the ability of Government to create economic success and to create wealth is strictly limited. The power of Governments to destroy success and to destroy wealth is actually boundless and unless we as politicians get our heads clear about that then we will fail to enable Britain to be at the cutting edge of the new-world economy, which is what I want to see happen.

Questions and Answers

Q Would you comment on the future social programme that the Conservatives may have? How would you finance this given your plans to cut back tax?

A I was mildly criticised by some of my colleagues in the party when I said that we would support and put into effect the commitment that Gordon Brown has made on Health and Education spending, and I go along with that. I do not believe that the solution to problems that exist with Health and Education are to be solved just by the writing of cheques, at any rate cheques by the Government. In Education there are many countries that spend less than we do per pupil but have much better results.

We are in an odd position in relation to Health. We stand out among developed countries, in that we spend a smaller proportion of the nation's income on providing healthcare than any other developed country. It's extraordinary that we tolerate a position where in a rich country, people are waiting two years to have quite serious operations. The reason, in my opinion, is that we have an essentially monopolistic system of health care provision. It is unique among advanced nations and its uniquely bad. The politics of addressing this are fraught with hazard. One of our tasks will be to address this.

Q Does it not depend on whether Britain is in or out of Europe whether the Federation that would follow if we go in is anything like or they believe to be like the Federation of the United States or Australia?

A I will go back to my premise which was "What do we have to do to ensure that in this globalised economy, this global, this highly interconnected world economy we thrive". There is what I think is a very lazy response, which is to say that the more international the economy is, and the more international businesses are, the more international you have to have political structures. Utterly the wrong response to the increasing inter-connection of the national economies is to say that we must build up the European Union. Sovereignty does matter. It means the ability to have labour market regulations set in this country in a way that suits conditions here. We need, too, to have taxation policy set here to suit our economy and our needs. As an aspiring Chancellor I want to be held accountable in Parliament in Britain for the way I discharge my fiscal policy, not have to go to the Finance Ministers of other European countries and ask their permission to change my policy. The fourth thing I want is to have the power to have monetary policy set in this country to suit British conditions.

Q If you look at the pattern of growth of the world over the last four to five decades the world economy rose about 4% per annum. Britain has done dismally much worse than that. We've turned in little more than 2% per annum. This is what happened under the Labour Government in the 1970s; it happened under the Conservative Government between 1979 and 1997; it is what's likely to happen under today's Labour Government. We achieve 2%; everybody else achieves 4%. If you were Chancellor of the Exchequer would you change that? Would you get the rate of growth higher? And if so, how would you do it?

A I can't guarantee that I would. I would certainly do some things I think would enable that to happen. I do slightly contest your history. Certainly since the war Britain was in relative economic decline against our peer group for most of that time, but actually during the period of Conservative Government that was reversed. Your relative economic decline did cease. Actually during most of the 1990s we have out-performed our European competitors. We had a better growth rate than our continental European partners.

That has now changed, and if you plot the history over that time there are two trends which seem to me interesting. There is the trend in terms of how much of the national income is taken and spent by the State. In this, you can see a steady increase over this century from around 10% at the beginning to nearly 50% in the late 1970s and then there was an inflexion point and the graph gradually turned down. There is now another inflection where the proportion will begin to rise again. The period during which the State's share of GDP fell, was the period during which our relative economic decline was reversed. The point at which that graph changed again to resume its previous upward path is the point at which we are now looking likely, at any rate, to see a return to sub-average growth.

Listen to Labour language on it – they sound rather more robust than we ever did. Tony Blair says the answer is to make ourselves more like the American economy. America has been fantastically successful. The last twenty-five years it has created 25 million jobs in the private sector. During the same period France has lost 2 million jobs in the private sector. But actually what we are doing is, we are going in the other direction to America. We are converging on the continental model of greater trade union powers and more regulation and higher taxes, which actually goes in the other direction.

Q Anatole Kaletsky of The Times *accuses you of being a doom watcher last year for forecasting depression. If it's happened, I don't think many people noticed it. Shouldn't you have taken notice of the fact that it takes two years for economic policy to take effect and* *been saying how wonderful were the effects of the Conservative policy when it left office and it's only about now that one will begin to see the effects of Labour party policy?*

A Well, no – because Kaletsky didn't either see what I said at the time or draw the right conclusions from it. I didn't predict recession. We did predict recession in manufacturing, and there was recession in manufacturing for the best part of a year and it was severe. And if you are sitting comfortably in London it may not look like the economy took much of a beating, but actually in many parts of the country where manufacturing is still significant there was a down turn. And there was a down turn overall generally. People talk about the economy today as if there's been a gentle unbroken pattern of steady growth – it's absolute rubbish. The economy came to a standstill this winter. We had one quarter in which there was no growth whatsoever and another quarter in which there was zero point one, zero point two percent growth. That's a flicker away from a technical recession. What I said was there was going to be a down turn, which there was. The only reason the Chancellor's forecast may well be met this year is that the down turn happened earlier than the commentators expected. And actually the time lag in terms of monetary policy and economic effects is generally about 18 months and this down turn happened, yes, about 18 months after the Election. If the public finances turn out to be strong this year it isn't because the Chancellor has been prudent – it's because he has raised taxes.

Q Question taken from letter from Peter Frankel, (Portugal) – You signed with the then Douglas Hurd the Maastricht Treaty on behalf of John Major on 7 February 1992 (I've been a passionate opponent ever since). Could you please tell this audience whether you actually had read and understood the full implications of the Treaty and had any doubts about it when you signed it? If so, would it not have been better for you to have resigned from the Government as a matter of conscience, an act which might have exposed the Treaty to more scrutiny by Parliament and the public. If you had no doubt then, do you feel you can now oppose it as a Shadow Chancellor under the policy of the Conservative Party where necessary with vigour?

