



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

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THREATS TO BUSINESS

*Extracts from a talk given by Ruth Lea, Head of the Policy Unit
at the Institute of Directors, to members of the Economic Research Council
on Thursday 7th December 2000.*

As one preliminary to my talk, a comment on attitudes towards business seems in order. When I am interviewed about business, especially if the subject is ‘big business’ I find that business is somehow seen as the thing that sucks the life out of a nation rather than actually makes the nation’s life possible; some sort of pariah rather than the creator of wealth so that we can have jobs, incomes, taxes, a health service and so on. This sort of attitude (perhaps particularly noticeable in Islington and the BBC!) makes it more difficult to portray realistically the issues I want to raise with you.

As a second, let me paint a brief picture of the current economic situation. I started my career as a Civil Servant in 1970 in the Treasury, and was soon to walk the corridors of power holding a candle during the ‘3 day week’! Things were so bad that people were wondering if the country was even governable. What happened in the 1980s was the beginning of the renaissance for the British economy. Joining the ERM was a step backwards but after we left in 1992, the economy was able to set out on a long period of quite extraordinary growth with a pretty full labour market and without any inflation. This really quite good economic performance faces worrying threats from over-regulation and from euro-mismanagement.

Increasing regulation is affecting business in many ways. Although the collapse of commodity prices is a major factor, Lord Haskin’s recent report has shown just how the agricultural industry has been badly affected by the very aggressive application of regulations from MAFF et al. This is just one example from just one industry, so let me turn to employment legislation because this is very much affecting all businesses – and it is an absolute nightmare.

Just last week the manager of a brewery told me that during the past year he’d been sent 72 different new regulations! Now whilst it may be possible for a large company with a dedicated Human Resources Department (once known as Personnel) to understand and apply large quantities of regulations, we must remember that all companies, large, medium and small, have to sit down and battle their way through the intricacies of new legislation. And how much help do they really get? The DTI has put out 112 pages of advice and help on the minimum wage (based on the number of pages,

here is a great example of high productivity!) with an introduction promising a helpline (– but a helpline that must not be regarded as definitive!).

So imagine poor old Joe who is running his restaurant, wading through all this. How should he deal with tips, and how should he deal with overtime, and how should he deal with bathrooms? Then he gets the Working Time Directive and the Working Families Tax Credit and on and on. This is all time consuming, irritating and distracting. Meanwhile there is his real business to conduct, which means dealing with customers, and the bank, and sorting out problems with suppliers whose goods haven't turned up on time.

The biggest irony of all this is that rogue employers, the guys who really exploit their employees badly, are not going to struggle through 112 pages on the minimum wage. Nor will people in the 'black economy', many of whom have few language skills.

And putting unnecessary burdens on decent employers does affect the numbers they can employ. Sometimes they feel forced only to take on the self-employed and sometimes they just say that their business is grinding to a halt.

The government's attitude is an attempt at 'third way' innocence and helpfulness – of trying to make the regulations work better. They have set up the Business Co-ordination Unit, the DTI's Small Business Service and lots of 'Initiatives'. All this consumes yet more time and effort and is made yet worse by a Human Rights Act and the process of 'no win, no fee' in Civil Law which means more and more people taking employers to Court and to Employment Tribunals as part of this new age of litigious, compensation culture.

Lastly, let me mention one or two other items in the Government's social engineering agenda. One is to get more people into work – which is fair enough. But who is supposed to do this? Business, of course! Another is that students have to pay back their loans. A good idea, but who is going to be dealing with all these students paying their loans? Ah, mmm, business. And we want stakeholder pensions and who is going to arrange the stakeholder pensions? Ah – thinks – business again.

Choices have to be made. We simply cannot have everything, and somehow a balance must be struck. This is not easy so the government has a good idea – to give us yet more regulations!

