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THE CREDIT BUBBLE

Extracts from a talk given by Peter Warburton, economic adviser to Robert Flemings and Co Ltd., to members of the Economic Research Council on Wednesday 3rd November 1999

Debt default on an epic scale?

There is a story of the smart restaurant that decided to accept a booking from a mental institution. The caller, who was well-spoken and articulate, had explained that one of the residents had inherited a great deal of money and wanted to share his good fortune with his friends. When the day arrived, the party was escorted to a private room, at some distance from the main dining room. A lavish meal was served and enjoyed and at the end of a raucous evening the huge bill was duly presented to the well-spoken man who seemed to be the group leader. With a beaming smile, he reached under the table and retrieved a dustbin lid, which he then offered in settlement of the bill.

The dividing line between madness and genius is perilously fine. In my days as a fairly serious distance runner, I recall a particular road race in which a leading member of the economics faculty at Warwick University was reduced to shouting out his race number to innocent bystanders, whom, in a state of paranoia, he mistook for course marshals. Fortunately, his insanity was temporary.

I am less sure about the soundness of mind of the investment community in relation to the avalanche of corporate paper during the past 18 months. Securities issue linked to M&A activity totalled almost \$1,200bn last year, up from \$657bn in 1997 and \$247bn in 1988 (peak of previous cycle). International bond issuance reached \$1,230bn in the first 9 months of 1999 (\$431bn US, \$249bn Germany) in addition to \$1,900bn of domestic bond issues. My suspicion is that many of these investments have financed corporate madness and the returns will be measured in dustbin lids.

The thesis that I would like to set before you tonight is that the Anglo-Saxon world is drowning in a sea of debt – public debt, corporate and personal debt. As a consequence, the debt contract is coming under increasing strain and the ethic of full and prompt repayment is being undermined. For the first time in almost 70 years, there is a serious risk of debt default on an epic scale.

Peter Warburton is author of *Debt and Delusion* Allen Lane The Penguin Press, 1999. Price £20. (see review *Britain and Overseas*, Summer 1999) and revised edition, January 2000, Penguin paperback, price £9.99.

I want to divide my remarks this evening in two parts: first, to highlight the **macroeconomic** danger that has been allowed to develop as a result of excessive credit growth in the western world. Second, to draw attention to the **microeconomic** out-working of credit excesses in the highly-developed US personal debt market.

Credit growth via bond issuance rather than bank lending

Amid scenes of great rejoicing, the central banks of North America and Western Europe have been congratulated for their role in taming consumer price inflation. Alas, there is now a wealth of evidence to suggest that this is a Pyrrhic victory. The pace of credit growth in the western financial system has remained excessive. Its most flagrant expressions have merely been diverted from bank lending to bond issuance. The major driving force behind the growth of the bond market in the 1980s and early 1990s was the financing of public sector deficits. In recent years, it is corporations, financial institutions and government sponsored enterprises that have taken up the running. The accumulation of bonds is, in most instances, additional to the ongoing (although subdued) expansion of bank credit. As a result, the overall gearing of the major economies has increased substantially.

A major obstacle to the recognition of the macroeconomic danger of excessive debt growth is the absence of an established analytical framework. Works such as Fisher's debt-deflation thesis and Hy Minsky's extensions in the field of financial instability lie outside the mainstream of economic thought. When I began my study of economics 30 years ago, there was scant mention of the monetary system and the operation of monetary policy in the syllabus, bearing in mind that we still lived in a world of fixed exchange rates.

My 16-year old son has recently begun his A-level economics course and I was curious to know how much of a difference there was between his introductory text and my well-worn Lipsey. While being encouraged by the broadening of the subject matter in many respects, references to credit, debt, bonds and capital markets were cursory. Credit was discussed only in the contexts of consumer credit and credit creation in the banking system; debt was considered in the specific sense of the national debt and third world debt. The mechanics of bonds and the gilt-edged market were described and capital markets justified a 150-word introduction. In a 600-page text published in 1991, credit and debt barely made it into the book.

I predict that economics students opening their standard texts in 2010 will have whole chapters on the global credit system and the multidimensional role of debt in the economy, with useful appendices on credit quality and theories of bankruptcy. For now, the lack of an accepted framework of analysis – and an extremely unhelpful confusion of credit with money – is the key obstacle to the more general understanding of the threat to financial stability posed by credit excesses.

To illustrate, the size of the global bond market has swelled to $30 trillion in round terms, after a 10% expansion last year. The creation of the euro has stimulated an even faster pace of issuance, because companies can issue much larger denominations in a large currency pool than in a narrow one. The average size of a corporate bond is around $300m this year, compared to $240m in 1998.

With developed world inflation at 2% or less, a 10% increase in the outstanding stock of bonds equates to a real growth rate of 8% – many times faster than that of OECD GDP. What is the justification for all this borrowing in a low inflation climate?

Eager investors unwittingly taking increased risks

From the supply side, various explanations have been offered. First, that huge bond issues are required to repair the damaged bank credit systems in Japan, Korea and South East Asia. Second that a symptom of Japan's ailing economy is a very large fiscal deficit, which is principally debt-financed. Third, it has been argued that the low bond yields offer companies a golden opportunity to fund the purchase of high technology capital assets and to expand their operations in the emerging world. Fourth, that it is tax efficient for the corporate sector to retire equity and issue debt. Fifth, that consumers have overcome the debt traumas of the late-1980s and are once again eager to extract equity from their properties. (In the US, much of this mortgage and consumer debt is securitised in the bond market.) However, the dominant explanation is that investors are bond-hungry and that it is their insatiable demand for fixed income securities, particularly of the higher-yielding variety, that is driving the process.

It is important to consider what is fuelling this huge appetite for bonds. There are three main candidates: the commitment of the new savings flow, the switching of existing wealth into bonds from other assets, financial or real, and leveraged yield curve and risk transformation activities. OECD gross national saving in 1998 amounted to around $4.8 trillion, but no more than a quarter of this could have been directed towards the bond market. The lion's share is pre-committed to replacement investment by the business sector and housebuilding by the private and public sectors.

The second candidate, asset allocation in favour of bonds, was probably only a marginally positive influence given that global equities have tended to outperform global bonds in recent years. By implication, perhaps a half of the new demand for bonds in 1998 was represented by leveraged yield curve speculation.