A Had I read it? Yes. It is a shameful thing to have to admit that one read a Treaty before signing it – but I did actually. Am I happy to have signed it? Well it is a Treaty which has been described as being a federalist treaty and it was intended to be so. The great plan was that this would be the platform on which the Federal Europe would be created and it was an enormous irritation to M. Delors that we prevented it being so. It had much more federalist effect on other countries in Europe because it committed them to monetary union, which we believed to be very closely associated with political union. And the social chapter itself created a whole new raft of majority voting powers which was detracted further from the sovereignty that we retained. So it was much less of a federalist thing for us than it was for others. But also we felt that it put forward a slightly different model for the way in which Europe might develop because it set up three pillars for the European Union – two of which were completely inter-governmental – which gave expression to the whole notion of the Europe of Nations, where independent sovereign nations could co-operate together and work together, but on a voluntary basis in relation to foreign policy and security policy and some areas of crime and justice. The Maastricht Treaty is capable of being translated into a federal structure. But we have a veto over that and we can prevent it happening. I know that a Conservative Government would prevent that happening. What I fear is that the resolve to stand out against a Federalist drive among some of our continental partners is lacking among Government ministers at the moment. Some of them I think are not only willing to go along with it but actively seek it, and that I think is policy.

Q I'd like to take you up a little bit more about this comparison with America, which came up just now. Is it not a little bit dangerous perhaps because the American model of growth over the last ten years has involved a huge diminution of American manufacturing: a collapse of the American savings rate, an increase of borrowing overseas, an amazing balance of payments deficit, a huge increase in relatively low-paid jobs and a rather small increase in the higher paid jobs, and almost a migration to other better paid jobs to other countries. This is probably not sustainable in the long term and it's probably not as high a rate of economic growth as the States could have accomplished had it pursued different policies. Is that really the way that we should emulate?

A Well, I'm not just talking about it in the last ten years although they have shown impressive rates of growth. Over quite a long period America has generated a huge amount of wealth. The USA would not have become the richest country in the world if the only jobs that are being created are low paid jobs. There is a very strong work ethic. People are inventive. They have the ability to take risks. They have a wonderful culture and attitude towards enterprise. By contrast we're still locked into this time warp where we both resent success and despise failure.

In America it's absolutely the reverse. If you succeed, brilliant. Many people give a lot back, not through tax, but because they have a stronger sense of obligation to each other and to their communities than perhaps we've done here. I would trace this back to the State being overactive here, which I think erodes responsibility and people's sense of obligation. Americans also have a better attitude to failure. If you fail, people hold you up and give you another go.

We should want to have rich people in this country. A successful country depends on there being successful people. The American economy has got its own problems. America did have a period in which they lost a lot of manufacturing, but a lot of it has returned. You don't have to believe that everything in America is perfect. It worries me greatly that there is now a negative savings ratio in America, which means that quite a lot of this current boom is based on a very slender bottom of the pyramid. But I say again that the economy in America is a hugely powerful wealth-creation and job-creation machine and if we could get ourselves operating that way we'd be better off – I have no doubt.

Q Would you accept the logic of your own prescription that ultimately a Tory Government would have to take us out of Europe. We are not just talking about not going into the Euro but if you want to create the business environment that you're talking about. How can you possibly reconcile that with what is coming up in the rest of Europe today?

A Well, we have to resist it. It was absolute folly of the Labour Government to sign the Social Chapter. Can you remain in the European Union and accept we have the power as I have described in my aspirations to set these matters in a way that suits us? Yes you can, but it will need Europe to develop in a different way and we can set out how we think that can happen. Europe is going to enlarge – it should do. It's a scandal that ten years after the Berlin wall came down and eastern and central Europe was liberated we still don't let them trade with us properly. The products that they produce which they have a comparative advantage in, we keep our markets closed to them. These are European countries. About ten years ago Margaret Thatcher made her Bruges speech where she talked about Warsaw, Prague and Budapest as great European cities as entitled as any of the capitals of western Europe to take their place there. The EU should enlarge and embrace them and not force them to submit to the prescriptive "one size fits all" approach that we currently have.

William Hague set out a model that will enable greater flexibility in a speech in Budapest earlier this year. When we talk about this Mr Blair looks frightfully smug and says "Well there isn't any other European leader who agrees with you about this". His idea of leadership is that you should wait until everyone else agrees with you and then propose it. That's not my idea of leadership which is about persuading people. I haven't heard anyone argue that this model of European development is wrong. The only argument people put up against it is to say "Well no-one will agree with you". That's feeble.

Q Can you say something about Conservative policy on Tax Returns?

A Well, I think there are two desirable objectives slightly in conflict. One desirable objective is that you should have as little as possible to do with the Government as can be managed. I was horrified this year to find my Tax Return ran to forty pages – I don't have *that* complicated a life I thought!

