BRITAIN & OVERSEAS

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

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THE CASE FOR THE EURO

Extracts of a talk given by Mr Simon Buckby, Campaign Director at 'Britain in Europe' to members of the Economic Research Council on Tuesday 31st October 2000.

The case for making the case

Back in 1975 when I was 8 years old we had a referendum on Britain's membership of the EEC – now the EU. After that I think that the pro-Europeans thought 'that's it', and went to sleep. They failed to remain engaged in the argument and the result is a high degree of scepticism in the public. I believe that it is very pro-British to be pro-European and it seems to me that the debate about Europe in Britain has become unbalanced and unhealthy. This is the reason why I decided to take on what has been described as 'the most difficult job in Britain'.

One versus forty seven

But while the pro-Europeans were asleep, the anti-Europeans who didn't accept the vote in 1975 *organised.* And they banded together in more groups than you can shake a stick at. We recently published the document *An A to Z of anti-European groups* in which a number of people have starring roles, and I can tell you that there are today 47 different groups in this country devoted solely and specifically either to overturning the Maastricht Treaty, preventing Britain joining the Euro, preventing there ever being a single currency referendum; or worse, unpicking bits of the Treaty of Rome or withdrawing from the European Union altogether.

'Britain in Europe', which has been in existence for only 12 months, is the *only* pro-European group more or less in this country fighting this 47 varieties.

In addition there is an extraordinary media bias often with screaming headlines about EU ideas which have hardly the remotest chance of becoming fact. You can guarantee that they are always against anything because 'bloody Brussels' is trying to impose upon us yet another attempt to destroy some key element of our national identity.

The imbalance in the debate in the British media means that an honest, sensible view (whether you disagree with it or not) is no longer given a fair hearing. It's either laughed out of court and people think that anybody who is favour of the single currency must be mad, or worse still it's not allowed a hearing at all. You will not read in the Sun or the Mail or even the Times or the Telegraph or the Sunday Times or the Sunday Telegraph a fair hearing of the case 'for'. You may not agree with the case 'for' but you cannot disagree with the fact that it's not allowed a fair hearing.

The EU is not intrinsically federalist

Although I want to concentrate on the economic arguments, I should say a little about the suggestion that the EU is somehow heading towards some kind of federal state – perhaps along American lines. Europeans such as the French and the Germans are proud, patriotic and nationalistic and nearly half a century of association has made the French no less French nor the Germans less German. There is no intrinsic drive for a federal super state. I do agree that you hear some individuals, be they French, German or other nationalities, saying they want it, but that isn't what they've got. What we've got at the moment is work in progress of a new kind of politic, a condominium of authority that in some areas is a pooled exercise over some restricted aspects of policy over the same geographic population as the nation states. There is no other body like it in the world. I don't believe in any sense that it is following the American model. And I don't believe in any sense that there is any reason for you to fear that it might be.

The 'Euro' exists – so debate over principles is pointless

Traditionally, the argument about a single currency has been in a vacuum – would it be a good or bad thing in itself? My starting point is that that argument is over, because we now have to deal with reality. There are twelve countries over there who have got it and whether we think it is a good thing or a bad thing is now a secondary question. What we have to consider is whether it's a good or a bad thing for Britain to be *in* compared to a good or a bad thing for Britain to be *out* of a project that actually exists. That is the context in which we must talk about the economics now.

Britain's independent pound is unstable and damaging

Britain is a relatively small island nation economy trading a huge (around 30%) proportion of national income abroad. In recent years we have fallen victim more than most economies to the problem of volatile exchange rates. Before that we were linked to other currencies through arrangements such as the gold standard and the Breton Woods system. Then in the early 1980s a gargantuan over-valuation helped to create the 1980-82 recession. Less than four years later the pound very nearly reached parity with the dollar scaring Mrs Thatcher into intervening to prevent this psychological barrier being breached. Not five years later as soon as we came out of the ERM the pound plummeted again, devaluation in effect stimulating inflation. The graph over the last 20 years looks like a roller-coaster and whereas for most countries this wouldn't be a problem, on a country with a relatively large trading sector like Britain, it has an enormous impact. We are uniquely exposed to the consequences of those fluctuations. Fluctuations create exchange rate risks which, where they can be hedged, raises costs and where they cannot, deters trade. Globalisation and the increasing ground swell of capital speculation across the globe is likely to stimulate yet further the instability of an independent currency like sterling.

Concurrently the increasing focus of trade from the UK to the Euro countries is making the relationship between sterling and the euro even more central to our economy. Since joining the EEC the proportion of our exports going there has risen from around 30% to around 60%. That means that any movement between the pound and the euro is likely to have an enormous impact on those people in Britain who export to that currency area.

The advent of the single currency has made the prospect of our gyrations increase yet further. During the last few months the pound has simultaneously been at a 15 year record high against the euro (and its predecessors) and at a 14 year record low against the dollar. If anything proves the imbalance and the squeeze of sterling between these two huge currencies our very existence today demonstrates it.

Britain will use Euros anyway

Soon we are going to have euro notes and coins in people's hands. The single currency will no longer be a 'virtual currency'. When people come back from France they will surely be able to use them. Every shop in Dover and every bed and breakfast will take them. Indeed, if you come into central London, Marks & Spencers will take them too. Soon consumers will be able to spend euros just as they can spend dollars now. Businesses are already using the euro when dealing with the continent.

Jobs are being lost

Because of the problems of the high pound Panasonic recently made 500 people redundant, and Sony have made 400 people redundant in South Wales. Honda have decided not to build their new car at Swindon. There are plenty of examples of United States, Japanese, other Asian and other world inward investors choosing not to come to Britain to invest and build their products. They are choosing to go elsewhere, largely within the euro zone and for the reason that our currency is unstable. The worst example of this is still to come. I absolutely guarantee (and I say this with nothing but disgust) that in Sunderland – a community that was completely saved 10 or 15 years ago by the influx of Japanese investment, is about to be destroyed because Nissan are going to lose production of the next model Micra at the Sunderland plant (which is the single most productive car plant throughout the whole of Europe). Nissan will make it in France or Spain to avoid currency gyrations. It's a fact – and will lose 2000 people their jobs at that Nissan plant in Sunderland and 17,000 people their jobs in the supply chain.

Consumers are worse off

If you want to buy a flight tomorrow from Britain to the United States, I advise you very strongly not to buy the tickets in pounds or in London. Thomas Cooks in Paris will sell you the same flight cheaper in euros. What you can buy in Dixon's (the main funders of our main rival group) you can buy cheaper in the euro zone. By denying ourselves equal and full access to the single market we are denying our consumers cheaper prices.

For the City and for homeowners, it's their currency but it's our problem

The European Central Bank is pursuing monetary policies committed to stable prices and consequently low interest rates – which is good for businesses and for homeowners with mortgages. Britain has no seat at the decision making table of the bank but we are affected by their decisions – witness their low interest rates helping to depreciate the value of the euro relative to the pound. It doesn't matter whether you call it a high pound or a low euro. It's their currency but it's our problem. They are not being affected by the low value of their currency because they have internalised most of their trade. Like the United States, only about 10% of their trade is now exported beyond their borders. They can afford to practically neglect their exchange rate and it is *our* exporters and *our* inward investors who are being hit.

Now let me turn to some of the arguments made against Britain joining the single currency, five silly ones and two that are more serious.

Five silly arguments

1. That the euro 'will never get off the ground'. The euro is a reality and I'm afraid that you can wish it to fail as hard as you like but it isn't going to fail. It exists.
2. That the coming of e-commerce is going to make money itself redundant. We are all going to use credit cards; we are all going to use the internet. Well, the idea that exchange rates don't play a part when you are buying in one currency and selling in another currency, whether you do it in notes and coins or whether you do it on the internet, is ridiculous.
3. That if we join the euro, taxes will be harmonised – ie go up. This is just a scare story because taxes, which are fiscal policy, have nothing to do with monetary policy. Maastricht is a monetary policy treaty. Taxes are not included in Maastricht at all. Taxes require unanimity at the Council of Ministers where Britain is in a position to use a veto. In any case, the other 14 don't want higher taxes because in a common market where everyone has equal access there is no competitive advantage in making business taxes higher. This is why the Germans right now are engaging in the biggest tax cutting programme in post-war European history. There is every reason to suppose that taxes would fall and there is no reason to suppose that they would go up.
4. That Britain will pay for Europe's pensions. This is a hoax and I'm not sure the people who make this case understand it. They say 'if you join a single currency the British taxpayer is going to end up paying for the unfunded pension liabilities of the French and the Dutch and the Germans'. But you don't hear the Europeans saying that if Britain joined the single currency the French and the Dutch and the Germans might end up paying for the unfunded health liabilities of Britain. The good reason for this is that in the Maastricht Treaty there is a 'no bail out' clause. It is in law that the citizens of one country cannot pay the debts of the government of another country. There will be no payment of unfunded pensions liabilities – it is against the law.

5. That inside the single currency, devaluation will not be possible. This argument is rather out of date these days. Of course, within a single currency you could not devalue but it's fool's gold and everybody knows it. It is an inflationary road – that doesn't work.

And two serious arguments

1. That taxes will have to provide stabilisation funds for the Commission to use to help regions with higher unemployment, as in the United States. The counter to this is that the automatic stabilizers that we have in Europe are of a different nature to those in America. Instead of taxing one region that is doing rather well in order to provide welfare payments to a region that is not doing so well (which is essentially what happens in the United States) we have here fiscal devolution in that there are no plans for harmonising taxes. Every individual nation state within the European Union is responsible for raising and spending its money because it has fiscal control. That is the in-built automatic stabilizer. Interestingly, that is the reason why Ireland is not performing in the way that it ought. It hasn't used its automatic stabilizers in a sensible way. Rather than raising taxes it has cut them thus stimulating growth and over-expansion, just at the moment when it has got a low interest rate.

