BRITAIN & OVERSEAS

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

Spring 2000 Vol. 30, No. 1

Editor: Jim Bourlet

The articles published in this journal do not necessarily reflect the views of The Economic Research Council

Published quarterly by
The Economic Research Council
239 Shaftesbury Avenue, London WC2H 8PJ

Price: U.K. £15 Australia $35 Canada $35 New Zealand $45 U.S.A. $25 Japan ¥4,000
ISNN 0045-2866

President	Lord Biffen
Chairman	Damon de Laszlo
Vice-Presidents	Sir Peter Parker MVO Brian Reading
Hon. Secretary	Jim Bourlet
Executive Secretary	Professor Peter Davison

MEMBERSHIP

Membership of the Economic Research Council is open to all who are in sympathy with its declared objects. The minimum annual subscription for individual members is £25 for full members, £15 for Associate members, and Student members £10.

Corporate membership is open to all companies and other bodies, minimum annual subscription £55 (Educational institutions £40) in respect of which they may send up to six nominees to any of the Council's discussion meetings and lectures.

Executive Committee

Damon de Laszlo (Chairman)	Robert McGarvey
Tony Baron	Dulcibel McKenzie
Jim Bourlet	Christopher Meakin
Peter Davison	John Mills
Peter L. Griffiths	Alan B. Parker
John Hatherley	John T. Warburton

THE NEW PARADIGM – MIRACLE, MIRAGE, OR WHAT?

Extracts from a talk given by Roger Bootle, Managing Director of Capital Economics, to members of the Economic Research Council on Wednesday 8th December 1999.

My subject is the extent to which we are in a new and better economy and I am going to list in ascending order of challenge, the propositions that this involves.

Inflation is dead

First of all, the-world is now one that is characterised by permanently low inflation. All sorts of things follow from this like low interest rates, price transparency and the avoidance of losses (and we can debate how large they may have been) caused by the dislocation of previous higher inflation rates. Since most economists now sign up to this proposition it can be regarded as rather boring.

Now we can have low inflation and a booming economy

The second proposition is that the world has changed in such a way that it is now possible to have low inflation and a booming economy. At least in the United States and Britain we see low inflation, very low unemployment and high capacity utilisation. Amid all these signs of prosperity the accelerating inflation predicted by the experts and models based on past experience, has failed to appear.

Now this is considerably more challenging than the view that inflation is going to be low, and it is by no means in the bag. Many people argue that if we carry on pushing the economy to the extent that they are in the United States then inflation will pick up again, the authorities will impose higher interest rates and we could be back in recession with a weak economy and high unemployment. But I think that there are good reasons why this will not happen.

To start with, look at history. After the Second World War there was a very long period of terribly low unemployment – around 2%. And then things went badly wrong. In the 1970s unemployment shot up accompanied by high inflation. When we eventually got around to reducing inflation unemployment went still higher until, in the 1980s, inflation gradually came down again. Relationships that deteriorate can also improve. In my view what has happened is quite simply the unreversal of the reversal and the fundamental undoing of the sort of forces that produced the deterioration in the first place. My suspicion is that we are moving back to something even better than the sort of relationships that existed in the 50s and 60s.

Why? What is going on? I think that we have the macro economic equivalent of all the efficiency gains and improvements that have taken place in companies. The simplest level I think you measure it by is the degree of slack which it is necessary for the economy to run with in order to keep inflation down. The fact that the necessary rate of unemployment (or if you like the 'natural rate' or the 'non accelerating rate of unemployment – NAIRU) has come down, or appears to have come down, a lot, is I think the macro economic analogue of all the efficiency improvements that has happened in the business world. It is the result of more intensive competition, the collapse of union power, and the increased marketisation of just about everything in our society (which privatisation has a lot to do with here). The result is that the economy works with much less slack and this has quite big implications. We are talking about using all of our resources more intensively: plant, machinery, land, people, buildings – absolutely everything.

That is what happened in the United States. It hasn't happened very much in Europe, which is, I think, one of the interesting things. I think that you could start to get very bullish about the outlook for Europe in this regard because they've substantially got this process in front of them if only they would see it. But this second level is still all really quite orthodox.

The sustainable trend rate of growth is faster

The third level starts to get more challenging in saying that not only have there been changes to inflation but that the sustainable rate of growth has picked up. Plenty of interesting people from Alan Greenspan downwards believe precisely this – that the change in the economy, partly to do with computers and partly to do with competition, has brought about a state in the world in which the sustainable trend rate is faster. After all, look at the phenomenal rates of expansion that countries in East Asia have been capable of, so why should we accept that there is some God-given rate of expansion of 2% or whatever?