And I think as a general rule about how you approach tax a pretty good test on how complicated your tax system is, is how fat your Tax Return is. Quite a good way of enforcing discipline on the profusion, the proliferation of complexity in the tax system is to say – "No-one will have a Tax Return of longer than five pages". Now I don't know whether that can be done but actually all the pressure is always to have more – a bit of help here, a bit of extra there. And the best recipe for simplicity in a tax system is to have low tax rates. I have no doubt about that whatsoever. I've always had the slight feeling that it's quite a good thing for everyone to fill in a Tax Return, because I think it useful to have a physical manifestation of the relationship between the tax payer and the state (PAYE is just a bit too painless I think). I think it's quite good for people to feel the pain of paying taxes. I quite want there to be an upsurge of irritation and anger. Again I'm sorry to harp on about America but you do have popular outcries against higher taxes in America and it puts pressure on politicians. We don't get much pressure to cut taxes. I don't go back to the adulation of my constituents if I talk about lower taxes. I think they would probably quite like it but they feel ashamed of quite liking it because everyone is made to feel mean and selfish and greedy if they want to have lower taxes. So although I'm not suggesting this is what I would want to do, I am saying I have some sympathy with the principle of having everyone filling in a Tax Return and thus actually feeling, experiencing at first hand tangibly and literally the effects of high tax.

THE LESSONS OF 1981 FOR CONTEMPORARY JAPAN

On the 26th October Sir Alan Walters gave the Hayek Centenary Lecture at the London School of Economics and made some suggestions for solving Japan's current economic problems

Sir Alan began by recalling his experiences as Chief Economic Advisor to Mrs Thatcher during 1981 and drew a number of parallels between the situation in the UK at that time and the situation in Japan today.

Similarities between the UK and Japan

i) By 1981 the recession in the UK was turning out to be the worst experienced since the 1930s. Clearly a similar comment could be made about Japan today.

ii) UK economists in 1981 almost all advocated fiscal expansion - an increase in public spending, to solve the problem. Again there is a similarity with Japan today where such a course has been advocated and acted upon.

iii) By 1981 the UK had experienced a long period of high levels of public borrowing. Between 1975 and 1981 the PSBR (Public Sector Borrowing Requirement) had run at about 7% of GNP. Japan has been running a PSBR lately of about 10% of GNP.

iv) The prelude to the UK's 1979–81 recession was the credit expansion known as the "Barber Boom" – a credit bubble which had to be burst. Japan during the 1980s experienced a more extreme version based on the mistake of accepting the "Louvre Accords" and this bubble also had to be burst.

v) Both the UK twenty years ago and Japan today suffered crises in confidence in their political leaders.

The 1981 UK Solution

He then outlined the policy choices made in 1981 which lead to a long – eight and a half year economic expansion. These choices were made despite predictions of disaster by 364 economists (including Mervyn King, Willem Buiter, Nicholas Kaldor, Lord Balough, Professor Morishima, and one Mr A Giddens) in a famous letter to The Times. In turn this expansion made possible other reforms such as privatisation and deregulation. Mrs Thatcher faced her greatest opposition from colleagues within her own Party.

The policy choices (which had the support of a small minority of economists such as Tim Congdon, Geoffrey Woods, Patrick Minford and Gordon Pepper) essentially involved a fiscal squeeze followed by a prudent monetary expansion. The key decision was to cut the PSBR from 7% to 3.5% in the budget of March 10th 1981. This was "very dramatic, very important – perhaps the most significant economic decision in the post-war period".

In advising Mrs Thatcher to take this surprising course, Sir Alan focused on two key elements;

i) Fiscal multipliers are "small beer" compared to the much larger monetary multipliers.
ii) The precondition of prosperity – as Keynes had pointed out – was "confidence" – a factor which deserves far greater study.

The Solution for Japan Today

Japan today, Sir Alan suggested, should likewise increase taxes and reduce public spending to cut the public finance deficit from 10% to 5% – with promises of more to come. This should be accompanied by an expansionary monetary policy in which the Bank of Japan should "print money and buy Japan Government Bonds". The resulting surge in confidence would lead to increased consumer expenditure, a lower savings rate and increased business investment.

The main difference between the UK in 1981 and Japan today is that the UK in 1981 was experiencing high inflation whilst Japan is suffering from deflation. Sir Alan was unimpressed by this difference compared to the great underlying similarities of the two recessions.

Another important difference between Japan today and the UK in 1981 is the state of the banks in Japan today. They have mountainous bad debts and are frightened to lend. Sir Alan remained adamant that we would be surprised at the effects of a restoration of confidence.

Paul Krugman has advocated that Japan should set an "inflation target" (of say 2%) to make room for negative real interest rates. Sir Alan thought this was "daft" since it would simply lead to capital flooding out of Japan.

In answer to a comment from the floor to the effect that a fiscal squeeze was surely the acknowledged mistake of the depression of the 1930s, Sir Alan pointed out that between 1929 and 1931 such mistakes were indeed made but between 1932 and 1937 the UK in fact had both a fiscal squeeze and a great economic expansion.

Finally, returning to his theme of "confidence", Sir Alan concluded by saying "The basic problem with Japan is that they haven't got a Margaret Thatcher"

J.B.

END OF MONEY

*By Sir Samuel Brittan**

The late 1990s have been the era of central banks. In the US the Federal Reserve chairman Alan Greenspan has become a national institution. His every word is studied by hundreds of highly paid analysts. Information on the content of his next speech would have a high street value. A reliable interpretation of what he really means would be almost priceless.

In the UK, the first act of the newly elected Labour government two years ago was to give the Bank of England operational independence over the conduct of monetary policy. The most powerful financial institution in 11 of the countries that belong to European economic and monetary union is the European Central Bank, which is freer from direct political control than almost any other central bank.

Nevertheless the vogue for any particular type of institution has limited life. The vogue for indicative planning reached its peak in the early 1960s. That for fiscal policy did so in the 1970s. And that for central banks is also almost certain to diminish.