Clearly, if it was necessary to borrow $1trillion in the money markets in order to invest $1trillion in the bond markets, then this activity would prompt a dramatic rise in short-term interest rates. However, there are a host of financial instruments that allow investors to control $1trillion of bonds from a much smaller capital base. The investment logic behind this deft transformation implies that benchmark government bond yields will continue to drift lower (reflecting a more benign inflation environment) and that money market interest rates will fall by at least as much as the corresponding benchmark bond yield, thus maintaining a consistent upward-sloping curve. The financial risk underlying these bold assumptions has been absorbed, unknowingly, by retail investors who have been marched up the risk–reward curve whether they know it or not and whether they like it or not.

Immense additions to government and corporate purchasing power have been enabled by the rapid expansion of the bond market. Some of this physical investment in capacity will justify the subsequent returns, but much of it will not. The mix-allocation of financial capital that devastated the rate of return in Japan, and latterly East Asia, now looks as though it will be repeated in the western world.

Rising interest rates due more to default risk than to inflation

The nervousness of the US Treasury market during the first nine months of 1999 should be understood in the light of the sudden widening of bond yield spreads that occurred in September 1998. A large volume of poorer quality bonds, relinquished by hedge funds and others, were reluctantly absorbed by commercial banks and other financial institutions. However, the risk profiles of these new owners are rather more cautious than those of the highly-leveraged funds whose credit facilities were curtailed; many of these purchases have already been reversed. The result is that the whole class of dollar bonds, including Treasuries, bears more financial risk than before. (In the case of Treasuries, this should be considered as currency risk. The risk spreads between agency and Treasury bonds and between corporate and Treasury bonds are narrowing, but at the expense of rising Treasury yields.)

Some will doubtless interpret recent US and European bond market weakness as evidence of a global economic recovery and a reawakening of inflationary risks, but the alternative – of heightened perceptions of credit risk

– has better analytical credentials. If the Japanese authorities ever regain the boldness to reduce banking system support for its bond market, then it must surely trigger a steep increase in JGB bond yields. With both US and European bond markets already suffering from indigestion, a weakening Japanese bond market would complete the set.

Bad news when interest rates reach 7%? 8%?*

The unrelenting expansion of the global bond market has cast a dark shadow over the welcome progress that European and American governments have made in reducing their borrowings. In a world of very slow nominal GDP growth, expected to be only 3% or 4% this year, total debt growth of 8% to 10% per year is both irresponsible and unsustainable. Sooner or later, the global bond market will wilt under the pressure of net issuance and bond yields will rise abruptly in real terms. At present there appears to be no penalty attached to an over-leveraged balance sheet, but the cost of refinancing is liable to rise steeply for the corporate, financial and public sectors in the years ahead. A market-induced rise in interest rates is uniformly bad news for an over-leveraged economy.

Central banks and the capital markets – the referee turns player

An uncomfortably close relationship that has developed between central banks and capital markets, particularly the global bond market.

Once upon a time, central banks' management of the official reserves was a no-brainer. A few hundred tons of gold in the vaults and a few billion dollars worth of foreign currency held on short-term deposit. The gold was conservatively valued at $35 per oz.

Not now, active management has arrived and the central banks are under pressure to make the reserves sweat investment returns – income and capital gains. What was once a wicked rumour, is now a declared fact – that central banks around the world have begun to mimic private investment banks.

They:

- Sell gold – because it doesn't have a yield and it will never be needed as a reserve asset.
- Buy foreign government bonds and agency bonds to capture higher yields than local government bonds.

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* These specific base rate figures were mentioned by the speaker in response to a question raised after the talk

- Sub-contract part of the management to outside funds, to create a benchmark for in-house management

But there is one small problem – doesn't the central bank have the inside track on domestic interest rate policy and the plans for government debt issuance? A conflict of interest perhaps? Think for a moment – what happens if the central banks do very well as asset managers – they could be offered mandates from pension funds! And what happens if they do badly – who will sack them? There are no matching liabilities – no pensioners to pay, no insurance policies to mature. They can always expand currency issue and convert to foreign currency. This is akin to owning your own casino! Central banks have acquired a vested interest in the performance of financial markets, not just their orderliness and regularity. Thus, central bank interference has distorted the relationship between the cost and return to capital. The issuance valve has been jammed open.

And the capital markets have become a substitute for bank lending

The revisionism of the 1990s considers that in the early years of this decade banks failed governments (and society) by constricting the supply of credit, thereby inflicting pain on borrowers and amplifying the costs of recession. Banks were therefore punished by tighter regulation of their balance sheets (ie their traditional areas of business = direct lending to customers).

Capital markets have offered a superficially attractive alternative. Virtually unlimited credit growth, enabling the cheap financing of government deficits, the scope for financing long-term infrastructure projects (transport and telecommunications) and ample credit for the consumer – yet without the accompanying expansion of the money supply and its inflationary overtones.

This subtle transformation has government approval – if politicians can still be attracted by the promise of a free lunch, how much more can they be attracted by the financial equivalent of free love – sex without consequences. But why have central banks fallen in with this obvious deception? For they have actively promoted virtually every stage of financial innovation that would secure this cultural transformation – capital markets to substitute for bank lending.

There are only really two possible explanations. Either central bank presidents and governors have acted in a supine and feeble fashion under pressure from their political masters – belying any notion of independence, or central banks have sought a unique and defining role for themselves in order to bully governments and pursue their own agenda.

The personal consequences of global credit expansion

But benign neglect in relation to the expansion of global credit represents a uniformly disturbing trend. Indeed there is nothing benign about this neglect. Behind the popular slogan of empowerment – everyone should be able to afford their own home; everyone should have a good pension; everyone should have access to the internet, is the unspoken desire to maximise purchasing power – ie credit.

Without lapsing into polemicism, I can only describe this process as the socialisation of debt. What happens in education or sport when everybody gets a prize is that the value of the prize is eroded. The value of the prize lies in its exclusivity, its objectivity and its scarcity. The runner who crosses the line first is declared the winner on an objective criterion. No one else is the winner. The number of winners is one.

The extension of credit access to everyone is superficially appealing – it bypasses the banks' stuffy insistence on collateral or proof of income or personal references. Thus safeguards in the lending process that banks have developed over centuries have been implicitly swept aside by the capital markets process. Access to countless billions has been granted to the corporate dreamers, the technology wizards and the financial alchemists of our age.