Now in the United States there is just a little evidence in the statistics that the trend rate has increased (though in the UK none whatsoever because recent productivity growth figures are appalling) but I think that the statistics are basically bunkum. When confronted with a clash between one's strongly held intuitive view based on a lot of experience and the official data, I've decided to back my intuitive view all the time. There is something very bad about the way we collect data on output and productivity, particularly in the Service Industries.

What seems to be happening is that very high rates of investment, particularly in information technology, combined with increased competition and globalization, are creating a process in which, spread over a long period of time, in one industry after another something that is inefficiently done here is replaced by something that is done cheaper elsewhere. The rolling process of this going on and on and on – to an extent that wasn't true before, results in faster growth. But even this is still very much 'old paradigm' – we haven't yet reached the (usually incomprehensible) 'cyber-Gurus'.

Something fundamental is changing in the structure of the economy

The next stage is concerned with the notion that what is now being produced often just doesn't obey the old laws any more. This comes down to two (not necessarily exclusive) essential ideas. The first is the importance of networks and so-called network effects. Economics grew up in the 18th Century in a world dominated by agriculture. The fundamental concept of 'diminishing returns' was essentially an agricultural concept revolving around the idea of applying more and more amounts of labour to a fixed amount of land. This was then sort of 'bolted on' to the industrial world where, cranking and creaking, it only just about worked. What makes networks (with the internet, email, the telephone system – and incidentally common languages) different is that when you expand the number of people members of the network, far from the extra unit producing lower return, it actually produces a higher return. Each individual person connected to the network as you expand is connected to one more person than the previous person was connected to, so that there are continuously *increasing* returns, – just like a 'chain letter'. Generalised network effects are becoming increasingly important.

The second idea concerns the production of intangible knowledge-based ('weightless') goods. We are familiar with the notion that we've moved from a predominantly agricultural to a predominantly industrial world and on to a predominantly service sector economy. Most of us still visualise these services in terms of those heavily connected with the material world but in the last twenty to thirty years more and more of the value in things is connected with the immaterial.

For example, take music – say a Beethoven symphony. It possesses the economic quality that if I consume more of it the amount you can consume isn't in any way reduced. The thing is abstract. It can't actually be consumed because it is just there and the number of times it can be enjoyed (consumed) is potentially infinite. Now, when you think about it this characteristic applies to all sorts of things. Disney films for instance produced in Hollywood (originally for the enjoyment of a fairly small audience) are available, as the world becomes globalized, to vast numbers. There are more than a billion potential customers in China once they are fully incorporated. What does the fact that there are a billion more people in China who can be entertained by a Disney film (let's take one example – Jungle Book) do to the production costs of Jungle Book? Answer – Nothing! – not a single cent! It is true of course that Jungle Book at least at the moment is distributed in little bits of plastic which are videos or whatever which get sold in shops and go through doors and bunged into a video machine and so on. But don't let that persuade you because the value is not in the bits of plastic, or bits of metal tape or whatever (they are almost free anyway). The value is in the thing, in the idea. It is the creative idea.

Another way of seeing where the value is, is to look at what created the riches for the richest people in the United States. In 1900 the things that made them rich were heavy – very heavy like coal, oil, railways and later cars. But the things that make people rich there today by and large have no weight at all – computer software, entertainment and ideas. Especially ideas about means to be more healthy – which is surely what more and more money will be spent on. They may take a pill or an injection or something but what actually will cure their cancer or heart disease or whatever is not really the physical thing but the idea, the discovery and the knowledge that this will work. And again, once the discovery has been made there is no extra cost whatever in enabling a billion Chinese to know it. So the average cost plummets which is what I think looks really rather interesting and quite different from the world in which we have all grown up.

This 'weightless' world is not yet the dominant part of the economy but it is becoming so at an extraordinary rate. It seems to me that this does have the potential to do quite profound things to the sustainable rate of growth in our societies. It is very, very powerful and it is akin, I think, to some of the great leaps forward that occurred in human history before.

Also, the current situation is extraordinary because we have the coming together of three things which need not necessarily have come together. First, there is this increasing importance of intangibles. Second there is the technology for distributing it – the Internet. It is impossible to imagine the Internet coming into existence in the world at a time when our economic development was at the Model T stage, when our economies were dominated by physical goods and the need to transport them. Wonderful though the Internet is, it couldn't, of course, transport the Ford Model T anywhere in the United States, never mind across the world. But what we have now is the emergence of 'the Internet' ideally suited to the transmission of inanimate, intangible things, that is to say ideas and knowledge, which happen at this very point to be becoming increasingly important. And moreover – this is the third thing – these things are happening at a time when largely for other reasons the world is becoming open and globalized. It's all a pretty attractive prospect.