   How governments choose to exercise their authority is their business, but they do have that authority and that is the reason why there is no need for central stabilisation funds.

2. That one interest rate is not fit for all. To answer this point, look just at the British economy. In Britain there is one interest rate but some parts of the British economy do not find this appropriate at all. It is not possible to formulate a single interest rate, appropriate to all, in a country the size of Britain. You may be in manufacturing or services, in Norwich or in Sunderland and the rate you require may be different in each case.

   It doesn't actually matter whether that interest rate is set in the City by the Bank of England (unelected) or set in Frankfurt by the European Central Bank (also unelected). The real question is not 'would it be out of kilter with parts of our economy?' but 'is it more likely to be out of kilter in or out of the euro zone?'

   This is indeed a serious point but it's worth remembering that after joining the single currency Britain would represent 17% of EU GDP, the same as the French, just slightly less than the Germans. British requirements would be important. I accept that the single interest rate across the whole of Europe will be out of kilter for some regions and some sectors of the economy as it currently is, but it would be less out of kilter than the situation in the United States because the economies in Europe tend to be less industrially specialised. There is no equivalent of Texas in Europe – an oil dominated economy. A single interest rate in Europe is simply more practical than in the United States.

But the real guarantee that the interest rate is less likely than you might think to be the wrong size for Britain, is convergence. There is no point in joining the single currency unless there is genuine economic convergence. I do not want to see economies fracture and drift apart and I do not think it would be good for Britain to join if the economic conditions are wrong.

There is good reason to suppose that convergence will take place between Britain and the euro zone. This is not to do with encouraging the government to manipulate domestic policy in order to get convergence (I'm not in favour of that). The only guide that Gordon Brown or any other Chancellor should run the British economy on is what's in the best interests of the British economy. In the short term, that may, I agree, take us away from convergence. However, in the long run the pressures are likely to be for convergence for the following reason:

In the post-War period until the late 1980s the British economy *was* broadly in cycle much more with the German and French economies than with the American economy. Two significant events occurred at the end of the 1980s which disrupted that. The first was that Germany re-unified and therefore distorted its own growth patterns. The second is that Britain left the ERM. So, since that time Britain has been thrown out of kilter with the main economies of continental Europe – but is likely eventually to return to the 'normal' position. However, the main reason that convergence is inevitable is because trade patterns are so much more closely integrated. We are being sucked together by increased trade and what happens in the euro zone impacts upon us.

The simple choice

So it seems to me that on the question of joining the single currency, we have a simple judgement to make. Do we worry about the possibility of having the wrong interest rate for our economy? Or (and we have to balance it against) do we worry about the consequences of staying outside the euro zone which is now in existence, and the consequences that the inevitable volatility of sterling that we have seen in our history and that we are seeing today will have for our economy? On that balance rests your view about the single currency.

THE ECONOMIC CONSEQUENCES OF MR PRODI

*by Brian Kettle**

'Losing one percentage point of competitiveness a year, if it goes on in time for a number of years, would become a condemnation for Italy and it would be difficult for us to stay in the single currency.'
Romano Prodi, President-designate of the European Commission speaking about Italy's ability to remain within the unified currency regime, June 1999.

'If there were exceptional circumstances and provided it was not done in a way which was hostile to the European Union.' The Spectator magazine, May 2000
Romano Prodi, President of the European Commission, replying to a question enquiring as to whether existing members of the euro might choose to opt out from the euro.

Under the 1992 Maastricht Treaty monetary union was intended to be an irreversible and irrevocable process. No mechanism exists in the Treaty to allow a participating member state to withdraw. Romano Prodi is clearly not correct to assume that a member state could withdraw from the euro but assuming that legislation was introduced to permit this it is instructive to examine what the implications for the financial markets would be should a member state withdraw.

Now that the Euro has come into existence the financial markets are faced with a new risk, one which they have no prior experience of and for which the ramifications are enormous. This risk, known as legacy risk exposure, is the possibility and consequent implications of the withdrawal of a member state from the fixed Euro parity. This is quite different from the withdrawal of a member state from the European Monetary System where individual currencies still existed, albeit nominally pegged to each other.

* Senior Lecturer, London Guildhall University

The withdrawal of a member state would not, as shown by Record[1], be like an ERM break-up because of two critical differences – banking sector balance sheets and notes and coins. These are not the esoteric points that they may at first seem. Banks operating in EMU countries are required by EU law to treat all euros as the same, and no exchange rate risk is allowed to be admitted between any two Euro-denominated balance sheet items.

Banks cannot in any case sensibly determine the domicile of many of their assets and liabilities, so this is practical advice. Say a bank lends money to a pan-European multinational in euros. Where is the debt? A bank takes Euro deposits from a US multinational with world-wide interests across its European branches. Where is the deposit? The implication of this is that one country's exit would severely damage, and possibly destroy, the balance sheets of all Europe's major banks. How would this happen?

Romano Prodi, in the Spectator interview, referred to the case of Denmark joining the euro and subsequently leaving it. It makes no difference as to which country exits the euro but clearly there would be no point in doing so unless the country concerned intended to reintroduce their own currency at a devalued exchange rate from that of their original euro parity. In the examples below I choose the case of France leaving the euro and reintroducing what I call the New Franc but the example could just as easily have been any of the other ten euro member states.

To appreciate the implications of a potential EMU break up let us assume that the balance sheet of a hypothetical French multinational bank, Paris Lyonnais, prior to EMU exit can be represented by Table 1. The balance sheet reflects a healthy bank.

The reason why a country may be forced to abandon the euro and reintroduce its own currency are discussed in more detail in Kettell.[2]

Imagine, say, the looming prospects of France's exit from EMU. Companies, investors, Banks and individuals will all begin to take action to protect what they see as a certainty that if France exits, a new devalued franc will be introduced. They examine all their Euro assets, and judge whether they will remain as euros or get redenominated into New Francs. Having deposits (bank liabilities) redenominated in devalued New Francs is unacceptable whilst having loans (bank assets) redenominated in devalued New Francs is very acceptable.

1. Record, N. 'The Consequences of EMU's Failure', Off The Record Issue 12 - 1st Quarter 1998
2. Kettell, B. 'What Drives the Currency Markets?' Prentice Hall-Financial Times. June 2000

Table 1 Paris Lyonnais Balance Sheet Prior to EMU Exit

Denominated in Euros

Assets		
Loans and Advances to Customers	60	
Debt securities	20	
Loans and advances to banks	15	
Cash at Central Bank	1	
Other (property, equities)	4	100
Liabilities		
Customer accounts	75	
Deposits from Banks	11	
Debt Securities in issue	5	
Subordinated liabilities	2	93
Shareholders Funds		7

Most likely, they will judge that having French-issued Euro assets viz. bank deposits on French soil is a bad idea. Euro deposits are withdrawn from France and redeposited in London, Frankfurt or New York, with non-French banks. French corporate and Government Bonds are sold off and replaced with German-issued (or UK, Dutch … etc.) bonds. This begins to drive the price of French Bonds down, pushing up market 'French' interest rates, and pushing down 'German' rates. Bond yields already differ in Euroland largely because of different political risks. But now they start to reflect currency risk, as they did prior to the arrival of the Euro. Interest rates in Euroland are now providing information to the financial markets that the system is under strain.

Inside France, there is a mix of Euro-denominated assets and liabilities, some of which are definitely 'French' (French government bonds held by French residents in France), some of which are borderline (multinational Euro corporate debt held by French banks), and some are almost certainly non-French (notes and coins – which are a liability of the ECB and which are bearer instruments and so don't have a domicile). The interest rate differential will apply to those instruments deemed most 'French', therefore most liable for redenomination.

But there are almost certainly categories of securities whose risk of redenomination can be reduced or eliminated by being moved – either physically or by a change of owner's domicile. This will create a plethora of arbitrage opportunities with bizarre effects. French residents will take all their money out of bank and savings accounts, and put them into Euro accounts abroad, possibly in non-French nominee names. They will squirrel away large quantities of Euro notes for their everyday use – much more secure than French bank accounts. They will borrow as much as they can in France, and re-deposit the money offshore. The classic hedging technique of having liabilities denominated in weak currencies and assets denominated in strong currencies will be applied.

There will be a credit explosion in the EMU banking sector as French residents and nonresidents alike round trip German assets and French liabilities. As the trade turns into a run, and then into a frenzied panic, it will become clear that the banking system will collapse (i.e. French banks will run out of liquidity) unless action is taken immediately. That action must be an immediate EMU exit and the reintroduction of the Franc. Nothing else will halt the flows.

To see the implications of this and to make the arithmetic simple let us assume in this new Euroland that half of all the balance sheet items of Paris Lyonnais are held at branches outside France or by non-French residents. The point about foreign jurisdictions is to ask what happens to the value of Paris Lyonnais' assets and liabilities either owed to or from these non-French residents. Paris Lyonnais will be forced by the French government to re-denominate all its assets and liabilities into 'New Francs'. After all what would be the point of exit otherwise.

Assume a New Franc 20% devaluation from the official conversion rate. Paris Lyonnais customers with borrowings in foreign jurisdictions will not complain if they suddenly owe 20% less expressed in euros because their debt has been redenominated. In fact they will demand it. They will argue that they cannot legally be discriminated against purely because of their residence. So in Table 2 the assets fall to 80 even though only 50% are owed either outside France or to non-French borrowers. But every individual and bank in a foreign jurisdiction will rightly complain if their euro-denominated asset, deposited with Paris Lyonnais is unilaterally redenominated, and consequently worth 20% less. The effect of the devaluation would be to lower the liabilities of Paris Lyonnais to 83.7. It must be said that other European governments will oppose this too as they will fear that contagion and systematic risk will ensue.