This is not only a matter of fashion. It is also likely to result from deep-seated trends in financial evolution. The mainstream belief at present is that monetary policy exerts a big influence on output and employment in the short to medium run, and on prices in the medium to long run. Most central banks try to exert this influence by their power over short-term nominal interest rates, although there still exists a vocal group of economists who would prefer them to operate with targets for one or other definition of the money supply. They have such power because the greater part of the money supply consists of bank deposits; and banks are either obliged, or find it prudent, to keep reserves at the central bank.

The result resembles one of the older cosmological theories in which the world rested on top of an elephant which in turn balanced upon a mouse. For the supposed leverage is exercised by means of financial operations that are tiny in relation both to national and international monetary flows and also in relation to total output. For instance, bank reserves in the US account for only 0.5 per cent of gross domestic product.

This influence can only continue if the commercial banks continue to account for the bulk of the effective money supply and if they continue to hold reserves with central banks. Both these assumptions have been challenged

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by a paper given at a recent Oxford conference on "social science and the future" organised by the London-based Centre for Economic Policy. The paper in question, *The Future of Monetary Policy,* came from Benjamin Friedman of Harvard.

He suggested that the evolution of electronic means of payment would lead over a quarter of a century to the end of banks as we now understand them. The result would be that, even if the theory of central banks' influence is now correct, they would then lose all leverage.

Such developments were prematurely suggested when credit cards emerged some decades ago. But there is a crucial difference. In the case of most existing credit cards, at the end of the month you receive your dreaded statement, which is settled by a transfer from your bank to the credit card company. New forms of payment may not involve such transfers at all.

Mr Friedman provides three main reasons why central bank power may disappear. The first is the erosion of the demand for bank money. "Smart" cards – for example the single vendor advanced payment cards already used by many telephone services and the New York subway system – could develop into genuine private money. So long as issuers of these cards ask for settlement by transfers from bank balances conventional bank deposits are still required. But within 25 years from now firms and individuals might simply accept and swap balances on the books of a transport or telephone authority. In other words they would be means, not only of payment, but also of settlement.

Comparisons of Financial Magnitudes
Per cent of GDP

	Bank reserves	Monetary base	Broad money	Outstanding government debt	Total domestic debt securities
Canada	0.6	4.0	43.4	71.8	84.5
Euro-11	1.8	8.8	80.6	n.a.	n a.
France	0.6	4.0	66.0	47.6	81.9
Germany	2.5	6.8	67.5	38.2	85.4
Italy	4.5	10.0	47.7	101.4	132.8
Japan	1.8	12.2	73.7	79.8	113.6
Sweden	0.6	4.9	47.5	55.4	122.8
Switzerland	2.7	10.6	106.9	21.4	70.7
UK	1.1	4.0	91.7	35.8	59.8
US	0.5	6.3	70.5	43.8	163.8

Central banks could of course try to retaliate by imposing reserve requirements on more and more kinds of financial institutions. The issuers of private money would respond by changing their products to evade the new regulations. The central banks would almost certainly be one step behind the ingenuity of institutions in devising new products.

Some might object that the central bank would still have control over outstanding currency – notes and coins. But currency is now issued automatically in response to public demand. Monetary policy mainly operates through the banks.

A second development is the proliferation of non-bank credit. At present, when a bank extends credit, deposits are created on the other side of the balance sheet which have to be backed by reserves at the central bank. But bank credit has been steadily contracting as a proportion of total credit. Advances in data processing and the easier availability of information are likely to reduce the special advantages of banks in deciding on creditworthiness. Moreover, even where banks still issue loans there is a trend to "securitisation". This means that the loans are sold to non-bank investors who are not subject to reserve requirements.

Third, reserves with central banks are often held as a necessary means of settling interbank transactions. This gives the central bank leverage to affect total deposits' by means of small operations. Yet the evolution of private clearing mechanisms like the US net settlement system CHIPS threatens to erode the central bank role even here. The combined results of all these developments could well be to reduce, perhaps to the point of elimination, the need for bank reserves and even the need for banks and cash altogether.

Mr Friedman is disarmingly frank about some of the further consequences. For instance, he cannot say what will determine the price level, or rate of inflation, in this brave new world. Nor does he know whether national authorities will find an alternative way of limiting inflation and deflation or ironing out the worst of the business cycle.

Some British economists may gleefully rub their hands and say that we will have to return to the postwar orthodoxy and use fiscal policy. Really? In a world where central banks cannot stop the creation or destruction of huge amounts of credit, it is difficult to see how moderate variations in the budget surplus or deficit can act as a substitute.

The Friedman prognosis is not completely novel. For instance, two Bank of Ireland economists, F. Browne and J. Fell, put forward a similar thesis in 1994 under the title *Inflation Dormant, Dying or Dead?* (discussed in *Economic Viewpoint* of November 17 that year). They also predicted the end of monetary policy and money as we know it. They have since moved to the European Central

Bank where no doubt they are preoccupied with the more immediate future where money exists.

The Irish economists took the optimistic view that in the longer run the standard of value in which prices would be set and contracts denominated would be divorced from the means of payment. They suggested that values would ultimately be measured in terms of a unit of account defined in terms of a basket of goods.

The Irish authors were far from clear about how this would come about. But, whether the results are benign or dire, the problems of a transition to a society without money need as much thought as the problems of running the monetary system as it at present exists.

HOW TO PROFIT FROM GIVING ME A FREE LUNCH

By John Hildebrand

Milton Friedman once famously said there was no such thing as a free lunch. For 18 years my parents proved him wrong. Patiently they awaited the birth of a new economy in which companies would sense the benefits that would accrue to them from giving me a free lunch.