The second threat is to general economic stability because the government is still, I think, very committed to joining the euro 'to be at the

heart of Europe'. I'll leave aside the constitutional arguments because, at the IoD we tend to stick with the economic issues. Nonetheless, I am somewhat cynical about Gordon Brown's tests and the need for sustainable convergence. These appear to be a smoke screen because, if the opinion polls were to give the 'right' sort of indication I wouldn't be at all surprised if this government then pushed ahead quite aggressively to join.

But what would happen if we did this without proper sustainable convergence? One danger certainly is of being like Ireland where inflation is now 6% and the housing market has gone absolutely bananas. It is only the Irish reverse diaspora and Northern Irish people going back to Dublin that keeps the economy from running out of control. Clearly the Irish Central Bank should put up interest rates. But it can't because it is a part of euroland. Prior to 1998 Irish interest rates were 6% or 7% when French and German rates were about 2% to 3%. Interest rates have converged but the result is likely to be inflation, instability and misery.

The performance of each of the countries in euroland is mired by wrong interest rates – for some too high and for others too low because such a large euro group is simply not an optimal currency area. So look at the euro's incredible weakness. When it was launched in January 1999 it was 118 to the dollar and there was a lot of speculation that it would appreciate further. Now it is only worth about 85 cents.

Meanwhile, the American economy has showed signs of weakness but there, where Alan Greenspan still has the control of interests rates which euroland countries have given up, he has been able to cut interest rates quite aggressively.

Markets like certainty and like to know that somebody has real control and can exercise real consistency of policy. At the moment we are a long way away, in Germany, from the 30 or 40 years when good and successful economic policy was all about the success of the D-mark. I suppose that this is the reason why there is such a big push towards getting more of a concerted economic government for euroland.

As you may have gathered, I am just a little euro-sceptical and so I would like to conclude with a comment about the Danish referendum. The Danish government, all the major political parties, nearly all the press, all the trade unions and all the business guns were in favour of a 'yes' vote. But they lost and I read in one paper that this was due to a strange alliance between women, late night drinkers and anarchists. (Count me in on all 3!)

The Danish people realised that when they were told that if they didn't

vote for the euro, it would be the end of their jobs, that this might not be quite the truth. At any rate, the women, the late night drinkers and the anarchists thought it was absolute nonsense. Seeing that the whole vote was a political wolf in sheep's clothing, they voted 'no'.

From this I think that we euro-sceptics can take heart. The whole inevitability argument has been shattered and, whether anybody likes it or not, there is now going to be a two-speed Europe, or two-tier Europe or something. It is no longer realistic to talk about everybody being in the same boat (or train or whatever mode of transport) going in the same direction, at the same speed, to the same destination.

EDUCATION TO THE POWER OF POLITICS

By David Fifield

During the 1997 election the cry was 'education, education, education'. Since this is to remain centre stage, now might be a useful time to take a fifty year look at how the education process has evolved, along with the benefits or otherwise it has brought.

As a National Serviceman in the 1950s I was responsible for testing, on a quarterly basis, the reading ages of soldiers identified as 'poor' on entry. At this time the percentage with a reading age below 12 years was around 25%. Recent press reports suggest little has changed. Twenty percent of adults now are credited with a reading age of less than eleven years.

Turning to the other end of the scale there appears to have been a boom in achievement. In 1958 the total University population stood at 95,442. Full time students reading for first degrees totalled 81,372, split 64% arts and pure science and 36% medicine, dentistry and technology. Honours were concentrated in the arts and sciences with a minority achieving a 1 or 2.1. Niall Ferguson's FT article of the 4 November 2000 gave the current student population as 1.6 million, roughly 1 in 3 school leavers taking first degrees. Tables appearing from time to time in the national press add a further dimension, the percentage of students gaining a 1st or 2.1 is heading towards 50%.

One thing common to the above scenario has been Government involvement. This has changed from being somewhat benign, limited to the framework and providing funds, to the present “hands on” stance. State schools, comprising 93% of the total, are now closely controlled through a national curriculum along with periodic inspections. For universities to remain viable (and with supplementary tuition fees on first degrees denied) ever increasing student numbers are needed. In the 60s, with limited but generous grants, universities set student numbers according to academic standards rather than to university viability.