But stock market euphoria is unjustified

Can all this justify current moves in the stock market? This question is, I think, more than just flippantly important, because in most people's minds the idea of the new economy or new paradigm or whatever, is very closely bound up with justification of the stock market – the two are thought to stand or fall together. This is not necessarily true. The problem is that (especially) the US stock market has discounted umpteen new paradigms at once. That is to say, it is possible for the things that I have been talking about to be substantially true and yet for the US stock market to be substantially overvalued. That is what I believe to be the case.

Higher sustainable growth certainly justifies a higher stock market level. But how much higher. 10% higher, 200% higher, 10 times higher? A hundred times higher? I think that the stock market has lost sight of fundamental concepts of value. Even the Standard and Pore 500 has a PE running roughly at a level of 30 – way above where it was before the 1987 stock market crash.

I come close to Peter Warburton in seeing that the risk facing the US stock market is that several things could go wrong simultaneously. One point is that the market could fall if investors recognise the overvaluation and take account of some of the peculiar accounting practices which have gone on to boost earnings. Another point is the traditional macro risks since a lot about the United States is still very old paradigm indeed.

And the New Paradigm will benefit consumers more than corporate earnings

It seems to me that if you think about the changes and what they are likely to imply, I would say that it would be consumers and workers rather than companies. What these changes are doing is making business more transparent, especially on pricing. Making it easier for people to compare, to shop about, makes it more difficult to defend monopolies and quasi-monopolies. All this of course operates against profits. Now my own view of this therefore is that if the new paradigmal ideas are right about sustaining a faster rate of economic growth, the consequence will actually be faster growth of real wages and real consumption. The stock market is currently blind to that idea and seems to think that the benefits flow through to companies.

Historical parallels

There are, finally, a number of interesting historical parallels to the current situation. Although I have called it the "New" paradigm there have, of course, been something like new paradigms before. There have certainly been technological advances before, and there have been financial bubbles before.

I think that the closest parallel is the railway boom in Britain in the 1840s. Then, as now, people were very enthusiastic, with good reason actually, about the transforming power of the railways. They talked about transforming the economy and even about transforming society, and there was this great boom in railway stocks. Then, as now, it formed the subject of dinner conversation and all the rest. And there was massive speculation. Of course the boom came to an end, the bubble burst and people lost an awful lot of money. What was particularly interesting about this was that those people who said that railways were going to transform society, were right – they did. It's just that they still lost money investing in railway shares and that is the useful analogy for the current position.

The crash and the wrong conclusions

My own view is that the market in the United States is so over-valued that I believe that there is going to be a crash. As and when that happens I think that a lot of people, particularly those who have lost their shirt in the market, will conclude (as they did in Britain at the end of the 1980s after the Lawson boom) that this whole idea of a New Paradigm has been a complete load of nonsense from beginning to end. They will have associated the stock market with these fundamental notions about the economy but my view is that this is fundamentally wrong and I actually suspect that people will abandon belief in the notion of economic transformation at precisely the wrong time.

WHY EUROPE NEEDS WELFARE-TO-WORK*

By Richard Layard

European leaders meeting in Lisbon this weekend must produce more than a laundry list. Europe needs a focused strategy for restoring full employment.

When Tony Blair and Massimo d'Alema asked a group of economists, including myself, to analyse the problem, there was a clear starting point: short-term unemployment lasting less than a year is similar in Europe and the US – but one in 20 Europeans has been out of work for more than a year, compared with virtually none in the US.

In much of northern Europe the chief cause is long-term benefits available to the unemployed, which are poorly linked to the process of job-finding. These benefits are a subsidy to inactivity and prolong a pattern of dependency that is painful to the unemployed and costly to society. Europe needs a new approach that prevents people from drifting into long-term unemployment, where they become increasingly unattractive to employers and a burden to themselves. We should aim to ensure that everyone who becomes unemployed gets an offer of work or training within a year. That will require money and effort, in job preparation, job-matching, advice and support, but it will reduce spending on long-term benefits.

In fact, Europe's leaders adopted this policy in Luxembourg in 1997 when they decided that every unemployed person should receive an offer of work, training or other employability measure within a year of becoming unemployed. This has not happened yet, and it should be a key issue at Lisbon.

---

* Reprinted with kind permission from The Financial Times

But there is a second point. The welfare-to-work approach will not prevent long-term unemployment if individuals who receive offers of work can choose to continue living on benefit. Extra rights need to be balanced by extra responsibilities. If the citizen is offered help, he must take advantage of it or cease to draw benefits. That is the principle of the British New Deal, which was extended in the Budget to cover people over 25, and of corresponding programmes in Denmark and the Netherlands.

In the 1980s it was difficult to raise this kind of issue even in Britain, but now it seems like common sense. However, in France and Germany the debate has only just begun and a major objective at Lisbon must be to push forward that debate.