When, not if, these deals go bad, bonds will default and bankruptcies will soar. Investment returns will turn sour and living standards will fall. Part of the socialisation of debt is the compromise of the debt contract and the removal of personal responsibility for unpaid debts. The ethic of full and prompt repayment, on which the whole edifice of the debt market rests, is under threat.

Personal finance – borrow and go bankrupt in place of borrow and inflate

In the 1950s and 60s it was smart to borrow and then let inflation wipe out the debt. Today's game is to borrow – and go bankrupt. Look at the US. By end 1998 personal debt reached $8 trillion – 111% of annual person income. 25% of home loans are for over 90% of the asset value reflecting aggressive terms offered by federal mortgage agencies. 12% of loans are now granted at more than three times the borrower's annual income and the average term of mortgages in 1998 was 27.8 years compared to 25 years in the 1970s and 22 years in the 1960s. Whereas home loans to single income applicants were 27% of total home loans in 1990, they were 39% in 1998. Medical debt has mushroomed. Credit card borrowing has gone up from $233bn in 1993 to

$454bn in 1998 – an annual increase of 14% and approved but unused credit card facilities have gone up from $668bn to $2,070bn – an annual increase of 25%. People can be in serious financial trouble and still have massive borrowing power without going through any new screening/loan underwriting procedure. And we may note the fourfold increase in casino visits since 1990 ….

Meanwhile the stigma and dire consequences of personal bankruptcy have been softened demonstrably. US bankruptcy filings in the 12 months to March 1999 reached 1.36 million and newly bankrupts are frequently targeted by other credit providers, attracted by their 'clean sheet'! 10% of lawyer advertising in phone books is to promote bankruptcy filing, often provocatively. Counties and cities with high filing rates stay high, regardless of local economic health. Once bankruptcy becomes common it loses its mystery. There is no longer any cross-section correlation between bankruptcy rates and unemployment rates.

Overall, this spells danger. Write-offs of 1% in mortgages and 10% in credit card receivables would send the credit industry into recession. Already the figures are 0.1% and 5.4%.

The delusions that cannot last

To conclude, the build-up of debt in the global financial system is dangerous irrespective of whether it occurs primarily as bank credit or as bonds. Indeed, it is arguably more dangerous if it occurs as bonds. The bond markets have enjoyed a fabulous run; they have allowed large government deficits to be spirited away with barely a whiff of inflation; they have enabled consumers to diversify out of property assets with low returns into financial assets with high returns and they have allowed companies to sustain rapid earnings per share growth in a low inflation environment. These debt-induced delusions cannot last.

BEWARE OF THE DEBT BOMB

Editorial comment from Business Week *1 November 1999*

America's obsession with the ups and downs of the stock market is obscuring what may be far more important happenings in the debt markets. An enormous borrowing binge is under way in the economy's private sector that may make it surprisingly vulnerable in the months ahead. At a time when the federal government is beginning to pay down its enormous debt, nonfederal borrowings have jumped $1 trillion since 1992, rising from 3.1% of gross domestic product to nearly 13% today. It is no accident that Federal Reserve Chairman Alan Greenspan has given not one but two speeches recently on bank regulation and risk management. While talk of a 'bubble' in equities grabs attention, it is debt that may be exploding beyond control.

What's going on? Corporations are borrowing like mad. They are using some of the money, along with internal cash flow, to pay for mergers and acquisitions. But much of the new debt is financing stock buybacks (there is plenty of cash flow for capital investment). Net new issues of corporate bonds are at record levels, even as companies shrink the number of shares on the market. Share buybacks by nonfinancial corporations exceeded new offerings by some $300 billion in the last four quarters. So many bonds are being issued that the least creditworthy borrowers are beginning to suffer. The default rates on speculative-grade bonds has nearly doubled in the past year, to 6%. And while there were many more corporate upgrades than downgrades by the rating agencies in 1996 and 1997, today there are four downgrades for every three upgrades.

Consumer balance sheets aren't in such miserable shape. Rising asset prices (stocks and homes) have encouraged families to cash in options or sell stocks and refinance their mortgages. While people used some of the cash to buy things, a lot of it went to pay down credit-card debt. Consumer debt-to-income ratios are basically flat – though at lofty levels, to be sure. But there could be a serious problem with margin debt: Borrowing to buy stock is at record levels. Should asset prices drop sharply it might trigger a ticking consumer debt bomb.

Perhaps the most worrisome debt headaches are in the financial sector itself. The amount of debt held by banks and other financial corporations is at a record level, much of it supporting securitized mortgages and other securitized assets. Banks are using more and more leverage to do their own proprietary trading as well.

The Long-Term Capital Management debacle of just a year ago should have been warning enough for lenders to tighten up on risk assessment and borrowing criteria, but it clearly wasn't. Securitization and leverage have expanded the ability of the debt markets to finance growth, but they may also make the markets more vulnerable in times of trouble. A sharp correction in the stock market any time in the near future could hurt all borrowers, destabilize the debt markets, and smack the banks hard.

Regulators are right to sound the alarm and call for tougher standards on credit. They must also insist that banks make transparent the risk involved in using and lending for increasingly complex instruments and insist that they prepare for worst-case scenarios. Long-term, Washington should begin a serious discussion on how best to encourage corporations to issue more stock and less debt.

There is no evidence of any major U. S. financial dislocation anytime soon. But that was also true last fall, when a surprise panic gripped much of the debt markets. It's time to curb the borrowing binge.

THE HISTORY OF CREDIT AND SPECIALISATION IN THE UNDERSTANDING OF ECONOMICS

Summary of a talk given by Mr Christopher Meakin, writer, economist and former banker, to members of the Economic Research Council on Tuesday 16th March 1999.

Since the 1970s Keynesian-Monetarist rift was papered over, there has grown up a convenient assumption that, in a compromise somewhere between the two, the fundamental truths about economics has now been revealed. Not much more is left to be explained.