The next morning it will be seen that, at the discount that the New Franc is trading at, the assets of Paris Lyonnais and other French banks are now worth less than their now non-matching liabilities. (See table 2)

Table 2 Paris Lyonnais Balance Sheet After EMU Exit		
Denominated in Euros (20% Devaluation)		
Assets		
Loans and Advances to Customers	48	
Debt securities	16	
Loans and advances to banks	12	
Cash at Central Bank	0.8	
Other (property, equities)	3.2	80
Liabilities		
Customer accounts	67.5	
Deposits from Banks	9.9	
Debt Securities in issue	4.5	
Subordinated liabilities	1.8	83.7
Shareholders Funds		(3.7)

With liabilities greater than its assets the entire French banking sector is insolvent unless redenomination can apply to foreign jurisdictions. In other words if the banking sector's liabilities can also be reduced by the full 20%. The ECB and the BIS tell France that if redenomination applies to non-French jurisdictions, it will trigger a world-wide banking collapse. The French government does not agree that it should pick up the full cost of banking sector rescue, and refuses to act as lender of last resort to its own banks. They promptly default, triggering a world-wide banking crisis of previously unseen proportions.

Romano Prodi's comments that a country could exit from the euro would, if carried to their ultimate conclusions, unleash chaos on the financial markets, the extent of which the world has never seen.

CHASING INTEREST RATES*

by Mr James Manwaring

Monetary policy is the attempt by the government or the central bank to manipulate the money supply, the supply of credit, interest rates and other monetary variables within the national economy. The rate of interest is the price of money, and over the years it has become the key instrument of monetary policy. Both the Bank of England and the Federal Reserve Bank of the US have used interest rates to achieve their policy objectives.

The rate of interest in the economy affects the aggregate demand. The higher the rate of interest, the lower the level of aggregate demand. There are a variety of ways that interest rates affect aggregate demand.

Many consumers purchase durable goods such as cars, furniture or kitchen equipment on credit. Therefore the higher the rate of interest, the greater the monthly repayments will have to be for any given sum of money. Therefore higher interest rates lead to lower sales of durable goods.

Houses are often bought using a mortgage. The lower the rate of interest, the lower the mortgage repayments on a given sum of borrowed money. This makes houses more affordable, and encourages people to buy maybe their first house or to move house.

Higher interest rates encourage people to save more of their income for the future. Therefore they will have less to spend, and therefore aggregate demand will fall.

The lower the rate of interest, the more investment projects become profitable. Therefore we see higher levels of investment, and aggregate demand. Equally a rise in consumption, which leads to a rise in income, will lead to a rise in investment. This is known as the accelerator theory. Firms will need to invest to supply the extra goods and services being demanded by consumers.

A fall in the interest rate is likely to bring down the value of the pound. Therefore UK residents have to pay more to get the same number of US dollars. This means that foreign goods become more expensive for British firms.

The government has four key objectives in macroeconomic policy – to control inflation and employment, to maintain current account equilibrium

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* This is the winning article of the Winter 2000 Economic Research Council's Young Contributors' Competition. Mr James Manwaring is a 6th Form student at The Windsor Boys' School

and to secure high economic growth. Interest policy can affect all of these.

Interest rate policy is used mainly to control inflation. Higher interest rates rarely lead to a fall in prices. This is because in modern economies aggregate demand tends to increase over time irrespective of government policy. A loosening of monetary policy by lowering interest rates shifts the aggregate demand curve to the right and leads to a higher equilibrium level of prices. Looser monetary policy tends therefore to be inflationary.

Tightening monetary policy by raising interest rates will lead to a fall in equilibrium output. Lower output is likely to be associated with lower levels of employment and hence unemployment is likely to rise. Loosening monetary policy by allowing interest rates to fall, on the other hand, is likely to lead to lower unemployment. According to classical economists, the long run aggregate supply is vertical. Changing the level of interest rates will therefore have no impact on either output or unemployment in the long run. However, there is an increase in the price level. For classical economists, then, any fall in unemployment in the short run caused by a loosening of monetary policy will not be sustained in the long term. Unemployment will revert to its original level.

For Keynesian economists, the impact of loosening monetary policy depends upon how near the economy is to full employment. The closer the economy is to full employment, the less impact falling interest rates will have on output and employment and the more it will have on inflation.

Economic growth is a long run phenomenon. Shifting the aggregate demand curve is unlikely to have an impact on the position of the long run supply curve. The only possible link is if lower interest rates encourage investment which in turn increases the capital stock of the economy and its productive potential. Monetary policy can, however, be used to influence booms and recessions. In a boom, tighter monetary policy will reduce aggregate demand and thus lower the increase in short run output. In a recession, looser monetary policy may increase aggregate demand and hence increase equilibrium output.

In the 1950s and 1960s, the UK government used monetary policy to influence the current balance. Higher interest rates lead to lower aggregate demand. This reduces the amount of imports purchased and hence improves the current account position. On the other hand, higher interest rates should also raise the value of the currency. A higher value of the pound will make it more difficult for UK firms to export and easier for foreign firms to sell imports to the UK. This will lead to a worsening of the current account position. Which effect is larger varies from economy to economy and depends upon how sensitive imports are to falls in domestic income. It also depends upon how sensitive exchange rates are to changes in interest rates and the sensitivity of exports and imports to changes in exchange rates, i.e. the values of price elasticity of demand for exports and imports.

So we can see how interest rate policy can affect overall monetary policies, and what effects these have on aggregate demand. Interest rates are primarily controlled by the central bank in the UK. The Monetary Policy Committee (MPC) meets and considers evidence about whether inflationary pressure is increasing, decreasing or remaining stable at the time. If it believes that inflationary pressure is increasing, it is likely to raise interest rates to reduce aggregate demand. If inflationary pressure is weak, it can cut interest rates to boost aggregate demand and allow unemployment to be reduced and output to increase. In coming to any decision, it looks at a wide range of economic indicators, such as the rate of increase in average earnings and house price changes.

SEPARATE WAYS

by Peter Shore

Published by Duckworth 2000 Price £18.99

This is surely the most complete and definitive account yet written about Britain's involvement with the European Union project 1945 to the present day. Because of the importance and quality of this account as well as the remarkable achievement of combining broad themes with accurate unfolding detail and because this account is equally readable by the layman and specialist, *Britain and Overseas* is taking the unusual step of reproducing Lord Shore's own *Introduction*.

Introduction

This is the book about Britain and Europe that I have long wanted to write. I have postponed this task not just because of human weakness and distractions but because the story is one to which new chapters are being constantly added as the pace of integration quickens and the scope of the European enterprise advances ever further. No one wants to write a work that is clearly outdated before the printers can do their work. On occasions, therefore, I have had to anticipate as well as to record.

I wanted to write it for several reasons. One is the enormous importance of the issues involved – they tower like giants above the dwarf issues of contemporary politics. They include self-government, independence, democracy and our future status as a country or a province.

Another reason is that, while many books have been written about Britain and its relations with Europe, there has been a remarkable failure to address and explain what the argument is all about. Why has Britain in the past half century made major decisions different from those of most of our continental neighbours? What are the real issues that divide us and what now are the choices before us?

To clarify and explain is a particularly urgent need at this moment because the agenda for major decisions includes items of exceptional importance: enlargement of membership from the present fifteen to twenty-seven or more and changes in the voting-power in the Council of Ministers. It will also include the extension in substance of the existing economic, monetary and political union into a new defence union equipped with its own armed forces, ready not only to defend its own territories from attack but also to project European military and economic power to enforce elsewhere its own Common Foreign and Security Policy.

These are reasons enough but I have additionally, in an unusually long span of direct experience and involvement in the politics of Britain and Europe, some insights and information which it is now sensible to place in the public domain.

Like others of my generation, I have lived through the Second World War, the defeat of Germany in 1945, the re-emergence of Europe from ruin to prosperity, the formation of NATO and the long years of the Cold War, the collapse of the Soviet Union in 1991 and the victory of the West – a period of quite remarkable and dramatic change in the fortunes of nations and the balance of world power.

I became directly involved in the Britain and Europe question in 1961 when the then Prime Minister, Harold Macmillan, made his historic announcement that the UK – in total reversal of its policies pursued between 1945 and 1960 – was now applying to join the European Community (the Common Market) as a full member. The then leader of the Labour Party, Hugh Gaitskell, at once asked my colleague, David Ennals, the International Secretary and myself, as head of the Labour Party Research Department, to examine the issues and present a preliminary paper for consideration by himself and his parliamentary colleagues.

It was then, with a genuinely open mind but with the background knowledge of events that all thinking people of my age group possessed, that I read that basic document, the Rome Treaty – it was difficult then even to obtain a copy in the English language – and made my first preliminary analysis of its contents. Forty years have passed since then and only in a few, relatively short, periods of time, have I found myself not involved with Europe and Europe-related issues. No: I didn't write that famous Conference speech when Hugh Gaitskell summoned up a 'thousand years of British history' and recalled the courage and sacrifice of those Commonwealth forces who stood by us throughout the Second World War and at Vimy Ridge and Gallipoli in the First. But I did write the policy statement Gaitskell was recommending in his Brighton oration. After that I had frequent discussions on Europe with his successor Harold Wilson, both before and after he first became Prime Minister in 1964.

In 1967 I joined the Wilson Cabinet and happily accepted de Gaulle's second veto on our application to join. After Labour's narrow victory in March 1974, as Secretary of State for Trade, I took part in the 'renegotiation' of the terms of entry to which Labour had pledged itself, attending many Council of Ministers' meetings in Brussels. When the 'renegotiation' was concluded in 1975 and the referendum on its terms was held, I was one of the seven dissenting Cabinet Ministers who campaigned for a 'No' vote. I remained a Cabinet Minister at Trade until 1976 and then as Secretary of the Environment in the Callaghan government until its fall in March 1979. In Opposition again, I was first made Shadow Foreign Secretary and then Shadow Chancellor. I was not happy with the 1983 manifesto (the longest suicide note in history) but could certainly live, without distress, with one of its central policies: withdrawal from the Common Market. My period in the Shadow Cabinet ended in 1987. In the ten years that followed, before the 1997 election of the New Labour government, I served as the senior Labour Member on the House of Commons Select Committee on Foreign Affairs – with its wide remit to study not only European matters but also the great range of issues that involved the UK and its parliament in Southern Africa, the Gulf, Latin America and the Commonwealth.