In Italy, Spain and eastern Germany, the issues are different. They have regions of very high unemployment, caused by inappropriate regional wage levels. Wages in high unemployment areas are linked through collective bargaining to wages in much tighter labour markets. The result is that inflationary pressure can develop in the tighter markets even when mass unemployment still exists elsewhere. The only solution is to allow more regional variation in wage settlements.

In Britain relative wages have fallen in high unemployment regions, which has stopped the haemorrhage of jobs and produced a much more even distribution of unemployment across the country. The same needs to happen in southern Europe – together with incentives for labour mobility (including, where relevant, better unemployment benefits to stop every unemployed 25-year-old remaining at home with his parents).

These are the key steps. Unfortunately, a quite different philosophy prevails in much of Europe, including parts of Britain. I mean the "lump-of-labour" view that the amount of work is independent of the number of employable workers or their behaviour. If you believe that jobs exist independently of labour supply, then to reduce unemployment, you simply reduce labour supply, especially through early retirement. This has been done wholesale and is still being pushed by the German trades unions.

There is absolutely no evidence that it works. In countries where early retirement has increased most, unemployment has failed to fall compared with other countries. If you reduce labour supply, you will quite soon reduce employment. This is because the number of jobs does in fact respond to the effective supply of labour. From year to year, employment is determined by demand, but demand cannot expand employment beyond the level determined by the effective supply of labour. So the key to prosperity lies in expanding the effective supply of labour, by mobilising the unemployed and encouraging work. Both early retirement and French-style cuts in working-time are based on a groundless pessimism, for which there is no research support. Neither of them will reduce unemployment, except very briefly. And both will impoverish the European economy. We do not need these false gods.

To reduce European unemployment on a permanent basis we need a system of welfare-to-work that increases people's rights and their responsibilities. And we need more flexible wages at the regional level. Let the leaders at Lisbon grasp these awkward nettles.

The author is director of the Centre for Economic Performance at London School of Economics and co-author with Tito Boeri and Stephen Nickell of the Anglo-Italian report: http://cep.lse.ac.uk/welfare. pdf

1970–75 WHO BOUGHT BRITISH PUBLIC OPINION?

Reported by Jim Bourlet

The Great Debate

In 1970 Prime Minister Edward Heath called for a 'Great Debate' to decide whether or not Britain should join the EEC (now the EU, then also known as the Common Market) and assured the country that joining was to be subject to the 'full hearted consent of Parliament and People'. MPs within his own party were given the freedom to campaign on whichever side they believed to be right – and many senior respected Conservative MPs opposed entry.

Subsequently, the mid-1972 Parliamentary decision that Britain should join (as of 1st January 1973) and the 1975 referendum result were taken to be the legitimate outcome of this 'Great Debate'.

For the record, it should be said (again) that the House of Commons majority was slim in 1972 with majorities on key votes as low as 15 and 8; and in the referendum it was only a very temporary swing in public opinion that led to the 2 to 1 vote 'for' which, given abstentions, meant that only 48% of the electorate voted to stay in.

Since both decisions could have 'gone either way', everyone recognised at the time that the result would depend on which set of activists – the 'pro' and the 'anti' could win over public opinion at large. The 'pro' side claimed victory – just – but those who were opposed to entry were left, at the end, with a bitter impression of having won all the arguments whilst losing all the battles. This is precisely the reason why membership remains controversial. The only way to resolve this controversy is to conduct a careful and comprehensive review of the events of 1970–75. So long as this reckoning is postponed, European policy for both political Parties will remain impossibly insincere.

Assessment of the democratic validity of the 1972 and 1975 decisions is crucially related to the widespread (and correct) impression that the 'pro' side enjoyed vastly greater resources than their opponents. I recently suggested to Professor Bob Worcester, Chairman of MORI polls, that the ratio in funding was as high as 14 to 1. "At least 20 to l", he corrected me.

At the time, the sources of the meagre funds on the 'anti' side were clear enough. They came from concerned individuals, from membership contributions to groups such as the Common Market Safeguards Campaign and from a very few corporate donations. But where did their opponents obtain such largesse?

In a mature democracy fundamentally believing in reason rather than power, the forces of voluntary persuasion are its tender treasure, only too vulnerable to state interference. And quite small expenditures, injected from outside, can destabilise this delicate internal process.

BBC Radio 4 thirty years later

BBC radio 4 (8.00 p.m. 03/02/00) in a documentary on the 1970–75 EEC debate called 'Document – A Letter to The Times' examined very usefully interference in broadcasting; and funding – from America! The commentary was given by the BBC's Christopher Cook. The first interviewee was Geoffrey Tucker, described as 'an advertising guru', followed (amongst others) by Sir James Spicer and Professor Richard Aldrich which all led up to an overall comment by Sir William Armstrong – Head of the Civil Service in 1975. Here are some extracts.