Initially I received free lunches from young start up companies. These tended to be in the restaurant or pub trade. They knew that I liked going to new places and enjoyed talking about them. The venues gained publicity, loyalty and an ability to iron out teething problems on a soft client. Wetherspoons was particularly accommodating in this regard.

Once start up companies or companies that wanted to promote new products had seen the benefits of my custom, I began to find other companies would offer me free lunches to keep my loyalty. I now can often see films early or test out computer games because I buy a certain magazine. Time Out is particularly keen on inviting me to screenings. The film distributors get publicity and feedback whilst Time Out provide me with another reason for buying their magazine and remaining a loyal reader. In a world where market power is moving to the customer, loyalty is becoming an increasingly valuable asset.

In the new economy in which computers and the internet effect economic relationships the need to provide me with free lunches is beginning to spiral.

Freebies historically bought loyalty and so greater certainty or even increased sales. This helped companies plan end benefit from economies of scale. Companies realised that a sub-optimal cost structure could still lead to higher profits. In the new economy sales are about relationships and size. Incremental sales can actually add more to the value of the company than the previous sale. An example of this would be in the fax market. One fax machine is useless but as the number of fax machines rises, the ability to communicate and so value of each fax machine goes up. Companies know that they are more visible so more likely to be "hit" if they are larger. Providing me with a free lunch or a discounted product can add to the value of their business.

In addition to providing producers with a reason for giving me free lunches I now find that other consumers can benefit from giving me special offers. As I noted earlier the internet is tilting power in favour of consumers. Consumers know that to have power they need to band together. Entrepreneurs have realised that special offers are a way of forming these consumer clubs which will subsequently have their own economic value. Those who have bought a tennis racket from Metaage.com for $30 will be aware of the power of a cheap offer.

Finally I come to the biggest type of free lunch. It involves companies about to list on the stock market. Most internet companies are difficult to value using traditional valuation measures. A large number of them do not even make a profit. Analysts base their valuations on what their revenue might be in several years' time. They assume that these companies will make profit from a mixture of advertising and e-commerce and possibly also from line rental or from passing customers on to other sites. Another way of valuing them is by the number of clients they have. This has led brokers to value companies like AOL by their client base with each client valued at over $1,000. In a world where the value of a company rises if it has more clients and where companies do not need to make profits it makes sense for companies to pay me prodigious amounts for becoming a client.

So giving free lunches can create value. Perhaps Milton Friedman should have said that there was no such thing as a free restaurant. In the new economy the successful companies could well be those that take risks and are willing to accept losses as a way of establishing themselves. Those that wish to follow such a path and that are eager to give out freebies can contact me on my e-mail address at: jh@worldhq.com.

AMERICA'S SOLUBLE PROBLEMS

By John Mills, published by Macmillan 1999. Price £45.00

In 1959, young John Mills explored America – as a hitch-hiker. A "wonderful experience", he says, giving him an "overwhelmingly positive view" of the USA. In 1961, your reviewer, then aged 19 worked a summer job in Illinois, toured Colorado and hitch-hiked via Texas and Tennessee back to New York for the return leg of a Super Constellation Flying Tiger Line £36 return charter flight from Idlewilde to Gatwick. We both found America – the great outdoors – where every vibration breathed "you can" rather than "you can't" – hospitable, seemingly safe, prosperous, (though expensive) – and optimistic. At that time, just a few loopy McDonald's had opened and my Illinois boss had just invented and started production of the 'Bunn-O-Matic' filter coffee machine, now to be found in restaurants world-wide. In today's money those coffee machines sold then for about £2000. Something similar today might only cost £20. But back to 1959-1961. Then cars were *exciting* – a celebration of wheels in lights, fins, luxury and freedom. At a Chicago party a stranger handed me his car keys and said "Take your girl friend home – I don't need the car back till 3 o'clock".

With such similar starting points, this is clearly a book for me. And I hugely enjoyed it, travelling this time on an intellectual exploration of US economic developments with John Mills – my hitch-hiking companion in print rather than on the roads through cotton fields and tobacco plantations.

Quoting swathes of statistics, comparisons and examples, "America's Soluble Problems" catalogues America's poor economic performance since the 1950s. Balance of payments deficits, lost industries, rust belts, the low savings ratio, a lower growth rate than is possible, the creation of too many poorly paid jobs and not enough well paying careers, alarming poverty at the bottom end of the income distribution – and the accompanying social problems illustrated, exacerbated and exaggerated by Hollywood's all too often pernicious output.

Mills' thesis and conclusion is that these things have been largely the predictable result of a long term over-valuation of the US dollar – by something like 20%. At first this was inevitable given the 1945 war-ravaged economies of the developed world but later became deliberate policy, then an accompaniment to the Vietnam war and then most recently, the consequence of monetarist doctrines.

The result of such over-valuation has been to tip the balance in favour of imports, to discourage industrial investment in those areas where productivity gains can be most readily obtained, to encourage the growth of services and to hand economic growth to competitors overseas. Mills would not advocate general protectionism but seeks an advantageous balance between manufacturing, services and resource industries which would build greater growth, greater opportunity and the chance of a market generated convergence of the distribution of income. The argument is powerful and echoes debates in the UK, Europe and Japan.

The book meets many potential critics head-on. It shows the extent and the means whereby governments do have the power to influence exchange rates, the real extent and danger of devaluation leading to inflation, the mirage of supply side economics – and much else. Mills is clearly right.