Those last ten years in the House on the Foreign Affairs Select Committee I look back on with particular satisfaction. They helped me not only to keep in close touch with developing European issues but also enabled me to place Britain and Europe in the context of problems, conflicts, opportunities and interests not just in one continent, Europe, but in all six.

Finally I have one additional reason for writing that has acted as a spur and a goad whenever my resolution began to falter. The knowledge that, on these, the greatest issues before our people and our country, deception has been practised by successive governments on a scale, and over a prolonged period of time, without precedent in our modern history.

I use the words 'deceive' and 'deception' with care – and with reluctance. Honourable and serious men and women have argued the contrary case to my own, in favour of European integration, with integrity and force. I have no complaint against them. But they have not been the dominant voices in this prolonged debate.

And while in the past few years, there are signs that the public, some of the media and a growing minority of politicians are more alert, less gullible and more critical of things European than has been the case in most of the past forty years, the evidence of past misdeeds and worse must be recorded – if only to reduce the dangers of their repetition in the period directly ahead.

Let me preface what follows with two admissions. First, as a convinced and long-term Eurosceptic,* I recognise that my judgement is bound to be tilted by my own convictions. Second, I am well aware of the danger when strong convictions are involved that those who hold them are tempted, when faced with adverse events, to allege 'conspiracy'- in short, to be paranoid. Because of this obvious danger, my account of the deception of the British people is drawn almost exclusively from now unquestioned facts and from recent statements made, not by my *allies* but by my *opponents* in the debate.

* I prefer 'Euro-realist' and wholly reject 'Europhobe'.

In this, I have been greatly assisted by the passage of time. The 30 year rule on the non-disclosure of Cabinet records is still in force but the documents relating to that very important decade, 1960–70, when the governments of Macmillan and Wilson made their separate applications for UK entry to the Common Market, are now available. No less important are the still growing flood of memoirs by those politicians and others most involved in European affairs, not only in the 1960s but in subsequent decades. Contemporary historians and investigatory journalists have been particularly helpful. In what follows, I shall draw heavily on a number of recent works, including Hugo Young's *This Blessed Plot* (1998) in the preparation of which the author had access to very interesting and still unpublished Foreign Office documents; Larkin and Oliver's *A Discreet Word: Britain's Secret Propaganda During the Cold War* (1998); and particularly most recently, in February 2000, that remarkable BBC radio programme based on interviews by Christopher Cook with now mainly retired politicians and senior officials, intimately involved in European events, as well as serious academic scholars and researchers.

This most recent material has given fresh evidence and authority to what previously had been considered as no more than interesting, if worrying, allegations and at the same time has brought to light some relevant matters not previously even guessed at. Further, this material has the great advantage and value that the authors and presenters are either European enthusiasts and federalists like Hugo Young or – to the best of my knowledge – professional and quite uncommitted researchers and interviewers.

What has been revealed is: first, improper behaviour by Foreign Office officials and civil servants; second the abuse by very senior BBC executives and producers of their Charter obligation to ensure neutrality and even-handiness in presenting politically controversial issues; and third the encouragement – and organisation – of this improper conduct by senior ministers and politicians.

I begin with the astonishing story of misbehaviour by a senior Foreign Office official, Mr John Robinson. An account appeared in 1980, as part of Douglas Jay's memoirs, *Change and Fortune* but a far fuller version is to be found in Hugo Young's *This Blessed Plot.* Mr Robinson was a European expert and enthusiast who had served in Brussels as part of Edward Heath's team in the 1961–3 negotiations – a man promoted to head the European Integration Department in the late 1960s. The French President, de Gaulle, had vetoed the UK's second application for entry to the European Community some fifteen months earlier when our Ambassador in Paris was granted the unusual privilege of a lunchtime meeting with the President. Our Ambassador Christopher Soames was not a career diplomat but a senior politician, a former

Conservative Cabinet Minister, and of course son-in-law of Winston Churchill. He and de Gaulle lunched together on 4 February 1969 and the President talked – according to reports it was more a monologue than a dialogue – with the frankness that is normally reserved for interchanges between political leaders.

What de Gaulle put forward was a line of thought about Britain and Europe and the future that would have been music to the ears of any previous UK government including Macmillan's: a Europe rid of the supranational pretentions of the Treaties, a Europe based on sovereign states, a Europe '*de patries*'. And while there was no hint that the UK would be allowed to join – de Gaulle was determined to dominate the Six, with his junior partner West Germany – what was clearly suggested was an industrial free trade area, with no obligation on the UK to impose the common external tariff on Commonwealth and other suppliers or to import high-cost continental food.

Soames at once cabled London where it reached No 10 just as Harold Wilson was about to visit Bonn for a pre-arranged bilateral meeting with Chancellor Kiesinger there. The question at once arose, should the Prime Minister mention the Paris conversation in his own talks in Bonn? More seriously, was it a genuine initiative, or a ploy whose ultimate publication would embarrass the UK with its continued efforts to gain admission?

Wilson's instinct was to say nothing but he decided, shortly before departure, to make a passing reference to it and asked the Foreign Office for 'a few simple sentences' to be included in his briefing. Mr Robinson and his European Integration Department decided otherwise. He sent instead a full report of the de Gaulle/Soames conversation, together with a memo to be used in the meeting with the German Chancellor.

Wilson, in his memoirs, says he was 'furious' – and of course didn't use it. But that was only the beginning of Robinson's truly disgraceful conduct. He dispatched the report of the Paris talks not only to Wilson at the British Embassy in Bonn but simultaneously and *en clair* to all relevant British Embassies in Europe. As intended, the fact and nature of the conversation soon became public knowledge. Questions were directed to Paris from other member states and from journalists from everywhere.

The French responded with a very sketchy account of what had taken place in the newspaper, *Le Figaro*. Whereupon, according to Hugo Young's applauding account, the 'Foreign Office chief spokesman in London summoned selected correspondents to "correct" the French account. He read to them, verbatim, large chunks of Soames's original dispatch, giving rise to an international furore that put paid to anything serious that de Gaulle might have had in mind.'

It was clearly deliberate. I was in Cabinet at the time and I can remember

– just – the matter being reported to colleagues by the then Foreign Secretary, a convert to the European cause, Michael Stewart. The item was brief, the account heavily slanted by suggestions of deliberate French trickery. No disciplinary action was taken. Clearly, Robinson enjoyed a close and protective relationship with top FCO officials. He was, as Hugo Young describes him, part of a 'militant vanguard', an 'elite regiment' of committed Europhiles, then taking key positions in the FCO. There are reasons to fear a number of them, including those they have recruited, are there still.

The next episode is one that, while its authenticity is both unquestionable and unquestioned, I find even now difficult to believe. I refer to the notorious 'media breakfasts', arranged at Prime Minister Heath's request in 1970 by the former Central Office Publicity Officer, Geoffrey Tucker, with the unambiguous task of trying to shift public opinion in the UK from opposition to support of entry to the Common Market.

The coming together, in regular weekly breakfast meetings, at the Connaught Hotel of ministers, leading opposition politicians, senior industrialists, the European Movement (EM) and friendly journalists is itself an unusual occurrence but not a sufficient cause for censure or concern. What distinguished and set the Connaught Breakfast apart were three things: first the presence there of senior Foreign Office officials in the persons of Norman Reddaway, Head of the Information Research Department (the IRD) – with its close links to the intelligence services – his assistant Tommy Tucker, head of the Editorial Section of the IRD, and Crispin Tickell, the top personal civil service aide to the negotiating minister, Geoffrey Rippon; second, the regular attendance of senior BBC executives, specifically the Managing Director of BBC Radio, Ian Trethowan, the Director/Producer of the Today Programme, Marshall Stewart and, from ITN News-at-Ten, Nigel Ryan.

From the government's point of view, these were most valuable contacts. The Today Programme, with its eight million listeners, then as now helped set the agenda for both the day's events and for subsequent BBC news and current affair programmes, while News-at-Ten, with its still larger ten to fifteen million nightly audience, agreed to put on a special five-minute news programme to cover Common Market issues and developments; the third and still more extraordinary feature of the media breakfast was who financed them. In money terms the amount must have been trivial, and at the time it was assumed that the European Movement, under its director Ernest Wistrich, had met the bill. In fact, as only very recently has been discovered, the breakfasts were paid for by the IRD itself and their contribution hidden in the accounts of the European Movement.

The media breakfasts were a most important part of the total effort to shift opinion in the UK. The involvement of senior officials of the Foreign Office and senior executives of the BBC in a covert propaganda campaign was a disgraceful breach of the relevant codes of conduct affecting Crown servants and of the BBC's Charter obligations. The whole operation was a closely guarded secret. It was brought to an end, after the crucial October 1971 White Paper vote, only through the personal intervention of the Head of the civil service, Sir William Armstrong.

The operation was however penetrated and opened up by a distinguished academic and author, the late Uwe Kitzinger, himself an ardent pro-Marketeer, who documented these and other events in his *Diplomacy and Persuasion* as long ago as 1973. Further dimensions of the story were unfolded recently, by Larkin and Oliver in their *A Discreet Word: Britain's Secret Propaganda During the Cold War* (1998).

What these authors were able to make plain was that the media breakfasts were only one, though a most important component, in the whole pro-Market propaganda campaign. In particular, they were able to document in much greater detail the role played by Norman Reddaway and his IRD. His team were the authors of daily drafts of articles, and letters, signed as arranged by the IRD, by the Conservative MP, Sir Tufton Beamish and his pro-European friends, in the *Times* and other papers. Immediate rebuttal of anti-Market statements and allegations was just one of the facilities made available. The unit was in daily not just weekly, contact with the Today programme and News-at-Ten.