I find that hard to believe. Throughout the Western world we now accept socially-destructive levels of recorded unemployment, and far higher levels of concealed unemployment, as a fact of life. We tolerate, as facts of life, huge discrepancies on the one hand between, say, the partners of the privatising Goldman Sachs, and on the other our inability to pay nurses or teachers enough to keep them in their profession. We tell ourselves we do not know how to expand the public sector without causing rampant inflation, when it is health care and education and good social services that people want. Meanwhile no establishment economist anywhere in the world seems to know what causes fast economic growth in the private marketed sector, or how to promote it.

So there is a lot wrong with economics, and that Keynesian-monetarist compromise is a fantasy. Now I realise that Martin Luther needed to nail no fewer than 95 theses to the church door in Wittenburg to overcome the preceding nonsense, but 95 theses would occupy rather more time than I have available this evening, so let me settle for just one.

It is this. Unless and until economics is rebuilt on a bedrock of ethics and morality, we will get nowhere at all. The notion that the bedrock of economics is a string of mathematical equations which can be programmed into a computer is an absurdity, and it is an absurdity which has been with us ever since Karl Marx wrote Das Kapital. It took a pure mathematician, not an economist, to point out that even the most basic understanding of modern Chaos Theory instantly reduces everything in the Treasury's precious Model of the Economy to a heap of childish rubble.

So my first thesis is this: economics is NOT a sub-school of mathematics. If it is a sub-school of anything at all, which I rather doubt, economics is a sub-school of Mass Psychology.

Most economics teaching these days begins with Adam Smith who published his 'Wealth of Nations' in 1776. And even though advance noises of his economics are found among the physiocrats and others, the subject really begins with Smith. He was a philosopher of exceptional insight and he is generally credited with explaining the Division of Labour principle on which the entire industrial economy seems to rest.

Man's ancestors were playing with fire in China in 600,000 BC. Modern man dates back at last 100,000 years, first with Neanderthalers and by about 50,000 BC, Homo Sapiens had arrived. People with our dexterity, probably our intelligence, probably our sense of purpose, have been around on this planet for a long time. We know there were skilled flint smiths very early, whose output survives in perpetuity for archaeologists to find. Other people made yarn, prepared hides, sewed them into clothing. These pre-historic skilled workers almost certainly went a long way to achieving Adam Smith's fundamental Division of Labour. But something was still missing.

In my view, civilisation only really dawned with *permanent* settlements, with the founding of proper villages. So let's look at that. It was a massive step forward from the nomadic family groups of hunter gatherers living in caves or perhaps tents. We know the earliest archaeological evidence of settled village life is found in the Fertile Crescent. The earliest levels of Jericho date to 7800 BC, approximately 9,000 years ago, by which time the town was already supporting a population probably in excess of 2,000 people. That is a long, long time after Homo Sapiens discovered Smith's Division of Labour, the Specialisation Principle, for himself. Why did it take such a long time to create the settled agricultural economy in permanent villages? That is an economic question to which the Smith 'Division of Labour' tradition, on its own, has no obvious answer.

There must, I submit, have been rather more to it than simply creating a Division of Labour. Let me illustrate my perception of what must have happened, using an ultra-simple model of that first arable farmer somewhere in the Fertile Crescent. I am going to call him Fred. Now, Fred had a huge problem. He harvested his crop of barley, typically, in just a few days of the year, in the early Autumn.

To do so he needed baskets, and agreed in advance with Bill the basketmaker for a supply of them by July, ready for the harvest. By way of payment Fred the farmer promised Bill the basketmaker a full bushel of barley once the harvest was in. Of necessity, Fred and Bill have reached a credit agreement, what we would today call Trade Credit.

I do not see, ultimately, how it could have happened any other way. The easy assumption of historians and economists that it was all done by 'barter' falls apart once we put time into the equation. How could the exchange of produce have been done by simple barter, when farmers and other tradesmen had nothing to offer one another but their own good intentions? There you have my ultra-basic model. Somewhere along the line, the division of labour would require credit agreements – in fact trade credit.

This basic principle, the Creditary Principle, not only applies to products with a time-lag between an irrevocable decision to produce, and the final achievement. It is also something else. Credit is the only way to organise production which depends on a chain of intermediate production of 'industrial goods'. No-one can eat osiers. They are of use only as a means to production of something else. Wally the woodman must give credit and then wait for useful payment. Only once the baskets made from his osiers have been used to transport something, such as corn, can he actually consume.

With the Creditary Principle to hand, we can at last see why mankind's progress from an intelligent, dexterous, flint-knapping hunter-gatherer, into an arable or pastoral farmer living in settled farming communities, took such a very long time. As soon as we apply the Creditary Principle to our perceptions, we realise that three essential steps must have been involved.

FIRST STEP: the invention of language. I am not talking about some primitive descriptive language but the full works: a sophisticated language rich in complex abstract concepts – such as trust, honesty, fair play, reliability, indebtedness, time and future time.

SECOND STEP: unquestioned consensus on meaning and morality. Not only did man need a developed language with advanced abstract concepts, but there had to be extensive and undisputed agreement about the significance of such words as fairness, debt, obligation. From what we have come to know of the gradual evolution of languages and the meaning of words within them over, say, the past couple of thousand years, it is a fair surmise that establishing a language with the level of sophistication required for a Creditary System took a very long time indeed.

THIRD STEP: this early society also had to respect and uphold advanced moral standards. Welshing on a debt had to be a wicked transgression which everyone condemned. There had to be some mechanism, which everyone supported, for remembering, confirming and settling debts.

My real point is this. The Creditary Principle requires all three of these conditions – the development of language, consensus on meaning and legal enforceability – to be fulfilled before permanent agricultural settlements could come into being. These were *prior* conditions, not some humanitarian attributes which gradually developed afterwards once a farming society had emerged. It was not just a question of intellectual capacity or manual dexterity. Once one grasps the essential Creditary Principle, it immediately becomes clear that major cultural and moral components were indispensable as well.

It was all very human and evolutionary. There were probably many false starts by idealistic small agrarian societies, if you like family smallholdings, which came to grief because the essential linguistic, moral and legal foundations were not in place.

So let us next see how the Creditary System evolved.

I hope someone noticed, but when I was talking about the three conditions to be fulfilled before a Creditary system could exist, I skipped quickly and lightly over one of them. What I said was 'There had to be some mechanism, which everyone supported, for remembering, confirming and settling debts'. Aha, you are asking, so how was that being achieved for several millennia once farming settlements established themselves in the Fertile Crescent?