And yet I still have problems. Two points in particular. First of all, the idea that if one, by whatever means, expands those industries where productivity gains are greatest, this necessarily leads to higher profits, investment and incomes, is suspect because it seems to ignore competition. If lots of people do the same you end up with industries that are glutted and devalued, however magnificent the technology. Secondly, the faith that economic growth is best based on some notion of an optimum level of industrial output and exports seems suspect because this level is hard to judge. Mills argues convincingly that America has suffered from having an inappropriately diminished manufacturing and export capability but completely ignores the dangers in the other direction. These dangers have been well illustrated by Japan where exchange rates have generally been kept low, manufacturing and exports have boomed but its economy has become lopsided. Japan finds itself with intractable balance of payments surpluses, over-powerful industrial lobbies, inefficient services and a collapsing growth rate. In short, super-charged productivity growth through neo-mercantalism works – but not for ever.

But these are quibbles which the reader can maintain in order to test this refreshing and convincing text. More important is the final conclusion on a broader note:

> Although easy to criticise, everyone outside the US owes America an enormous debt of gratitude for most of the things it has done since World War II. From Marshall Aid, to the huge contribution the US has made to NATO, to its major funding of other aid programmes, and to the initiatives it has provided on trade negotiations, American world leadership has mostly been a remarkable success story. The US has also shaped much of the world's culture, provided a continuing technological lead, and combined all of this, most of the time, with a steadiness of adherence to the best of liberal and democratic values which puts much of the rest of the world to shame. The US economy is so powerful and

resilient that even if it is not run as well as it might be, it will probably still retain its lead for a while. Our planet might be a better place to live, however, looking further ahead, if the US were to retain its hegemony for a rather longer period.

J.B.

LETTERS

Debt, Delusion and Depression Economics
A response from Mr Christopher Houghton Budd

In your summer issue you report on Warburton and Krugman's expectations of collapse and of the sky falling in. These are powerful images, which, like smoke to fire, surely point to an actual – even if difficult to define – problem concerning the financial markets. Most of the discussion today is about credit control, but this is equivalent to propping the sky up. We need to ask if such props are possible in today's world? Krugman implies that some new doctrine is needed in order to complement the faultless structure of today's financial architecture. But this suggests that the new doctrine will need to act as a sky hook, rather than a prop. What new theory can fulfil this role?

There is, of course, no sky to fall in. The allusion is really to the limits to conventional understanding. Financial phenomena and our explanations of them can become so abstract that we begin to feel the need to return to a more understandable world. We then think that only what we can understand is real and we begin to seek ways to force new experiences into old ways of thinking, rather than find new explanations.

It was Einstein who once said that problems cannot be solved by the same consciousness that created them. Would that he had been an economist and alive today! He would, I am sure, question the viability of the conventional understanding of the relationship between currency and credit. Most concepts of credit envisage it as an extension of or in some way linked to currency. My money, however, would go on de-coupling the two. Currency could then seek its cover in the direction of the 100% idea of Fisher and others, while credit could seek a cover true to its own nature. This has in some way to be the new but extra values created because of it.

If the cover of currency and the cover of credit were allowed to reflect the contrasting natures of these two very different things, then the chances would increase, it seems to me, that they would mutually stabilise one another. Maintaining a linkage, on the other hand, will surely create chaos in both domains.

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Inflation and Unemployment – A further comment from Mr Henry Haslam

In the summer 1999 edition, I wrote about the relationship between unemployment and inflation; may I add to that some thoughts about the effects of new technologies?

From time to time we hear or read the argument that recent technological advances make high unemployment inevitable. Work that used to require a large contribution from human effort can now be done using very little human effort, so the argument runs, so there just isn't enough work left for people to do.

This argument certainly has a superficial appeal, in that there is no doubt that technological innovation leads to the loss of specific jobs. But that is not the same as saying that the opportunities for employment are less, as a moment's thought will show. Technological advance will only cause permanent unemployment when all human needs that can be satisfied by paid work are being met – a state of affairs rather beyond the foreseeable future. So long as there are people who aspire to a higher standard of living and are willing to work for it, there will be opportunities for employment, provided that the entrepreneurial skills are there.

Look at it another way. If we were to abandon recent technologies, would there be more jobs available? Would we return to the jobs and living standards of the past? Would we accept employment for the pay and conditions that used to be offered (and welcomed)? We would not, and if these labour-intensive jobs of the past offered the pay and conditions that are expected today, their products would be priced out of the market and the jobs would disappear.

To preserve the jobs of the past, we would have to be content with the living standards of the past. If we want to raise living standards, we must accept and welcome new technologies and changing patterns of employment.

So much for theory. The facts tell the same story. The total number in employment, as a percentage of the total population, has remained about the same over the last forty years, a period of enormous technological change. The numbers dropped during periods of rising unemployment, especially during the early 1980s and early 1990s, but there has been a steady increase for most of the 1990s. The September figures this year showed that the numbers of those in jobs are at record highs. The technological advances of this period have not reduced the number of jobs available; they have enabled the economy to flourish, providing higher living standards, better pay and working conditions, and more jobs.

High unemployment reflects not so much a lack of work to be done as a failure to offer those looking for work and those wanting to buy more goods and services (often the same people, or the same communities) work with a pay-and-pricing structure which is acceptable to both. The solution may lie partly in better entrepreneurial skills where they are needed and partly in making each job more productive and therefore more likely to satisfy worker and customer – and one of the ways this can be done is through the use of improved technologies.

Thus, in times when people expect greater rewards for their work than in the past, new technology is an essential prerequisite of employment, not its enemy.