Geoffrey Rippon, Chancellor of the Duchy of Lancaster and Heath's Negotiator-in-Chief, was personally involved in all these activities, and so were his fellow ministers at the Foreign Office. Tony Royle, the Parliamentary Secretary at the Foreign Office, chaired a governmental co-ordinating committee to bring together the many different interests involved. What Larkin and Oliver were also able to discover, from the documents made available to them by Sir Richard Body, a strongly anti-Common Market Conservative MP, was the active involvement of the US Central Intelligence Agency (CIA) in promoting, covertly, the campaign for European Unity on the continent and in the UK as well.

The final confirmation of the truth of this whole extraordinary story came early in this year, on a Radio 4 half-hour programme, presented by Christopher Cook and broadcast on 3 February. In an interview with the long retired Norman Reddaway, shortly before he died, the facts of the IRD's involvement including the media breakfasts, the placing of pro-Market articles and letters drafted by his unit was duly confirmed. Cook also interviewed Geoffrey Tucker, Ernest Wistrich, and the Labour politicians Hattersley and Healey, as well as others directly involved.

A particularly repellent incident, first recounted in Kitzinger's original 1972 book, was that Trethowan had replaced Jack de Manio at the Today programme because he was alleged by a number of breakfasters to be anti-Common Market. This the BBC continues to deny. But not the least interesting of Cook's interrogations was with Roy Hattersley. In 1971 Hattersley, a Labour Front Bencher, was then as now an ardent Europhile. In his interview with Cook, Hattersley claimed that he had attended only one media breakfast because he said that some of his breakfast companions had urged Ian Trethowan 'to do something' about anti-European broadcasters and that 'I was so shocked that I decided I couldn't go again'. Roy Hattersley, in my experience, is not easily shocked and one can't help therefore but give some credibility to what is alleged.

One further episode in this strange story must now be related – the extent of the CIA's involvement. US government policy had long been committed to promoting European unity, if possible with the UK as a member state. No doubt the CIA was tasked to assist with that enterprise and it appears to be the fact that the European movement, even in earlier years, was a recipient of CIA funds. With the votes of the 1975 referendum in doubt and the prospect of UK withdrawal, the CIA went far beyond its previous low-profile approaches. A new Head of Station in the UK, Cord Meyer Jnr, was appointed (a man with known federalist views) with the general remit to use American influence in favour of the Yes campaign.

Two very Anglophile CIA employees informed Sir Richard Body MP what was afoot and showed him documents of the CIA involvement with the European Movement. Hot stuff. Yet Body was unable to find a single British newspaper to publish the story or the documents. In the end Body was able to publish the story in *Time Out* – at that time still a small-circulation magazine and not one that carried weight with the establishment or public opinion.

This is a story which, once again, one would hesitate to reproduce without copper-bottomed guarantees of its authenticity. Such evidence however is now available. Dr Richard Aldrich of the Department of Politics at Nottingham University, while researching CIA activities in Europe, stumbled across an archive of CIA front organisations in Georgetown University, Washington. The documents revealed that, over the years, millions of dollars had been funnelled mainly into Europe but some into the UK, with relevant correspondence including letters from British MPs. Cord, appointed Head of Station in London only in 1975, departed in 1976, the special mission of helping to keep Britain in Europe accomplished.

My conclusion from all this is not that these covert and irregular activities were decisive in either the House of Commons vote in October 1971, or in the referendum decision in 1975. It is simply that the normal standards of political and public service behaviour, of ministers, MPS, broadcasters and civil servants collapsed and were abandoned when government and people were faced with what was and remains the greatest single issue in our post-war history.

There is, however, a vast area that falls between the totally unacceptable conduct just described and what is reasonable and responsible conduct by senior politicians in a democracy. Certain standards and self-disciplines in presentation are crucial. Quite properly, the ultimate sin in the House of Commons is for a Minister or Member to lie knowingly. Yes: but there is a vast range of verbal formulas that fall short of lying but which have intended effects, ranging from placing a favourable gloss on events to seriously misleading Parliament and the public. The nuances are important and the correct and honest choice of words is what largely distinguishes the good Minister from the bad. And there are too conventions that Ministers must observe: including maintaining the impartiality and objectivity of their own civil servants in presenting – and not withholding – information; and civil servants themselves must play by the rules, by their own codes of conduct.

Before citing some examples of serious ministerial deceit, I want as a plea in mitigation for other ministers involved to identify two particular difficulties that the European question posed and still poses for politicians and commentators – even when they are trying to be objective and fair. The first is the built-in ambiguity in the European Treaties of its supranational and intergovernmental characteristics, an ambiguity greatly, if temporarily, increased during General de Gaulle's ten-year period in power when he halted and nearly reversed the essential supranationalism of the Treaties: and second, the momentum for change built into the whole concept of 'ever closer union', with expanding membership, extending competence of the supranational institutions, with changing practices, new treaties and treaty amendments.

Let me cite some famous examples. During the 1975 Referendum Campaign, every elector was sent three documents: a statement of case by the No campaign, a similar statement by the Yes campaign and – odd when one thinks about it – a third statement, by the government, recommending a Yes vote.

The point I want to stress is this. The government's three-page document contained, among other things, two important assurances. First: 'There was a threat to employment in Britain from the movement in the Common Market towards an Economic and Monetary Union (EMU). This could have forced us to accept fixed exchange rates for the pound, restricting industrial growth and so putting jobs at risk. This threat has been removed.' And secondly: 'No important new policy can be decided in Brussels or anywhere else without the consent of a British Minister answerable to a British government and British Parliament ... the Minister representing Britain can veto any proposals for a new law or new tax if he considers it to be against British interest.'

Very reassuring. But both these statements, read today, are self-evidently untrue. The threat to employment posed by fixed exchange rates or an EMU, far from vanishing, is all too obviously present in the single currency, the European Central Bank and the Economic and Monetary Union. Similarly, the right of veto is now possessed by the UK and other member states in only a small area of the treaties – and under constant pressure of further contraction.

Governments very seldom make statements that they *know* to be false and, in particular, statements whose falsity can be publicly demonstrated. If for no other reason, the loss of credibility is too great. Why then did Wilson and the majority of his Cabinet agree to make these statements?

The answer is that, though those assertions could well have been challenged, they were not flagrantly false in 1975, the time when they were made. EMU, which was indeed on the Common Market agenda as early as 1972, was driven off it by the huge upheaval of the Arab oil shock the following year. And the belief that we could always veto what we disliked was a direct consequence, not of evaluating the content of the Treaties, but of de Gaulle's 'empty chair' policy in the Council of Ministers (the French decision not to attend any EC meetings). This had led to the so-called Luxembourg Compromise in 1966, i.e. the agreement to differ, on the French claim that where a vital national interest was involved it could not be over-ridden.

Additionally there was an element of self-deception. Wilson hoped that he was right because he was opposed both to EMU and to majority voting in the EC. (Subsequent events have of course destroyed the Luxembourg Compromise – though politicians still, ignorantly or dishonestly, make reference to it.)

The other great difficulty – apart from the fact that the Treaties seem to be almost deliberately incomprehensible – that the European Union poses, is the changes produced by its own momentum and enlargement. With the aim of 'ever-closer union' there are few boundaries in state policy and law or in geographical extent that can check its growth and expansion. So the game is constantly changing – like the various official titles or disguises of the organisation itself: the Common Market, the EEC, the EC, the European Union – what it was thirty, twenty, or ten years ago is not necessarily what it is today.

Inevitably politicians can make statements that are more or less true when they make them, but which they have good reason to believe – often with their own approval – will become false in the near future. Central to all this is the driving purpose of further integration and the ultimate creation of a European state.

I must turn now to the most serious offence – deception. In the practice of the deliberate half-truth Ted Heath is, regrettably, a main offender. Of course Ted Heath knew the political as well as the economic implications of joining the European Economic Community. He learned what it was about and what it was programmed to become in the prolonged negotiations of 1961–3, which he led, and still more when, as Prime Minister, he masterminded the 'successful' break-in to membership with the Treaty of Accession and the 1972 European Communities Act. Ted Heath not only knew. He actively willed its further development.

It is against this background of knowledge and commitment that we have to judge his now famous pronouncements on joining Europe.

The 1970 Election pledge simply 'to negotiate, no more and no less' and to join only with 'the full-hearted consent of the British people' are mere peccadilloes. Much more serious was the statement in the October 1971 White Paper that in membership 'there is no question of any erosion of essential national sovereignty' – and his endlessly repeated assertions that the UK was only 'pooling sovereignty' when it was in fact subjecting itself to the supremacy of Community Law, to decisions taken by qualified majority vote and to European Court of Justice rulings.

Heath had in fact been informed much earlier as to the meaning of the Treaties. At the start of the first Macmillan application in 1961 when Heath was the Cabinet's principal negotiator, he had written on the very matter to his colleague the Lord Chancellor, then Lord Kilmuir (who was himself a keen supporter of British membership). In response, Kilmuir made a lengthy and considered response covering the impact of the UK signing of the European treaties on Parliament, on the UK's treaty-making powers and on the independence of our courts of law.

Kilmuir concluded: 'I must emphasise that in my view the surrender of sovereignty involved are serious ones ... I am sure that it would be a great mistake to under-estimate the force of the objections to them. But these objections ought to be brought out into the open now ...'

Clear enough in 1961. Since then, General de Gaulle had intervened in 1966 with the 'Luxembourg Compromise'. But, unlike Harold Wilson, there is no reason to believe that Heath himself had accepted the authority – let alone the desirability – of the Gaullist assertion of the right to veto, as stated in the Compromise. True, Heath can point to occasions when he made clear that in joining the European Community we were joining something that aimed way beyond a free trade area surrounded by a common external tariff. But these extra dimensions were *sotto voce* mutterings against his trumpeting statements that we were joining a Common Market, with the prospects of great benefit to

British traders and to Britain's economic prosperity.