Back to farmer Fred, Wally the woodsman and all their business suppliers and customers in the primitive agrarian village. They had credit agreements among themselves. These agreements were remembered, and recorded, verbally. It was an oral tradition and exactly the same oral tradition exists still in non-literate societies.

Debt recording and enforcement was the original function of the village wise man, the chieftain with his council of elders. In earlier hunter-gatherer societies, the boss would probably have been an all-round athlete, the fastest runner, the strongest spear thrower. In a division-of-labour agricultural village with debt agreements to record and enforce, the boss would be the old man with a powerful sense of fair play and the longest memory.

A Creditary system relying on oral records has many shortcomings. Murder the tribal chief and it would be just as if everyone's overdrafts had just been erased from the main computer at Barclays. Both the computer and the village chief record all the principal, netted debts in a single brain. If that brain is human, its capacity soon limits the number of debts which can be recorded successfully. An oral system of recording debts can grow neither very large nor very sophisticated. Such village economies, perforce, would remain small.

To achieve a division-of-labour economy of a size which matched his technical, intellectual and physical potential, man really needed a way to record debts in an inanimate and permanent way. He needed a method which was not ultimately restricted by the fallible memory capacity of his chief. This is what was started to emerge in Mesopotamia around 3500 BC.

Archaeologists are very familiar with small Mesopotamian clay tablets and tokens, thrown aside in their thousands in years gone by as they searched for something more interesting. The tokens and the later tablets are often referred to as 'trade records' – one need only read the captions in display cabinets at the British Museum. The evolution must have happened something like this.

Farmer Phil, the many great-greats grandson of farmer Fred, promises to deliver a sheep some time in the future to pay for supplies given him now. But his promise is not agreed before the village wise man. Instead he now hands over a clay token for the debt. It describes the debt and in some way he must authorise the token personally to confirm he is the trader who will ultimately honour it.

As familiarity with the new system grew, and debts recorded on clay tablets gained acceptance among a wider and wider community, businessmen would be confident to accept larger and larger debts. Available archaeological records show they initially accepted the debt of a single sheep, and later accepted a token for an entire flock of sheep. Indeed these developments in Mesopotamia reveal mankind making his earliest known steps towards the principles of number and expressing his discoveries as arithmetic.

In the process the role of the clan leader, the chief debt rememberer, changed too. He now became a king, but his primary role was still to record the pattern of debts and where necessary enforce them, albeit on a much broader scale. The earliest known writing developed within the Assyrian court, in a royal bureaucracy which recorded promises to do business and provide services.

One early development appears to have been to make debts transferable between creditors. The clay tablets were obviously designed to be portable, and that does raise a question mark over whether the only creditor was the Temple.

In other words, the Creditary system dispensed with the creditor's identity. Don't underestimate the significance of that, either. It was a remarkable step forward, not least for the new creditor, who had never looked farmer Phil straight in the eye, nor shaken his hand, but was nevertheless reassured that an entire flock of sheep would come his way simply because he possessed the man's chunk of inscribed clay.

The next important step in the development of the Creditary system was to introduce a standard unit of account, the mine of silver. Surviving records also reveal the most complicated promissory deals: in ancient Assyria we can clearly discern types of business transaction we know in today's London as Derivatives trading. The Assyrian commercial system permitted ways of doing business which were prohibited in Britain until financial enlightenment swept the legal restrictions aside in the nineteenth century. So by 2000 BC, with over a thousand years of development of the clay token system, Assyria had developed a trading-cum-financial process which, although still primitive by twentieth century standards, was already a *million miles* beyond simple barter.

Let us just take stock. By 2000 BC or so there was a written Creditary system which made possible a huge division of labour, and economic activity sufficient to support whole city states and beyond. It was facilitated by, made possible by, a massive advance in the Creditary system. So let me now put a cat among all these apparently familiar economic pigeons. For all this economic sophistication in Assyria, please note that money, as economists usually describe the coinage, was still 1200 years or so in the future. That is greater than the gap between ourselves and Alfred the Great. Why?

The coinage, true money, is not only comparatively recent. It is also much more difficult conceptually than we might all think. It is an upgrade of the original Mesopotamian debt token, one which over a period of the next two millennia, no less, developed in three vital ways. The first upgrade, as I have mentioned, was to make it transferable between creditors.

The second upgrade was to dispense with specifying the exact commodity concerned. The token was good for payment in alternative commodities.

The third change was to take another 1500 years and was by far the trickiest of the lot. The Assyrians had a sophisticated system but it always depended on knowing the identity of the debtor. The next upgrade was to dispense with that too. The debt was there and acknowledged, even though there was no known debtor. Debt tokens now become totally anonymous and reusable. And at last we have true money, the coinage.

A coin is simply a re-usable, portable, anonymous debt token. The system first emerged in Asia Minor in the seventh century BC, over a thousand years after Assyria's highly sophisticated Creditary achievements. The earliest known coins are Greek: staters from Lydia minted in the reign of King Gyges in 670 BC.

The true coin is legal tender for a debt, anyone's debt, of anything, to anyone, and can be re-used. It is nevertheless still just a debt token, no matter how much the money illusion mesmerises people into imagining it is wealth in its own right. People quickly reject the coinage in distrustful times. One economist who grasped the point precisely was of course Adam Smith, who wrote: 'A guinea may be considered as a bill for a certain quantity of necessaries and conveniences upon all the tradesmen in the neighbourhood'.

Now that it was no longer necessary to know the identity of the original debtor, the tokens could be used over a far wider territory … like the whole of the eastern Mediterranean. It made possible the first Common Market, complete with its Single Mediterranean Currency.

With Greek staters and their derivatives in use across the Roman Empire, that by and large was how the Creditary system worked for the greater part of the following two millennia. The same system takes us forward right into the Medieval world.

Modern banking emerged in 13th century Florence or Venice, and because much of that curious industry is counter-intuitive, it is time for another of my ultra-simple models. I have switched classical staters into medieval gold ducats, but the Creditary concept remains quite unchanged.

One day, a gold merchant of Florence with just 1,000 ducats in his treasury was asked for loans by the Duke of Here and Count of There. Instead of handing out gold coins to circulate, he had a new idea. 'Simply send me a note each time you want to spend some, and I will adjust your personal pile of ducats in the Treasury to match.' They agreed, and on that basis were lent 600 ducats each.