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A Response to Inflation and Unemployment (Henry Haslam) Letters, Summer 1999 from Mr Alan Shipman

As well as ignoring theoretical links between inflation and unemployment, Henry Haslam's attack overlooks several empirical problems:

1. Firms generally take longer to change their prices than to change their employment. In a highly cyclical economy like the UK, there's no reason to assume that a peak in one macroeconomic aggregate corresponds to the next peak in another sense, even if there are theoretical reasons for linking them. A peak in inflation (in, for example, 1980) could just as well be associated with the subsequent (mid-80s) fall in unemployment as with its previous mid-70s peak. To assume that faster inflation explains the subsequent rise in unemployment is to make an ideological assertion, not a statistical inference.
2. To infer that low inflation causes low unemployment, it must be assumed that there is no intermediating change in government policy. In practice, governments have usually responded to high inflation with fiscal and monetary contraction which raises unemployment. The subsequent recession-induced slowdown in inflation (and fears for the social effects of

unemployment) incited fiscal and monetary expansion which caused unemployment to fall. High inflation leads to high unemployment only if government mistimes or exaggerates its response. 'New Keynesians' will argue that you can stabilise prices without destroying jobs through a judicious mix of incomes policy, higher-rate income tax rises and cuts in government consumption. Monetarists used to argue equally confidently that slower monetary growth could achieve slower price growth without any rise in interest rates or lapse from full-employment demand. Both solutions may have been discredited, but I'm sure many proponents would argue that they were never properly tried.

3. The UK unemployment measure has been revised progressively downwards (through restricted benefit eligibility, reclassification to disabled/early retired, make-work schemes etc) and probably increasingly understates the true rate. Consumer-price inflation is likely to be consistently (and increasingly) overstated because it fails to take account of quality improvements, and lags in adjusting to changes in consumption patterns (towards relatively cheaper items).
4. To be historically fair, the original Phillips Curve showed an inverse relation between rates of unemployment and wage inflation, not price inflation. This hasn't changed in the UK. What needs to be explained is how, since the late 1970s, Britain has been able to sustain long phases of strong real wage increase without corresponding upward pressure on prices. Rising labour productivity, through closure of less efficient enterprises, may have been the mechanism in the early 1980s. More recently, we appear to have been squeezing profit margins, and defying the resultant investment constraint by running up large internal and external deficits. Since these can't continue indefinitely, inflation has been suppressed rather than cured. If Mr Haslam waits long enough, he may find that today's low unemployment is quite reliably linked with higher inflation, once the pound finds a sensible level and there are no remaining assets that foreign investors want to buy.

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PS In the light of Mr T B Haran's assertion that "banks do not create money by lending" ('Endless' Credit, *B&O* Summer 1999), could you ask him to explain the East Asian debt deflation of 1997–8?

An Explanation of How the Economy Actually Works from Mr Thomas B. Haran

In my letter in the Summer 1999 edition, I gave the reasons why there is no place for credit creation theory in the economy. I have since realised that, having destroyed this mythology, there is a need for an explanation on how the economy actually works.

The standard of living is not an accident. Everything available for purchase has had to be financed *in advance*. In consequence, goods, having been manufactured and distributed, are already in the shops, when we come to buy them and service providers have fully equipped themselves to carry out their occupational functions.

How is this situation achieved? The best system so far devised is for the banks (deposit-takers) to pass on most of the nation's savings for *spending* by the borrowers on these activities.

We trade solely in services, whether our work is productive or otherwise, and goods are a by-product of this practice. Moreover, although we appear to have advanced beyond barter, we have, in fact, simply improved on the system, so that we can exchange our services for the things we want at convenient times and in desired quantities. Thus, we are all service creditors or service debtors in terms of our trading activity, whether or not there is a monetary system in operation. As things are, service creditors have also become savers and service debtors, borrowers. Settlement lags behind the trading activity and does not influence it.

The laws of nature tell us that nothing can be created by lending. It follows that savings accepted by banks go back out when lent; thus, although intangible, they can be transferred by titles to them, such as cash and cheques. The banks deal solely in savings (service credits), retain about eight per cent of them and pass on the rest by lending, spending and investment. Thus, they do not create 'money' by lending; they make it possible for existing savings to be spent by borrowers.

A continuous stream of incoming savings is borrowed and, make no mistake, *irretrievably* spent on the production of goods and the provision of services.

Most savers have no intention of spending their capital, but, in any case, their savings are only redeemable in terms of goods and services. Depositors' options are, therefore, limited – spend or save. They may believe that their savings are in the hands of the banks; yet, in the event of a run, banks can only pay out the cash they hold or can immediately acquire.

It may be thought that an individual saver can withdraw his savings from the system by taking cash. That action, however, gives the Bank of England an interest free loan or, in other words, transfers the saver's balance to the central bank. Banknotes are purchasing vouchers for general purposes in the same way as a luncheon voucher is for a specific one. They are *sold* by the Bank. It appears that we cannot take it with us, even when we are alive!

A borrower incurs two debts, one to the lender in terms of cash and the other to the community in services. The service debt has to be repaid by the performance of reciprocal services to obtain the funds to repay the loan. Thus, it is the service debt which affects the economy, while the loan is little more than an accounting device or borrowing from a friend.

The borrowers have obtained and spent most of the nation's savings, but have no intention of repaying them. Instead, they propose to sell goods and services to savers and fellow borrowers alike with a view to causing ownership of the funds to pass into their hands. Such funds can then be used to reduce their indebtedness to the banks.

A one-way stream of savings is spent on goods and services flowing in the opposite direction. The incoming funds going into creditor accounts are new savings; those going into debtor ones are old savings spent on goods and services supplied by borrowers.