Once Parliament had accepted the Treaty of Accession and passed the European Communities' Act that brought it into effect, Heath and his new partners in Europe were able to be more open about their plans and projects. In the second half of 1972, with France in the Chair of the EC's rotating six-month Presidency, Pompidou called a special conference in Paris, the first Meeting of Heads of State or governments of the member states, to welcome the newcomers – the UK, Eire and Denmark, and to launch the next phase of integration. As the communiqué put it, and as Heath proudly restated it in the House of Commons on 23 October 1972, the Heads of Government had 'affirmed their intention to transform the whole complex of their relationships into a European Union by the end of the decade'.

That promised transformation of 'the whole complex of their relationships into a European Union' by 1980 did not in fact occur. Indeed, it was not until 1991, with the Treaty of Maastricht, that the goal of European Union and its vastly extended content was reached. But Heath knew in 1972 what were the objectives and likely content. He decided, however, not to tell Parliament and the people what they were. By this deliberate refusal to state what he knew to be true about the European Communities' plans and by withholding relevant information from the public, Heath set a precedent for ministerial handling of European affairs that many have followed since.

I shall end my account with two contemporary examples of the behaviour of New Labour since its election to power in May 1997. Among Gordon Brown's first pronouncements as Chancellor of the Exchequer was a two-year freeze on public expenditure to the totals announced by his Conservative predecessor, Kenneth Clarke. Although this astonishing commitment had been made public in January 1997 and was included in Labour's March manifesto; it was neither mentioned in the July 1996 pre-election draft manifesto, nor debated/approved by party members. A key decision had been made by Gordon Brown without collective discussion or consultation; except with Tony Blair.

Of course, this decision has been explained as deliberate shock treatment, to convince everyone in Britain and in the outside world that there was no danger whatever to vested interests and the maintenance of the status quo from New Labour; that New Labour was really 'new' and had turned its back upon the wicked 'tax and spend' policies of its Old Labour predecessors; that, in personal terms, here was an Iron Chancellor who, come what may and regardless of what his Party members and voters expected, was determined to take no risk with the economy – a man whose middle name was Prudent.

All of this is persuasive. But there was another influential factor. The previous government of John Major and Gordon Brown's predecessor as Chancellor, Ken Clarke, had received each year since 1994 a Decision made by the European Council of Ministers informing them that the UK had been found to be running 'an excessive deficit', well above the 3 per cent of GDP borrowing limit and in breach of their treaty commitments not to do so when signing up to the second phase of the Economic and Monetary Union (EMU).

Of course, John Major in government had no wish to draw attention to this Council of Ministers' decision. Nor, significantly, did the Labour Front Bench, normally in Opposition only too eager to expose and censure the failure of Tory economic policies. Meanwhile Kenneth Clarke showed his readiness to comply with European instructions and produced successive budgets based upon measures first to reduce the gap and then to close it.

The task was still incomplete when the May 1997 Election put Brown in Clarke's place at the Treasury. Only too anxious to show himself to be 'a good European', as well as an Iron Chancellor, Brown accepted without demur the Council of Ministers' recommendation of 1996 and its successor in 1997, and their decision that the UK's 'excessive deficit' still remained and that it had to be corrected. He also accepted that 'a further reduction of the government's deficit is necessary in view of the objectives of the Stability and Growth Pact'. The full meaning of the reference to the 'further reduction' remains unclear, but it certainly looks as though the European Council's commitment now embraces not merely an annual borrowing ceiling of 3 per cent of GDP but a 'balanced budget' over what the European Commission and Council judge to be the span of years that form the economic cycle.

On all this, the government has been coyness itself. True there is a provision in the treaty that requires the Council of Ministers, when making these extremely sensitive decisions concerning the economic policy of a member state, itself not to publicise its recommendations – providing that its recommendations, or rather instructions, are obeyed. That, after all, is a minimum requirement. Otherwise an adverse decision, made public, might well lead to a loss of confidence in a country's economy and to a flight from its currency.

But it has been kept secret not just by the European Council but also by the UK government, even when the deficit problem ceased to exist. It has been kept secret by the government – and by its predecessor – because these recommendations confirm the surrender of the independence of our own Chancellor of the Exchequer, even in matters of budgetary finance, to an unelected outside agency.

I have myself tried to tease the government into the open on this matter. The last response, a written answer from a Minister in the Lords, about excess deficits produced the following:

> Under protocol 25 of the EC Treaty (ex protocol 11) the UK is not legally bound to avoid running an excess deficit. The European Council of Finance Ministers has no power to enforce recommendations made under Article 104(7) on the UK. But the UK is obliged under Article 116(4) to 'endeavour to avoid excessive government deficits'.

I am not a lawyer but a bit of familiar legal jargon keeps running through my head: *verbum veritas sed suggestio falsi* – true words but false or disguised meanings. Formal powers of the EC to direct and command a future Chancellor of the Exchequer to close or reduce his excess deficits – and to punish him if he refuses – will only operate in the third phase of EMU, if and when we join the single currency. Meanwhile in the second phase of EMU where we are now, the Council can only make 'recommendations' which, if a UK government rejects them, can then be made public knowledge with all the damaging market turmoil that is likely to ensue.

In fact, New Labour's obeisance before the European Council went well beyond the promise to maintain the public spending totals of their predecessors. Gordon Brown presented a new convergence programme in September 1997, stating his two strict rules for future conduct. In the words of the EC document which I am reading as I write, 'borrowing will be limited to covering investment requirements over the cycle; and Government debt will be held stable and at a prudent level in terms of its ratio to GDP'.

In response to this, the Council 'welcomed the government's commitment to sound finances' and further recommended that: 'The UK Government strictly implements its budgetary policy and that it achieves a Government out-turn for 1998 and 1999 and subsequent years that is close to balance when due allowance is made for the economy's cyclical position'.

For good measure, the Council concluded by stressing to the errant UK in 1997 'the importance of maintaining a rigorous control of public expenditure as has featured in budget commitments in recent years'. The Health Service may well have had to wait and so have other public sector expenditure programmes but 'the excess deficit' disappeared and the UK was formally discharged by the Council on 18 November 1998.

All this gives too an explanation – not exactly volunteered – by the Chancellor of the policy *volte face* on privatisation and his enthusiastic embrace of the private finance initiative. Selling off public assets obviously reduces the public sector borrowing requirement. And the great advantage of the public finance initiative and various other partnership schemes is that they allow for heavy expenditure on public assets – new hospitals, new schools, air traffic control, computer systems – previously paid by governments out of taxation or borrowing, now to be financed and owned by private industry and leased or rented to the government.

In the longer term, it may cost the government more – figures suggest considerably more – but in the short term such expenditures count much less against the EC's controlled and defined borrowing requirement. It is this that explains – although the government has yet to admit it – why facilities as sensitive as the air traffic control computer system at our airports are now to be partially privatised in a so-called public-private partnership (PPP) and placed under private management in spite of the overriding importance of safety in all air control operations. And it is this that explains the dangerous project of privatising British Nuclear Fuels with its even more safety-sensitive management issues, affecting the processing of uranium and plutonium, its heavily guarded supply to customers and the deposit of its dangerous, long-life wastes.

I wish that the story of deception and the hidden truth could end here. But there is a final chapter that has to be told. Tony Blair is of course the most genuine and ardent European integrationist Prime Minister we have had since Ted Heath – and Gordon Brown, in spite of deliberately spun rumours to the contrary, is not far behind in dedication. This may help to explain but it certainly does not excuse the fundamental dishonesty of New Labour's whole approach to the single currency and to the European Union.

I have pondered and hesitated over that word, dishonesty. In particular I have toyed with the formula: 'An exceptional capacity for self-deception'. But, regretfully, it would be dishonest to adopt it. In brief, Blair and Brown know very well that, important for the economy as the single currency project is or may be, its major significance is not in the area of economics at all. It lies above all in politics and most obviously in the great step that a single currency is bound to take towards a European political union, a European State. Together they wrote or approved in the early months of 1997 Labour's Manifesto and they jointly agreed these defining words: 'Our vision of Europe is of an alliance of independent nations choosing to co-operate to achieve goals they cannot achieve alone.'

But frankly, on the evidence, that is incredible. Those are the words that one would write in describing any treaty of which we are a signatory – NATO, the Non-Proliferation Treaty, the OEEC, the World Trade Organisation and countless others. What is incontrovertibly special about the European Union and its treaty base is precisely its supranationalism, its declared purpose of 'ever closer union' and its unique institutions that set it apart from all others. The words in Labour's Manifesto are chosen to deceive simply because the authors know that the electors, to whom the manifesto is addressed, do not want to be integrated into a European Union – do not want to lose their birthright of democracy and self-government.

The following words in the manifesto, 'We oppose a European Federal Super State', deserve more serious consideration if only because the ultimate shape of the European Union, federal or central, with the precise delineation of what powers and decisions should be taken at the Union level and what should be left to the nation states, has yet to be finally determined.

But one has only to look at the headings of the Maastricht and Amsterdam Treaties – let alone the agenda of the new Inter-Governmental Conference (IGC) to prepare for the European Union's enlargement – to understand that the integration project is on the march in every area of state activity. And New Labour wants to be in the van: at the heart of Europe, giving leadership, sponsoring the new European defence initiative, among others.

What is so extraordinary is that the pretence of British politicians that Europe is not about political union is now openly contradicted by virtually all our European neighbours. In earlier decades, while the federal purpose was always and clearly there, federalists themselves, with the clear guidance of their leader Jean Monnet, agreed that it would be imprudent to constantly stress this objective – that it was better to adopt tactics of softly, softly and of incremental change. But the signing of the Maastricht Treaty and the subsequent May 1998 agreement to launch the single currency on 1 January 1999, seems to have unbuttoned continental lips and released statements of purpose and intent that, previously, prudence about the feelings of their own electors – and of the reluctant British voter as well – had constrained.