Next the builder and the grocer both came along and said 'Lucky chaps, those dukes and counts. We would like some of these new fangled loans too, please.' So our merchant lent them 400 ducats apiece and the same condition applied. The gold ducats all stayed in his Treasury, and the traders simply sent a note to the Treasury each time they wanted to pay a bill. It all worked splendidly, and the merchant grew rich on the interest and the bank charges.

So: what has been created? The original 1,000 ducats are still heaped in the Treasury, unused, while an active Credit supply of 2,000 ducats means aristocrats and merchants are all busily sending one another cheques, and trade is booming. Umpteen more would-be borrowers are knocking at the merchant's door, although he has now hung up a smart bronze sign saying 'Banker' instead.

In principle this new banker could carry on expanding the credit supply indefinitely until everyone in Florence has all the loans he or she could want – just so long as enough of them are creditworthy to keep the banker in business. And that is the key principle to grasp. Banks can go on generating fresh IOUs for ever: there is no limit on their capacity to create loans.

After a time, it would no longer occur to dukes or grocers to come and gaze at the useless pile of ducats in the banker's vault. He might just as well melt them all down and make them into wedding rings. They were only ever tokens of debt in the first place, and **they have been superseded by numerate clerks shuffling bits of paper and allocating everyone's debts**. The strength of a banking system does not, repeat not, depend on the size of the ducat pile in its vaults. Everything depends on the creditworthiness of the people to whom it has made loans. Ask that of anyone who lost out when BCCI crashed in 1991.

I believe it is important to spell out this simplified model of the prototype bank, and for two reasons:

First it shows how banking, like many economic concepts, especially those involving credit, is counter-intuitive. Most people, on raising a loan, believe they have received an allocation from a finite supply of loan resource which the prudent banker allocates as in a rationing system. Not so: in principle any banker could in principle carry on creating new debt *ad infinitum*.

Second, the model might discourage over-enthusiastic historians or even archaeologists from proclaiming that they have just unearthed the world's first bank, in 2000BC, in ancient Greece, or somewhere in China. Unless the institution is creating intangible and anonymous debt for its customers and feeding it into a Creditary system which can handle it, the institution – whatever else it may be – is not yet a bank.

I expect my model of a ducat bank *sounds* simple enough, but it did not happen without problems: the House of Buonsignori in Sienna had already crashed by 1295 – too many bad loans. Forty odd years later the Acciajoli, the Bardi and the Peruzzi were forced to suspend payments because they were too deeply into England's Edward III as he re-armed to fight the Hundred Years War. England in those days was still well beyond the Pale, and its kings had yet to come to terms with the curious notion that bank loans must be repaid eventually.

How did this great advance come about? I have already given you the vital clue when I mentioned those numerate clerks sorting credits and debits in the banker's counting house. They were a very new phenomenon, but they were 700 years in the making. I spent many years wondering why banking happened when it did but the answer, once found, is obvious.

It was made possible by the introduction into the West of what we now call decimal or Arabic arithmetic. All of a sudden, serious book-keeping became feasible. Once again we can identify another great stride forward in the economic system. The Italian banks, as they became established and highly enterprising, made possible the great European voyages of discovery. It was all very clever stuff and it played a key role in triggering the Renaissance.

In another way, too, the new banking was conceptually a step backwards in time. It replaced anonymous and re-usable debt tokens we know as coins with one-time cheques which related to a single transaction between a specified creditor and a specified debtor. In one sense man went back almost 4,000 years to Mesopotamian clay tokens.

It took a further 400 years before the endless paperwork problem could be solved. The solution was to reinstate the anonymity and re-usability of the debt token – and the means was the invention of banknotes. The Bank of England was founded in 1694 and the new invention of banknotes had a lot to do with it.

Less than a hundred years after the first banknotes appeared, Adam Smith found himself amid the rapidly expanding economy which this latest step in the creditary evolution had made possible, and published his Wealth of Nations in 1776. We have come full circle. In his famous book Smith at last earned public acknowledgement for the Division of Labour, the Specialist Principle, even though by then it had been around for at least 50,000 years. Now, a mere two hundred years later, we are already considering its invisible twin the Creditary Principle, and that has been around for only about 11,000 years.

These two principles, the Specialist and the Creditary, have been spiralling upwards together and creating economic growth, more or less since the first permanent settlements were founded on agriculture in the Fertile Crescent. They are the double helix of economics, but their progress is not matched and smooth.

The Specialist Principle has developed in a steady continuum since the first flint-knappers, moving forward as mankind steadily builds his knowledge and skill on many different fronts.

The Creditary Principle seems by contrast to move in large steps achieved over short periods of time. The first such was agricultural settlement. Its Creditary structure depended on the availability of a spoken language rich in abstract moral concepts, on moral consensus and on a communal respect for law. That made permanent villages feasible.

The second step was practical, based on the invention of writing and number, and the creation of inanimate debt records. These made the complex urban economy possible.

The third step was again rather more conceptual and ethical: anonymous transferable debt systems we know as coins. The system would have been wrecked if unco-operative merchants had held the proffered stater to the light and asked suspiciously 'What's this supposed to be exactly, then?' Coinage, the acceptance of coinage, made possible the first common market, and appears to lie at the root of classical civilisation.

The fourth step, like the second, had a practical basis in the introduction of the far more efficient 'Arabic' arithmetic, and later with the progress of writing into printing. They made possible banking, and with it appear to lie at the root of the Renaissance.

The Division of Labour usually makes itself very apparent: we can all grasp that educated skills are needed for flint-knapping, farming, fishing, pottery or engineering. Creditary systems are far less apparent. Each major step has required a conceptual leap. It did not speed progress that they were often counter-intuitive concepts, which is why I have gone to some lengths to explain in particular the topsy-turvy principles of banking

And so to the present and future. Everyone in this room probably has credit cards in their wallet – yet it is only 33 years since the first of them, Barclaycard, was launched in Great Britain. For the past few decades or more we have been able to use that one Visa Card almost anywhere in the western world. It is the late 20th Century substitute for physical money. We now use it abroad without thinking – to pay for meals and lodging, to draw money out of banks in whatever the local currency happens to be. This universal acceptability does make much of the philosophical posturing over a Single European Currency look really rather phoney.