Borrowers often believe that they are paying with 'credit', which is physically impossible. In fact, they are drawing on the nation's savings and using them for their own purposes up to agreed limits.

Major businesses raise their permanent capital from the public and borrow their working kind from the banks. The banks operate on the same basis and grant themselves overdraft facilities. They are not in a position, therefore, to 'create credit' without using their depositors' funds for the purpose.

Accordingly, all payments are made with savings, owned or borrowed; indeed, the economy is entirely financed from this single source.

All transactions have been accounted for, so there is no place for credit creation theory. Perhaps now our universities will acknowledge the dreadful errors they have made in adopting and teaching it.

Unfortunately, these errors have been compounded by a failure to understand bank book-keeping. That system has been designed to let the banks keep track of their own positions in relation to their customers. It is not suitable for measuring the savings supply.

All forms of human activity require rules, regulations and codes of practice. In consequence, the management of the economy is too important to be left to chance, ie the market forces, which range all the way through from desirable and responsible to reckless and criminal. Capitalism has defeated socialism, but that is no reason why we should adopt it warts and all.

We must rid ourselves of the naive notion that all these factors can be managed by tampering with the interest rates. Owing to the absence of competent management, the economy consistently underperforms and unnecessary hardship is inflicted on the poor. The practice of the monetary authorities in claiming credit for their inadequate interest rate policy is deplorable.

Every year, scientific and technological advances (STA) make it easier and cheaper to provide for our needs. Ceteris paribus, the currency should continually gain in purchasing power and prices should fall in step. Accordingly, that should be the aim of monetary policy, say the STA concept, instead of an inflation rate of 2.5 per cent. It is the only way the poor can obtain an automatic share of the nation's prosperity.

Bank lending is the key to managing the economy; indeed, the state of economic affairs is exactly what has been financed. Inflation, for example, is low at present, because the rate is determined by the extra funds banks provide for wage increases, the demand for which has been kept in check by fear of unemployment.

All aspects of bank lending should be examined with the object of ensuring that the stream of borrowed savings is spent in the national interest. Obvious candidates for attention are:

1. the housing market
2. wage claims
3. exploitation by sport and entertainment
4. 'payback law', which requires companies to cut prices, when increasing pay, perks and dividends
5. lending in support of dealings in financial markets, which must be banned, and
6. stock options.

The avenues opened by the knowledge that credit creation theory is false are enormous and call for major changes. Moreover, they give rise to great opportunities for those who can shake off their indoctrination by the so-called experts.

Two entirely different versions of monetary theory cannot co-exist; one must kill off the other. We all have a choice. Maintain faith in mythological theory or put trust in the laws of nature.

The issues raised are now out in the open and unlikely to go away. I would hope that our universities will, therefore, see the need to add my book, 'Bilateral Monetary Theory', to their reading lists and to amend their teaching to conform with its principles.

Owing to the mass indoctrination of the public, it has been difficult for me to get my views into print. I would like, therefore, to take this opportunity to express my appreciation of your assistance in publishing my letters and trust that our magazine will not hesitate to claim its share of any ensuing credit!

Grianan
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E.R.C. LEGACY

A letter to Members from the Chairman, Mr Damon de Laszlo

Dear Member,

Before our very successful dinner with The Rt Hon. Francis Maude on the 28th of September I was able to review with your Committee a pleasant surprise which we felt that Members should know about as soon as possible.

In 1959 a benefactor, Dr Robert Peart, named the E.R.C. as the joint residual legatee of his Estate, along with the National Trust, valued then at some £37,000.

We were advised earlier this year that the Estate was about to be distributed and as a result the Council's assets have been increased considerably.

Your Committee have naturally been considering various projects that the income of some £10,000 to £15,000 per annum can be used to finance, forwarding the objects of the Council, and it has been decided to seek suggestions from the Membership. Ideas that forward our objectives will be welcome and reviewed by the Committee.

As a first exercise, your Committee has decided that we should offer four young contributors prizes of £200 to be awarded for an article to be published in each of the four year 2000 issues of "Britain and Overseas". The article should be of economic relevance and the editor will recommend to the Committee the prize winning article for each publication. Your Committee feel that the prize should be open to all as our objectives are to expand the interest in economics. However, winners who are not members will be asked to join.

Damon de Laszlo

YOUNG CONTRIBUTOR'S
£200 PRIZE

COMPETITION ANNOUNCEMENT

Submissions are invited from persons under the age of 25 of an article of between 1,000 and 1,500 words for publication in the forthcoming issue of "Britain and Overseas". The subject matter should further understanding and policy development in relation to contemporary economic and monetary practice.

Articles for the Spring 2000 edition should be received not later than February 1st, 2000.

The Committee's decision is final.
Articles already published elsewhere will not be considered.

APPLICATION FORM

Date ____

Name ____

Date of birth ____

Address ____

Send to:

The Editor
"Britain and Overseas"
The Economic Research Council
239 Shaftesbury Avenue
LONDON, WC2 8PJ

NEW MEMBERS

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

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

OBJECTS

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

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

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

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

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

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

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

BENEFITS

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

SUBSCRIPTION RATES

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

APPLICATION

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

APPLICATION FORM

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

APPLICATION FOR MEMBERSHIP

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

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

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

NAME OF ORGANISATION ....
(*if corporate*)

ADDRESS ....

....

....

PROFESSION OR BUSINESS ....

REMITTANCE HEREWITH ....

SIGNATURE OF APPLICANT ....

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

SIGNATURE OF PROPOSER ....