It would be tedious to quote them all, but here is just a sample of what they have been saying. Gonzales, former Spanish Prime Minister, speaking shortly after the decision of the eleven to join the euro asserted that: 'The Single Currency is the greatest abandonment of sovereignty since the foundation of the European Community ... we need this United Europe ... we must never forget the euro is an instrument for this project'. The voice of Belgium in the person of its then Prime Minister Jean Luc Dehaene claimed that 'monetary union is the motor of European integration'. The then Italian Finance Minister, now President Carlo Ciampi, was scarcely less forthcoming when he said: 'I don't think we will have a Federal government but something between a Federal State and a Federation of States'.

It is the German leaders who have been most open about what has been achieved, its significance, and what they see as the next European goals. Kohl himself, Chancellor until 1998 and the longest serving European leader, gave this judgement on the Maastricht Treaty: 'In Maastricht we laid the foundation stone for the completion of the European Union. The European Union Treaty introduces a new and decisive stage in the process of European union which within a few years will lead to the creation of what the founding fathers of modern Europe dreamed after the last war: the United States of Europe.'

And Kohl's successors in the SDP-Green Coalition government have been equally clear. Their first Finance Minister, Oskar Lafontaine, openly stated that 'the United States of Europe has been the aim of the SDP all along'. His successor, the present incumbent, the less flamboyant Hans Eichel, wrote in January 1999: 'We will now strive towards a political unification ... EMU will not be enough ... why do we still need national armies? One European army is enough.' Fischer, his Foreign Minister colleague said shortly after the coalition election victory in a speech on 12 January 1999: 'For the first time in the history of the European integration process ... an important part of national sovereignty, to wit monetary sovereignty, has passed over to a European institution ... the introduction of a common currency is not primarily an economic but rather a sovereign and thus eminently political act.' And, if that wasn't enough, in an earlier speech on 26 November 1998 he said: 'Transforming a European Union into a single state with one army, one constitution and one foreign policy is the critical challenge of the age.'

When on the specific question of the single currency the President of the Bundesbank Hans Tietmeyer predicts that 'the European currency will lead to member nations transferring their sovereignty over financial and wage policies as well as in monetary affairs. It is an illusion to think that states can hold on to their autonomy over taxation policies' – and when the President of the new European Central Bank Wim Duisenberg publicly asserts 'the process of Monetary Union goes hand in hand, with political integration and ultimately political union' and last, but not least, when Duisenberg also asserts 'EMU is and always was meant to be a stepping stone on the way to a United Europe' – how can Tony Blair and Gordon Brown, as honourable men, continue to claim that the single currency is simply about an assessment of economic advantage and continue to deny that it has as well a vast significance for national independence and for European political union?

Against these statements, none of which has led to protests or contradictions by any other member state, how can the British Prime Minister, the Foreign Secretary, the Chancellor and others pretend that this political intent is just rhetoric, to be dismissed from serious discussion as no more than eurosceptic hysteria?

Tony Blair himself has volunteered in one of his many articles in the *Sun* these words: 'New Labour will have no truck with the European superstate and if there are those in Europe who want a federal superstate, we would refuse to go along'. How then can he justify his own active support at European Heads of Government Councils for the appointment of Signor Prodi in 1999, an open federalist, as the new President of the European Commission – the most powerful post in the European Union?

As though to remove any possible doubt about the direction and commitment of the new Commission's President, in between his nomination and endorsement, Prodi spoke these words: 'The euro was a decision that completely changed the nature of the nation states. The pillars of the nation state are the sword and currency and we changed that.' As for the future: 'The real goal is to draw on the consequences of the single currency and create a political Europe'. And a few months later he was openly calling for a Common European Army as 'the logical next step'.

So: one is left with the question, who is telling the truth about the European Union, the single currency and its further ambitions? Is it the British government or virtually all its 'partners' in Europe?

Does it matter? Unfortunately, yes. It matters not least to the quality and standards of our own public life, to the maintenance of open and honest discourse between opposing judgements of where the national interest lies. Above all, if democracy itself is to endure, it does demand minimum standards of integrity in the presentation of both fact and argument by its principal players.

The one thing on which Europhiles and Eurosceptics agree is that the decision on the single currency is the most significant that we have been asked to make in these post-war years. Since that very importance has been recognised in the pledge made by government and opposition to hold a referendum so that the decision will have the direct authority of people as well as Parliament, it is essential that the campaign is conducted honestly, that the rival opinions are given equal opportunity to be heard and that the facts, where they are relevant, are properly presented.

This time, the referendum will take place in very different circumstances from those in 1975. The national press is more or less evenly divided. The BBC knows that its past misdeeds have been discovered and that it will next time be closely monitored as to its impartiality. The Confederation of British Industry is clearly tilted into the Yes camp but much of business, including such organisations as the Institute of Directors and the Small Business Federation, are hostile. Between them, the Neill Committee and the government's response have devised rules of conduct for future referendums which will ban the 1975 two-to-one advantage, impose a ceiling on campaign expenditure and limit contributions to authorised protagonists. Also, with public opinion strongly and now for a substantial period of time in favour of keeping the pound sterling, the prospects here too are different And in the argument itself, the Nos have good grounds for their belief that theirs is by far the stronger case.

So, can we now relax? We would be foolish to do so for three reasons. First, it has to be accepted, however reluctantly, that part of our governing elite and the people who work with and for them, are now servants of the European federal dream. Their motive is invariably idealistic but – not unlike dedicated Marxist fellow travellers of the Soviet Union, some of whom became agents and apologists – there are few self-imposed limits on their personal conduct and political behaviour that these Europhiles are prepared to accept. The cause is all.

That of course describes only the most extreme Europhiles and nation-state haters. But the milder, less fanatical, European fellow travellers are now a formidable force in British government and among those who handle and decide the affairs of our nation. There will be no hesitation in using every conceivable opportunity to sway opinion – either to denigrate the personnel and the arguments of the No campaign or, more promisingly, to frighten and confuse the voting public. Scaremongering about jobs is now clearly established as a potential trump card in the debate. Certainly we must expect the government machine and pro-European commercial and professional organisations to come together to launch vigorous Yes propaganda campaigns.

The second reason for staying on guard is the clear danger, in spite of the Neill Committee-government legislative changes to regulate expenditures during referendums and elections, that the government will not be able to keep out of the UK money from European companies who trade with Britain. While the new legislation prohibits foreigners and foreign corporations from pouring money into UK political parties and UK elections, the European Court of Justice has decided that European companies are not foreign and that, so long as they conduct some trade with the UK, they cannot be prevented from spending campaign money in this country.

The implications of this for the integrity of our politics and for our future independence are indeed enormous. And when one considers that the European Union political establishment and European corporations both ardently want to rope the UK into the single currency and that to do so a majority of the British people have to be persuaded in a referendum campaign, the temptation and motivation for massive European financial intervention is self evident.

The third reason why we cannot rest is directly connected with the previous two: the known fact of widespread corrupt practices in European politics. This is not the place to explore the behaviour of the European Commission and its lack of accountability to that feeble Assembly, the European Parliament. But it is the moment to reflect on the recent exposures that have disgraced former Chancellor Kohl. At the centre of the charges against him and his ruling CDU Party is the acceptance of unauthorised monies from varying sources including the French government, through the direct agency of President Mitterand. The reason for the transfer of funds was not because Kohl and Mitterand were in the usual sense 'corrupt' (i.e. gaining for themselves financial advantage) but because, as strong Europeans, they had convinced themselves that their continued partnership in government was essential to further the European cause: that Kohl's CDU must be helped to win the first general election to be held in a United Germany.

There is little doubt that cross-border money for the European cause has flowed to other European countries including, almost certainly, Italy. Former Prime Minister Bettino Craxi, the Italian negotiator of the Maastricht Treaty, was forced to spend the last years of his life in exile in Tunisia, following charges of serious electoral malpractice when in office in Italy. In a positive tribute to his father, and to his motivation, his son Vittorio Craxi had this to say: 'There is a huge difference between taking money in exchange for favours and taking money for one's political movement, to build political stability.' 'Kohl, Mitterand and Craxi not only built Europe, they also fought to resolve regional conflicts and bring peace to areas such as the Middle East. They made the world safer for all of us.'

What to do? Totally secure defences in the UK are almost impossible to erect. But there is one demand on our government by our people that has to be met, whatever the difficulties, whatever the treaty law and the European Court of Justice may say, it is this: 'You must not permit European money, whether from individuals, corporations or European Union institutions to enter this country for the purpose of influencing/corrupting our political parties and the votes to be cast in our elections and referendums.'

ORGANISATIONS IN DEPTH
OR
MANAGING THE HUMAN ANIMAL

'Organisations in Depth' by Yiannis Gabriel (Ed), Sage publications 1999
'Managing the Human Animal' by Nigel Nicholson, Texere publications 2000

Apparently, before Charles Darwin published 'The Origin of Species' everyone in the world believed that human nature and behaviour was the exclusive product of upbringing, experiences and conscious thoughts.

This is an extremely doubtful proposition, ignoring at the very least the obvious common observation of countless generations that the character of their offspring resembles this or that older family member.

Nonetheless, the modern study of the idea of inherited behavioural characteristics where behaviour and physical genes follow similar evolutionary principles begins with Darwin, follows on through psychoanalysis (Freud's discovery of Oedipal conflict resolution being of prime importance) and now to the various 'new' branches of sociology such as evolutionary psychology (EP).