We are standing on the brink of another step in the Creditary evolution of mankind. All such steps are very powerful. This next one is more than capable of overturning and replacing a system of political organisation which has served the world as we know it for about 600 years. The banking system is changing as we watch. Less and less do modern banks make credit-granting decisions themselves. More and more their task is simply to monitor other people doing so. Now we also have debit cards, and in the process the whole Renaissance concept of a bank is putting itself back into the melting pot. For most of us, a hole in the wall will suffice most of the time.

Who are we to say where all this will in due course lead? In Creditary terms, mankind is caught up in the whirlwind progress of his next great transformation, and it will be at least another century before things sort themselves out. The political, organisational and indeed ethical fallout of the transformation is plainly visible all around us.

What I have attempted to do is to build a jigsaw puzzle. Its various bits, the components of economics, are familiar enough. What is not familiar is the way I fit them together, to build the complete picture on the box lid which I call 'Creditary Economics'. It is a vision of economics which marks a total divergence from the tradition of quasi mathematics. My aim with the Creditary approach to economics is to bring ethics and morality right back into the centre of the picture. It is not just about mathematical equations!

So there you have the inseparable twins of economics: the Specialist Principle, and the Creditary Principle. Understand them both, and all kinds of truths about the economy begin to emerge from the intellectual mist. Above all, that clarity puts the financial system where it belongs, as the servant of the physical economy. Yet until we understand all these things properly, the financial system will remain where it is today, the master of the physical economy. And therein lies the root cause of all those contemporary economic problems with which I began my talk.

THE ERC PRESIDENCY 1985–2000

At the Annual General Meeting of the Council held on 8th December 1999 the Chairman reported Lord Ezra's wish to now retire from the position of President, having served for 15 years.

Since 1985 the noble Lord has given the Council very valuable leadership and it was felt by the Committee that his departure could not pass without a vote of thanks showing appreciation of his sound advice and considerable effort offered on the furthering of the aims and objectives and the strengthening of our organisation.

Lord Ezra's association with the Council goes back at least to 1977 when, as Chairman of the Coal Board he spoke at a dinner meeting on 'problems of management'. He spoke at further meetings in 1985 and in 1989 first on 'A Need for Industrial Strategy' and then on 'Industrial Policy'.

Always ready to play his part in encouraging Council publications he warmly endorsed the need to rethink the balance between capital and current expenditure in the public sector (Investing in Britain's Future 1985), encouraged research on the nature of money (Reflections on Money 1990) and joined Russell Lewis in ringing alarm bells over the growing extent of state intervention and regulation (The Deadweight State 1998). Most recently Lord Ezra's work with the House of Lords Select Committee investigating the work of the Bank of England Monetary Committee, has been directly in line with the central interests of the Council.

John Warburton

EUROPEAN 'LIBERAL ECONOMIC PRINCIPLES' UNDER THREAT FROM EU ENLARGEMENT

An extract from comments made in the House of Lords by The Rt Hon Lord Biffen on 7th December 1999

Whether we have enjoyed it or not, what we have got used to (in the EU) is a highly developed liberal market economy centred around the single market with all the state intervention required to make that effective. That is under the overriding bridge of strict monetary discipline which will be embodied in the ecu.

Do we suppose that that structure will survive the experience of enlargement? I believe that that is highly unlikely. I do not believe that the structure is going to survive in today's European Union. We have gone through a phase in which liberal economics have been high fashion and I have been delighted to ride that particular fashion. But there is now a growing concern about distributive economics, the Social Chapter and the social obligations of business in a way which would not have been true a few years ago. Of course, they will extend to environmental matters and the issues so graphically addressed at the abortive meeting in Seattle.

It is not Oskar Lafontaine one should regard with any degree of apprehension concerning the tensions within the European Union; it is the fact that there is a revival of communism in Poland and Hungary, a revival of a situation where the state is expected to resume much of its traditional role; namely, to provide protection against the consequences of economic change, which is the hallmark of economic liberalism. For that reason, I say to the House, 'Watch this space'. Do not suppose that enlargement will help to reconcile these tensions and difficulties. I suspect that just the reverse will happen.

I shall dwell for a moment on the actual size of the proposed expansion. Of course, in the past, the European Union has expanded on a number of occasions, but this proposal stands alone in numerical terms for a prospective expansion. The expansion will bring in between 60 million and 65 million people in the first wave, which is now underway; 40 million in the second wave which, it has been indicated, will not be far behind the first wave; and finally, in Turkey itself, 60 million. In aggregate terms, that amounts to about 40 per cent of the existing European Union. Do not suppose that those numbers can be absorbed merely by extending the transitional period. Indeed, the transitional arrangements monumentally underplay the significance of the challenges we now face.

Finally, the difficulties are exacerbated by the difference in living standards.

In Appendix 4 of the Select Committee's report, it is shown that, expressed as a percentage of average EU living standards, the Czech Republic has the highest percentage at 60 per cent, then Hungary has 49 per cent and Poland has 39 per dent. I have chosen the three most significant economies. It is staggering to believe that it will be possible to take into Europe's political, economic and social Community nations with such disparate living standards as have been presented. When I examine the detailed figures, I believe that this will be a massive challenge – probably as big a challenge as any free society has had to encompass.

Of course, there are times when such decisions are made, normally under the threat of external pressure – the threat of war. We do not have that threat now. The quite extraordinary and very welcome situation is that peace has now held sway in Europe for generations. There are no external pressures that require these changes. So I look to see where is the crusading spirit to enable the enlargement to be a success.

I shall quote again from the report of the Select Committee. When taking a test of opinion about enlargement, the committee found that the average level of support for the applicant states joining was 42 per cent. In the United Kingdom, support was 40 per cent; but others showed significantly lower support: Germany 38 per cent; and France 33 per cent. I thought that we were the reluctant Europeans. Now we have a situation where Germany and France are polling less enthusiasm than are we. I do not have to spell out the argument: those countries have assessed the economics of the situation. They have considered who will be signing the cheques. Those countries are making decisions not on a grand view of pan-European peace but on money. That is not a basis for the kind of sacrifices that must be envisaged by enlargement.