We can enter the programme at the point where Geoffrey Tucker was asked about the breakfast meetings for politicians and media opinion formers held at the Connaught Hotel to manage the 'pro' campaign.

Tucker: I went to the European Movement, and talked to them, and they helped to put the funding together for breakfasts which we held at the Connaught Hotel. Ernest Wistrich (Director of the European Movement) was there, actually to be briefed in many ways. Norman Reddaway (an official at the Foreign Office) was the person given to us by the Government, as our liaison man and he came to the breakfasts.

Cook: The Information Research Department (of which Norman Reddaway was a member) at the Foreign Office seems to have had links with the intelligence community. Certainly, earlier in his career Norman Reddaway's Information Research Department played a part in destabilising the Sukarno regime in Indonesia in the 1960s.

Tucker: During that time … we got an extra five minutes on the ITN News in the evening added for us to give information.

Cook: That five minutes came out of a direct negotiation with (ITN News Editor) Nigel Ryan at one of those breakfast meetings?

Tucker: Yes – I mean it was a wonderful, wonderful news opportunity.

Cook : And Radio?

Tucker: Jack de Manio was a (Radio 4 Today programme) presenter who was terribly anti-European, and we protested privately about this and he was moved.

Cook : By Ian Trethawan, Director of BBC radio and a known friend of Edward Heath

Tucker: We issued a newspaper, called the 'British European', edited by that famous cartoonist, Phillip Zick, and we distributed massive numbers of them freely. We used to have, for instance, in the Summer, on the beaches, young women giving them away and they used to wear T-shirts with the message 'Europe or Bust'.

Cook: T-shirts, a newspaper, bumper stickers, posters, a pop song, not to mention breakfasts at the Connaught Hotel. Making friends and influencing people on this scale never comes cheap. So who was picking up the tab?'

Spicer: Within business and industry there was a great deal of support and of course money … the figure of £5 million has been bandied about … which flooded in to the European Movement and to the Conservative Group for Europe.

Cook: And who paid for the breakfasts at the Connaught Hotel?'

Spicer: I think this was … you have to talk to Geoffrey Tucker.

Cook.: Who paid for the breakfasts?

Tucker: Well, I've never had much knowledge of the funding. The European Movement certainly paid for some of them. I don't know …

Cook: It is sometimes alleged that the funds that came to the European Movement had come in rather curious ways from the Central Intelligence Agency (CIA) in the United States. Is that something you've heard?

Tucker: Yeah … and I was absolutely astonished by it. I was rather tickled about it. Frankly, I didn't care where the money came from. I didn't know about it. It could come from anywhere as long as it was there to do the job.

Cook: That allegation that the CIA was involved in promoting a united Europe. It was the simplest of questions which led to the most surprising discovery about Edward Heath's campaign to persuade the British people that to join the EEC was in their best national interests. Who paid for the European Movement? Who financed the publicity campaign?

Professor Richard Aldrich teaches in the Department of Politics at Nottingham University where he edits the *Journal of Intelligence and National Security*. While researching the links between the CIA and the ideal of a united Europe, Aldrich found himself working in the library of Georgetown University in Washington.'

Aldrich: I was absolutely astonished to discover that the library had the entire archive of a CIA front organisation which documents from start to finish funnelling millions of dollars into Britain – with all its accounts, with all its receipts and correspondence, for example from British Labour MPs to individuals in American intelligence organisations. So I was absolutely astonished when I opened these dusty brown cardboard boxes not considered to be terribly important … and discovered one of the most exciting intelligence archives of the post-war period.

Cook: That begs a question – why was Washington so interested in Western Europe?

Aldrich: The US had invested a great deal of money in European recovery with the idea that only a recovered Western Europe would be able to resist Soviet encroachment … and the US was keen to see a federalist Europe because it views Europe almost in its own image. The Americans continually talk about the United States of Europe.

Cook: So if the CIA were bankrolling European Union, how come no one noticed who was paying the piper?'

Aldrich: The whole accounting structure of the European Movement was designed to hide the fact that CIA money was coming in. And the way this was done was to have a core budget which covered the fairly mundane activities of running the European Movement's office, paying for the cleaners etc. All this came out of money that was generated in Europe. The CIA money was hidden by putting most of the operational costs, for example, the European Youth Campaign, into special budgets which were not subject to the normal accounting procedures. It was possible to hide CIA money and to make sure that most people in the European Movement were unaware that this CIA money was coming in. Very few people at the top were actually aware of where this funding was coming from.*

Ending the programme Christopher Cook commented that some politicians, such as Lord Hattersley, eventually decided that they could no longer take part in European Movement planning and Sir William Armstrong 'wasn't at all happy about what Norman Reddaway and the Information Research Department in the Foreign Office had been up to'.