The result, today, is a vast outpouring of research results, good and bad publications, journals devoted to the idea that 'we are what we have been', new university chairs and a great buzz of intellectual excitement around the belief that revelations and discoveries – perhaps one day to be integrated with the Genome project itself, can lay bare for all to see, our motives, reactions, emotions and patterns of behaviour, the better to allow us to understand, organise and manipulate each other both as individuals and in groups ranging in size from the family to business, to nations – and beyond.

Two such books for our consideration are 'Organisations in Depth' and 'Managing the Human Animal'.

Yiannis Gabriel has brought together contributions from four British and six other writers to explore evolutionary ideas and apply them to the understanding of individuals, work groups, leadership, organisational culture, the emotional life of organisations, the role of ethics and the development of management education. The whole book represents an excellently conceived, well integrated and convincing picture solidly based on a clear and indeed brilliant command of the range of material now available. We hear about psychoanalysis, narcissism, latency, morality, repression, sublimation, displacement, transference, ambivalence, authoritarianism, Oedipus, idealization, individualism and collectivism, neurosis, libidinal development stages, therapy and individuation – and much else. All this is explained in a manner entirely accessible to the newcomer and is then shown to have relevance to contemporary organisational concerns. We learn to compare Weber's understanding of bureaucracy with Japanese management practices. We look again at Taylor, Schumacher and Marx – even Machiavelli, Jung, Durkheim, Levi-Strauss and Badcock.

Gabriel's interesting conclusion is that whereas 'management' has traditionally been seen as almost synonymous with 'control', 'We must recognise that, like the rest of us, managers are most of the time confused, erratic and irrational – they deserve neither exorbitant praise for success nor total vilification for failure. Their successes are more likely to be due to good fortune, adroit handling or good judgement rather than the application of quasi-scientific theories and propositions.' From a tower of understanding this book reaches a humble respect for the complexity of the problem.

Nigel Nicholson, a professor at the London Business School where he is director of the Centre for Organisational Research offers his British publication of 'Managing the Human Animal'. But this is manifestly an American business school tract designed to impress aspiring MBA students and is replete with American expressions – and American spelling. Summoning the full authority of a bar-room entertainer he conducts (in the words of Professor Manfered Kets de Vries of INSEAD) 'A tour de force in furthering our understanding of human behaviour in organisations'.

Off we go into homely observations, anecdotes and smart insights to show who went wrong doing what, why, and how pitfalls should have been avoided. Poor Nick Leeson fell for his own human weaknesses and his bosses were blinded by their own shortcomings. Leeson was 'All Limelight and No Searchlight'. We are told that '… as we get older we grow to become more and more 'like ourselves'. Our personality biases us to prefer certain kinds of people as friends and certain kinds of activities for play and fulfilment. These reinforce the direction in which our psychic rudders are steering us.'

Various chapters tell us about 'The natural selection of leadership' , 'Managing against the grain of human nature: The seven deadly syndromes', 'The gossip factory' and 'Structure, culture, and the future of organisation'.

Especially in America people pay handsome conference fees to go and listen to speakers of assurance with a tart turn of phrase who leave them feeling enlightened without being able to quite remember what they were told. Such events are particularly popular in the fields of marketing, management and strategy and there are customers aplenty from the ranks of expense account executives seeking self-improvement and slight intellectual flagellation.

Such a series of lectures has, in this case, been buttered with a coating of the latest sociology. Under the guise of 'Evolutionary Psychology' we are given frequent reminders that because we needed various characteristics to survive in the distant past, we possess them today – which explains this or that mistake in current circumstances. It seems that almost anything can be explained if we are sufficiently selective and assertive about how we might have been in the past.

Our mentor concludes that 'The human psychological system can function better through self-knowledge. All psychotherapy operates on this principle … Through intelligent organisation and management, we can create and sustain the best of human community. For the sake of future generations, we must.' From a footstool of understanding this book reaches an evangelical promise for its application.

So I would advise readers that, for knowledge, one should read Gabriel and for entertainment, perhaps Nicholson, but remember that both are playing with fire – because to discover that something is somehow *natural* may be to explain and understand – but cannot justify or excuse.

J.B.

IN MEMORY OF JOHN HATHERLEY

John Hatherley, friend and committee member of the Economic Research Council, died on the 13th November 2000. To our surprise we discovered that poetry was amongst his many accomplishments. In his memory here are three of his poems 'Time', 'Cloudy Morning' and 'Thoughts in a Woodland'.

TIME

Time is like the ocean, never still,
and also planet-bound, just like the sea.
It has its ups and downs for what is on it,
and keeps its steady drift, its forward course,
and all things sail upon it while they live -
rats, and trees, and humans – and the stars.
It leaves deposits subject to decay -
remains of empires, carcasses and stumps,
documents like memories that showed
where here and there man's history swerved
to ports of call along the route to fate,
in wars, or liners of a better life.
And human beings scull their little boats,
sometimes hitting rocks, clear or hidden;
or swimming in the sea of business, find
that sharks may lie there waiting, though unseen.
And time flies swiftly as a frightened bird
for those in hurried need and more to do.
But there are passages of wishes met,
or restful islands in the sun when hope
has been fulfilled, or hearts refreshed with love,
or satisfaction, also when a breeze
of progress of achievement, or the tides
of comradeship or fortune push one on.

CLOUDY MORNING

The world looks hideously old
beneath grey clouds and bleak and cold:
Beauty flees on days like these,
knowing that if it stays it dies,
wanting warmth and sunny skies.
And then I notice pencilled trees,
Mists' ballet in a mountain breeze,
Wet mud that glints with undreamed tints,
And silver pools – and realise
No skies were clouded as my eyes!

THOUGHTS IN A WOODLAND

The ego tells the eye, "Now look at that!"
It blurs or blanks or spots or spurns
the fullness of the picture in our sight.
It hinders healthy vision with a blight.

And more than this, it hides the deeper truths
of nature from our brains and from our souls:
we see it all like goods upon a shelf.
We need to acupuncture brain and self.

To see what keeps a tree, a tree for life,
or earth rotating, planets on their course.
Or much more simply, feel our links with plants,
deep vibrations, beautiful as chants.

LETTERS

An encouraging response from Mr Stephen Baker, Chairman of he Family Tree Ministry, to the Autumn 2000 edition of 'Britain and Overseas'.

Sir,

This may seem strange notepaper for a letter to the Editor of Britain & Overseas. But not really. I have been an ERC member now for over 30 years though before I retired my membership was covered by my old firm Batten & Co. Now instead of helping people with their problems from a legal perspective I try in this perhaps rather specialised form of ministry to help them resolve present hurts rooted in the past sins of their family or community which being unconfessed and therefore unforgiven continue to affect the present family or the community or the place and those who settle there. Theology which doesn't reach where the rubber touches the road is not much good to anyone.

So you should not be surprised when I tell you that I found the Autumn 2000 edition as valuable as any and more valuable than most. I have already read and shared with many in my network de Soto's book on 'The Mystery of Capital' and what an excellent review you have provided; effective laws are rooted in the community as is the Common Law; European law which descends from above will always yield only deathliness. But the article entitled 'Funny Money' I found particularly enthralling. We live out here 'in the sticks' where many are marginalised by the System and some have simply been left behind. A small farmer near by I encouraged to seek family income support but the forms and the attitude towards him as a self-employed person defeated him and his wife who is a very competent secretary/book keeper. There is nothing new in the abuse of power by those who have it – they do it to ensure they get to hold their privileged positions. You will find it in the Old Testament where the King and Priests during and after Solomon's reign lived off the fat of the land at someone's expense and made slaves of those they required for the building of their cedar palaces! The role of the prophets was to speak in critical ways that dismantled those power structures and in our time it is the job of ERC and its members to criticise power on behalf of those who are overwhelmed by it.

Ash Tree House
Crickham, Wedmore
Somerset, BS28 4JT

Retirement questions?

Two questions in contribution from Mr Brian Lewis to which answers are expected to be strictly theoretical, and a third to which answers are hoped will be strictly practical! Mr Lewis has had a distinguished career in marketing in the oil and gas industries abroad.

Sir

I have some questions concerning the relationship between work and national income – and therefore the ability of nations to pay social costs and pensions. I was retired by Shell 17 years ago and I have continued to work overseas, mainly because no UK organisation was prepared to employ me. (Was this good for the UK economy?) Recent studies seem to show that the government will not have sufficient funds to pay pensions in future unless we all work longer and retire later. Mainly this is said to be because people of working age will have to support more pensioners than ever before. In contrast, I note the Australian government will permit me to retire to Australia *as long as I do not work!*

Question 1 – Why do governments actually try to stop us working? This would seem to be blatant government discrimination against the old or the foreigner at a time when discrimination is not generally allowed. Surely there must be something wrong with this logic – to complain there is not enough money to pay pensions and then in the same breath prevent people from working. Or is it that by working we render a negative return on the effort? What does economic theory say about the effect of deliberately stopping people working?

Question 2 – Is it really true in an era of electronic automation that there are not enough workers any more. Surely it must be true that a factory that employed 600 men in 1950 can quite easily increase production and profitability by employing only 200 men today. Thus it should be quite acceptable to cut the overall number of workers drastically while still maintaining or increasing production and total national wealth. So if the new wealth is not going to the pensioners, where is it going? Are economists correct then in implying wealth is no longer available to give pensioners a reasonable standard of living?

I myself am now looking for a new occupation after 30 years working overseas, and would be grateful if anyone can suggest an occupation for me in the UK.

PO Box 5101
Riyadh 11422, Saudi Arabia

YOUNG CONTRIBUTOR'S
£200 PRIZE

COMPETITION ANNOUNCEMENT

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

Articles for the Spring 2001 edition should be received not later than March 1st, 2001.

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

APPLICATION FORM

Date ______________________________

Name ______________________________

Date of birth ______________________________

Address ______________________________

Send to:

The Editor
"Britain and Overseas"
The Economic Research Council
7 St James's Square
LONDON, SW1Y 4JU

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

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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.

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