Of course, I wish the Minister and her department well in the negotiations. But I hope that they will not travel too full of hope and that there will not be too much facile optimism in the Foreign Office. At some stage, someone will dust down the print of William Pitt after Austerlitz saying, 'Roll up that map' of Europe, because we are at a sea-change in our relationships. We are seeing a future which, despite a veneer of comparability, will be wholly unlike the past. The fear should be that the future will not only itself be abortive, but that it will undermine what success has been achieved in the past.

THE CONSCIENCE OF EUROPE

Ed. John Coleman. Joint publishers: Council of Europe Publishing and New European Publications. Price £12.00

The construction of this book is unusual. John Coleman began by writing an essay – an inspired essay. In 14 pages and from many strands he paints a picture of Europe riven over the centuries by conflicts both regional and local amidst which Europeans have repeatedly sought some higher principle, some higher authority, some standard that all can respect which can serve to guide and judge, justify and legitimise, the actions of those faced with conflict. Europe has always been at its best when this has been found and holds, for a period, consensual acceptance. In Coleman's essay this higher principle is 'The conscience of Europe' and is referred to quite often in other parts of the book as 'the soul of Europe' or 'the spirit of Europe'.

The essay was then sent to a range of possible contributors chosen not for their political importance but because of some artistic, spiritual, moral, cultural or breadth-of-experience quality. Churchmen and statesmen, poets and philosophers, each was asked to contribute a response which might be collated, with the original essay, into a compiled work. The result is truly remarkable – and in truth impossible to review. How can one review a subject that one feels obliged to treat with humility rather than authority?

One can but sample. Vaclav Havel, President of the Czech Republic, notes that 'Without courageous people, courageous structural changes are impossible' and that 'We shall never build a better Europe if we cannot dream of a better Europe'. George Bull, Renaissance scholar, declares 'When, as happens only too often nowadays, I hear crude disparagement of European identity by fellow-Britons, I groan inwardly at their apparent indifference to – perhaps ignorance of – the gloriously rich culture of Virgil and Dante and Milton and Goethe; of the classical orders, mediaeval foundations, the Renaissance and the Enlightenment, of music and medicine, of architecture, sculpture and painting, of analytical and creative intelligence manifested in unique depth and variety in our shared European home since the fifth century BC.

George Carey, Archbishop of Canterbury, comments that 'For me, being European is precious because it is something additional and inclusive. I do not want to be European *instead* of any of my other identities, but as an extra dimension which brings extra blessings.' Noriko Hama insists that 'A heart (which she sees as a possible role for the Council of Europe) with which to love the European cause, even if your neighbours do not seem all that likeable, is surely what is needed to bring body and soul together in today's Europe.'

Despairing of narrow materialism and past injustices Karekin 1, Supreme Patriarch and Catholicos of All Armenians cries '*Unity* of Europe! What is it for without the *conscience* of Europe?'

Diana Schumacher lists ten commandments for environmental policy-making through locally accountable democratic institutions linked through the Council of Europe. Ziauddin Sardar speaks of the positive contribution which European Muslims can make if the principles of pluralism and respect for identity are maintained, and Cardinal Franz König, former Archbishop of Vienna, points to the ideas in Christianity which have linked the diverse peoples of Europe in the past – and will need to do so again.

Over and over the dangers are recognised – of materialism, globalised power, of European uniformity and over and over, each from different perspectives, the contributors call for forums where non-materialistic values of all kinds can be recognised and focused with institutional legitimacy on the emerging structures of 'Europe'. The origins, development and character of the Council of Europe suggest that that forum could be the best place to start.

J.B.

MARKETING IN JAPAN

By Ian Melville. Butterworth Heinemann 1999. Price £19.99

Melville seems terribly anxious not to offend anyone. We are told at the start that 'This book uses non-sexist language'. S/He can relax. The subject matter covers all those frustrating aspects of Japan that have infuriated firms and governments but all is to be 'explained' and 'put in context'. Problems can be stated – but not condemned. Even purchasers of the book just might feel upset if asked to pay £20 for it. Books about Japan seem to come in four broad categories: the Japan bashers, the Japan critics, the Japan apologists and the Japan enthusiasts. Anyone who aims to stay in Japan and live from consultancy contracts and long term employment needs to join one of the latter two categories and of these the Japan apologists are the more honest – and can count this author amongst their ranks. For he is (with acknowledgement to Gilbert and Sullivan) the very model of a modern market Guru-San …. Nonetheless this is a most remarkable book.

The strength lies in the useful detail. Instead of generalisations he gives 'chapter and verse' in every section. In some 236 pages we find 16 chapters containing over 220 underlined headings and at least as many more sub-headings. Many of these on such topics as *The shokai-sha* (an introduction-person), *Jinmyaku* (one's circle of contacts), *Omiyage* (obligatory gifts), *The Dai-Ten Ho* (Large-Scale Retail Store Law) and plain English headings such as *Setting the price*, *Thorough quality*, *Smart data* or *Japanese business perquisites*, contain lucid informative and instructive accounts. There is much to learn and the style is engaging without being in any sense overbearing.

Case material is not only abundant but excellently researched. McDonald's, Porsche, BMW; JieStar & Fox Bagels ; Nike & Levi's. Inside stories succinctly and confidently recorded. And there are many cases taken from Japanese firms as well – giving information which must have taken a great deal of diligent enquiry. An admirable effort in difficult language conditions.

Critisism in these circumstances is perhaps too easy. One might ask for a little more of 'the reason why' rather than simply the characteristics of Japanese as customers. Why have they so little ability and imagination when it comes to DIY? One might ask for a little more depth of economics when studying support for the Large-Scale Retail Store Law. Limiting numbers does wonders for supermarket margins. Only the consumer loses.

One might ask for a little more recognition of the role which exchange rates might play in overcoming Japan's market entry problems. One might ask for the diagrams on the role of wholesalers (page 194) to be re-drawn with competing rather than monopolistic wholesalers … and much more.

At the end of the day however, whilst this is not an account of some new theory to finally explain the uniqueness of the Japanese – which might or might not be exciting, it is an invaluable guidebook and a source from which those who already have experience of Japan, can fill in the gaps of their knowledge.

J.B.

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
Economic Research Council
239 Shaftesbury Avenue
LONDON WC2H 8PJ.

Date ....

APPLICATION FOR MEMBERSHIP

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

This application is for
(delete those non-applicable)

Individual membership (£25 per year)
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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 ....