An assesement in *The Spectator*

The Spectator, (12th February 2000) in a piece by Michael Vestey entitled "The Nobbling Game" commented:

"If *Today* presenters John Humphrys or James Naughtie were suddenly fired by the BBC they would probably never know the real reason for it. They might be told there was a need for 'fresh blood' or a 'change of

---

* Some further information can be found in OSS, CIA and European Unity: The American Committee on United Europe, 1948–60 by Richard J. Aldrich. *Diplomacy and Statecraft, Vol.8. No. 1 (March 1997)*

direction' or some such bland explanation. It might even be the truth but the BBC has always been such a secretive organisation that many of those who've worked there have never really known why they've been moved or dropped.

Of course, no one would seriously think of removing Humphrys or Naughtie from *Today*, and least of all for any anti-EU bias. But these two presenters might care to reflect on what happened to perhaps their most illustrious predecessor just under 30 years ago. Jack de Manio, one of the nation's most popular broadcasters, was suddenly and notoriously sacked from presenting *Today*. He never knew why. He was gaffe-prone, certainly, confusing listeners by sometimes getting the time wrong but *Today* was then compulsive listening, partly because of de Manio.

Some light might have been shed on his removal in a fascinating and Little noticed programme tucked away on Thursday evening on Radio Four last week, *Document: A letter to The Times*. The presenter Christopher Cook examined how from 1970 onwards there was such a turnaround in public opinion over Britain's proposed membership of the EEC. In 1970 opinion polls showed that 70 per cent were against joining and only 18 per cent were in favour. Within two years, a majority supported membership. So how did this astonishing reversal come about?

It began with an intelligence-linked department at the Foreign Office called the Information Research Department (IRD), which had, among other things, helped destabilise the Sukarno regime in Indonesia in the 1960s. Its head was Norman Reddaway who, before he died, talked to *Document* about its task in swinging public opinion behind membership of the EEC. Against such hostility Parliament would have found it difficult voting in favour so Reddaway's team collaborated with the European Movement which was dedicated to Britain's membership. Sympathetic MPs were encouraged to sign pro-EEC letters to the *Times* and other publications, averaging one a day. Many were written by the IRD. Sir James Spicer, then a Tory MP, told the programme the MPs would gather on Wednesday morning and sign the letters. 'We still gather,' he added, 'but we don't talk about it.' But the major task was to convert those who didn't read the *Times*.

Geoffrey Tucker, an advertising man and a fanatical Europhile, organised regular breakfasts at the Connaught Hotel in Mayfair for politicians and media figures with Reddaway conducting the security vetting and liaising with the government. It later emerged that the CIA, in favour of Britain's membership, had financed many of the breakfasts. Tucker said it was essential to target radio programmes like *Today*, following through the day with the *World at One* and *Woman's Hour*. On television ITN's *News at Ten*, and the BBC's *Panorama* and *24 Hours* were selected for propaganda uses: 'Nobbling is the name of the game.' And he told Cook, 'We got an extra five minutes on ITN as a result of negotiation with Nigel Ryan, the editor, across the breakfast table. Even Alastair Campbell couldn't have done better, I feel.'

It was at these breakfasts that Tucker and his Friends complained to Ian Trethowan, then managing director of BBC Radio, and Marshall Stewart, the editor of *Today,* about Jack de Manio who they thought was 'terribly anti-European'. He went on, 'We protested privately about this and he was moved. Whether that was a coincidence or not I don't know.' The Europhile Roy, now Lord, Hattersley was present at one of these breakfasts when Trethowan was asked to take action against broadcasters who were seen as anti-European and said he was so shocked he decided he couldn't go again. 'Remembering it,' he said, 'it shocks me still …'

Marshall Stewart didn't appear on the programme but said de Manio's subsequent departure was 'a pure coincidence'. When he took over *Today* he wanted it presented by a current affairs journalist which de Manio wasn't. This is only partly true because, although Stewart had already brought in John Timpson to co-present he replaced de Manio with Robert Robinson of television's *Call My Bluff* and radio's *Brain of Britain,* hardly the cutting edges of news and current affairs. However, for a short time de Manio was allowed to present the Saturday edition of the programme. Although this happened nearly 30 years ago, the breakfasts continue. Perhaps Brussels pays now. And how many of the BBC's present management tuck into their kedgeree to be told which broadcasters to sack for perceived Euro-scepticism? *Document*'s producer Jane Ray and researcher Sarah Bowen deserve to be congratulated for what seemed to me to be something of a scoop."

Some questions for that comprehensive review

The opinion poll numbers given in the programme and *The Spectator* are somewhat approximate. Looking at all the polls taken by Gallup, NOP and Harris, figures during 1970 range between 20 and 24% 'for' membership of the EEC and between 55 and 64% 'against'. The mid-year (and average) is 22% 'for' and 60% 'against' – 82% of voters having an opinion with the rest 'don't knows'.

In 1972 the figures range between 36 and 42% 'for' and 41 to 46% 'against'. The furthest opinion swung towards membership was in August when Gallup reported 40% 'for' and 42% 'against'. Coincidentally this also meant-that 82% of voters had an opinion and the number of 'don't knows' remained the same as in 1970.

One can therefore say that between mid 1970 and mid 1972 (when Parliament voted for membership) 18% of voters changed their minds from being 'against' to being 'for'.*

On reflection, 18% was no great achievement. With enough money, broadcasting clout and spin skills and faced with only a voluntary and deliberately ill-informed opposition, it was inevitable that the less well informed voters would succumb.

But the fact that a foreign government's funds were being secretly used to manipulate British public opinion must have been known at the time to the Prime Minister – Edward Heath. This subversive activity would have been reported to him by the security forces; he is Chairman of the Defence Committee and he would have received reports from the Information Research Department at the Foreign Office. Within our constitutional arrangements *only* the Prime Minister was in a position to referee a fair debate and this he failed to do.

So now we are beginning to see what in fact happened. Whilst the relatively few anti-market activists were voluntarily speaking at meetings and debates (for those seriously interested enough to attend such debates, and mostly finding overwhelming support for their position) the pro-market side were converting the bathers on the beaches and the casual listeners to radio and television.

Fees were paid to pro-market speakers who sought out opportunities to visit schools, women's institutes and any other gathering and more often than not a voluntary anti-market speaker was not invited. Lord Stokes, head of British Leyland appeared in full-page newspaper advertisements saying that the future of his company would be assured if we joined.

It seems that £5m was spent. And in public opinion polls or a referendum all votes are equal regardless of the extent to which individual voters are informed or care.

This all leaves many unanswered questions. Why wasn't the issue settled in the traditional constitutional manner – through a general election saying

---

* For further detail see "Opinion, Economics and the EEC". Published by The Open Seas Forum. 1984.

'We've negotiated the terms; now vote Conservative and we're in'? Was joining the EEC so rosy an idea that it really didn't matter how underhand the means were which were employed to achieve it? What was the point in the Prime Minister declaring that he would only enter the EEC with the 'full hearted consent of Parliament and People' when he knew that whatever resources were needed would be secretly available to enable him to ignore this? Why did he call for a 'Great Debate' if the result was to be fixed? What was the point in inviting some thousands of sincerely minded political activists (many of whom were Conservative Party members) to embark on what was guaranteed to be a fool's errand? Why, if the Prime Minister was so convinced that joining the EEC was such a good idea, couldn't he expect to persuade his fellow countrymen rather than employ 'other' means? And why has this been kept secret for so long?

NAFTA NOBBLED*

By Bill Jamieson

DOWNING Street "nobbling" is thought to lie behind a sudden rash of cancelled meetings between visiting officials of the US International Trade Commission and Conservative MPs last week. The ITC team was in London at the behest of Congress to investigate UK membership of the North American Free Trade Agreement (Nafta).

If this is the case, then Senator Phil Gramm, chairman of the US Senate Banking Committee and one of the initiators of this study, may well feel the ITC's inquiry to be less than thorough, while members of both Commons and Lords now have searching questions as to the apparently limitless reach of the Executive. This was, at best, a mean and partisan breach of protocol.

Let me declare an interest. I was invited to give evidence to the two ITC economists, and did so as planned at the US embassy last week. Their questions were focused on economic issues to do with UK-Nafta trade and investment and I was pleased to help where I could.

My concern is that, even without executive intervention, this inquiry may have been from the start a mission impossible. Britain is not free to join Nafta without a fundamental recalibration of her EU membership. But such a recasting will come, in my view: a paper by Graeme Leach, chief economist of the Institute of Directors this month, puts the cost of our EU membership at a minimum of £15bn a year and the figure could be as high as £25bn, a cost that would substantially increase with further convergence.

The UK's interest in Nafta centres on substantial trading and investment links extending to some 20 per cent of total UK current account credits and almost a third of our overseas investment portfolio. Nafta, in turn, has voted the UK the most popular site of all EU countries for inward investment with some $65bn in direct investment here. These interests would be prejudiced by an extension to the UK of the full panopoly of continental European taxation and labour market regulation. Nafta should assume neither that UK subsumation in the EU is a "done deal" or that it would be in its interest for this to be so.

---

* Reprinted with kind permission from the *Sunday Telegraph* 26/03/2000

The issue of our EU membership is not quite the settled matter Downing Street wishes it to be. No-one should assume that matters will continue as they are. British voters have yet to be asked whether the UK should have surrendered her sovereign right to join, or not to join, external free trade agreements of her choice. To this extent, the Nafta question must remain open.

THE MYTH OF EUROPE

By Russell Lewis, Bruges Group Occasional Paper No.39, February 2000, Price £3.95

There are at least three good reasons for reading this 31 page lecture-length pamphlet. The first is to keep up with the intrepid and prophetic Russell Lewis. The second is to master his (very) long term perspective on the EU tergivisation, and the third is to gain, in a pithy short read, a remarkable collection of insights and forthright truths. This is serious entertainment for education's sake and the best picture is simply to list the sub-headings:

Corruption
Hostile to British Interests.
Not Bonkers but out of Date.
Europe as Economic Pace-Setter
Historical Inevitability
Evidence Against
Euro Mythology
Former European Supremacy
Nationalism in the Dock
Glory in Diversity
Fortunate Failure
Scientists Persecuted
Unity Versus Capitalism
Unity Hinders Progress
Why not China
Meddling Mandarins
Why not India
Why not the Arabs
Soviet Arthritis
Unconvincing
Legal Serfdom
Totalitarian Democracy
Subsidiarity A Fraud
Freedom Day Comes Late

I strongly suspect that what Lewis has articulated is what a great many people, at least in this country, are beginning to suspect

J.B.

LETTER

The Credit Bubble – When Dot Coms The Day of Reckoning? A response to 'The Credit Bubble' by Peter Warburton from Mr Peter Kruger

For today's investor Internet companies are this century's Tulip bulbs – and as far as balance sheets are concerned Red is this year's Black. We see, in the financial markets, all the classic signs of hysteria. Tens of thousands of people, clutching their Tom Dot Com share applications, take to the streets of Hong Kong. On-line share brokers lend money to clients who buy equities short.

There has been no easy way, during the last ten years, for the home owner to lose the roof over their head. But now they can re-mortgage their house and invest in a website. The company which owns the site probably makes no money in the real world let alone the virtual one.

'This will end in tears' we are told at the end of each year. But so far it has not – still anyone with a pin and a copy of the Financial Times share index can make a fifty percent return on their investment – assuming their thumb was over the banking sector. If the market does slip, or 'adjust' it seems to regain the ground it lost in a matter of weeks. The cat may die but in bounces higher each time it hits the ground. Why is this? Part of the answer is that the hysteria in the money markets is not generated by the *active* investors but by the passive savers. The day traders grab the headlines – and they are partly responsible for driving up the perceived value of high technology companies. But it is the large financial institutions who pump the bulk of funds into the market. Behind the institutions are the real culprits – wage earners handing over pension contributions.

It is the European baby boomers who have become hysterical. Seeing retirement looming large many are increasing their pension contributions during the few years they have left before retirement. True some fifty somethings may be investing directly but most are saving for the future via a company pension scheme – or some other savings instrument. The institutions are frantically looking for a home for all this cash. The Dot Coms are happy to mop up surplus funds – they can do this without building anything tangible and so the pressure on the real economy is minimal. If you want to see your pension contribution in action just switch on the television. Every half an hour or so one of the Dot Com websites is advertised. The more subscribers the site owner acquires the higher the share price rises – and, perversely, the larger the negative activity variances (losses) become.

So what will happen in the end? Well, in the end we all die. However, unless new variant CJD exacts a massive toll, we will not do this fast enough to maintain a healthy economy. Soon the fifty somethings will become sixty somethings and start to bleed the pension funds dry. Again we will see tens of thousands of investors on the streets of Hong Kong – but this time queuing up to cash in their Tom Dot Com share certificates. At some point the economies of the industrialised world will face a real credit crunch. The point at which this will occur can be determined by calculating the ratio of people drawing down pensions to those still contributing. In a perfect world planners would factor in the impending crisis when drawing up fiscal and financial policies. Theoretically the crunch could be cushioned or at least reduced to a squeeze.

However there is a second, smaller but far more tricky, problem. Just when, and how many times, will the market ‘adjust’, or normalise, before we hit the major credit crunch? Smaller ‘adjustments’ mean ‘deeds on the table.’ The day trader loses their house and, with it, any chance of living off the annuity generated by selling it. These periods of adjustment also cause the economy to shrink. Even if the contraction is only temporary it could occur close to the main crunch. This would make the economic adjustments required to protect the pensioner more difficult – or perhaps impossible. For example; if the economy remained buoyant, the retirement age could be extended to sixty nine – keeping contributions flowing in and reducing the number of years people draw on funds. But if the economy was tipped into recession, a year or so before crunch time, unemployment would rise and postponing retirement would no longer be an option.

It is obvious that a long and serious look at the approaching credit crunch is required. However the first thing we must do, if we want to take the heat of the economy and the hysteria out of money markets, is to identify correctly where most of the heat and flames are being generated.

Peter Kruger
20 Leaden Hill
Orwell
Royston
Herts

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)
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 ....