Two points stand out.

- The first relates to ‘middle level’ students in the school system. How might they appear when higher education takes fifty percent of school leavers, as planned by politicians, if the standard achieved by the bottom 20% remains static? A theoretical achievement graph, based on a notional ‘gold standard’ for university entrance, would demonstrate discontinuity. This does not make sense. A smoothing process must be taking place via an inclusive approach by universities seeking to recruit a broader range of interests, assisted by wider product appeal and a change in examination method.
- The second question relates to the role of education, especially bearing in mind its call on tax payers’ funding. A once accepted view identified two roles: the provision of qualified employees for the prosperous and smooth running of society, followed by the equipping of individuals for an appreciation of the finer things in life. How has this view evolved?

Fifty years ago training held greater sway, bringing in turn financial benefits to successful individuals. A range of routes was open to all through a hierarchy of learning; full and part time academic study, chartered status and time serving. Selection was a driving force. Individuals could expect to match their abilities and interests. For the more academically minded there were universities and technical colleges, those seeking chartered status became articulated to a profession. The practically minded had apprenticeships, often with respected organisations. Within this process the wealth creating needs of society were to the fore, with private sector involvement an important provider and end consumer.

Over the ensuing years an expansion in university education has come to dominate, with significant growth having taken place since Ralf

Dahrendorf's 1979 Stockton Lecture when he suggested that 'there is no necessary and simple relationship between higher education and the growth of the gross national product'. Higher education has almost become an extension to school, following a year out. To make this possible, feeder examinations have been expanded to include a much larger percentage of the school population. Practical training has in the meantime fallen away, with students staying on longer in school. Nevertheless 2900 graduates, representing 17% of graduates entering employment in 1981, became articled to accountancy firms.

What has been the driving force for university expansion? Might it be increasing affluence, along with society taking on an egalitarian and less differential attitude? Under these conditions education becomes a consumable capable of boosting an individual's standing, especially where a university degree is the prize. According to Luke Johnson's Sunday Telegraph article of the 18 February 2001, education past 18 years will be a requirement for middle class status. This process has been reinforced with an ever increasing range of employment opportunities in the service sector. The chance to appreciate the 'better things in life' comes as a bonus.

The same is not true for the other aim, the smooth running of the state, with public sector staff shortages. The private sector has one problem area, IT. A firefighting solution for health and education, recruiting from overseas, might well present problems. Organisations delivering technically based products, looking for incremental advances, are usually better served where stable conditions exist. Staff on short term contracts and/or from different cultural backgrounds put this concept at risk. Failure to meet the highest standards means society, as represented by the tax payer, is being short changed.

To summarise, the provision of academic opportunities for individual advancement is generous, while the same process is not meeting all the public sector's staffing needs. How might this problem be addressed and is there a role model? In my view business schools serve as a pointer and catalyst for change.

The public sector, in particular health and education, present problems similar to those that occurred in the private sector, especially manufacturing, following the last war. Productivity was low, sizes based on economies of scale held sway, while the demands of the market place were not appreciated. This led to ever increasing bureaucracy and inefficiency, along with the belief that politicians had a right to interfere. In the early 60s, with Britain's competitive position weakening, change was advocated by a number of

interested parties, the BIM, NEDO, FBI, and FME. The need for change was set against a realisation that education for business was missing, there being no output of master's degrees and only a small number of first degrees in business. The Robbin's report of October 1962 confirmed a management education gap and recommended the establishment of post graduate business schools. Lord Franks in his 1963 report proposed 'two business schools of high quality be established in Britain', teaching best practice, linked to industry and based on London and Manchester Universities. Additional business schools were expected to arise leading in turn to approximately 2000 MBAs graduating by 1980. This target was not met. Post 1980 changes, especially growth in the service sector, the supremacy of Anglo American capitalism, plus the opportunity to study part-time has lead to a large number of MBAs coming onto the market.

London Business School presents an interesting case study. Courses started in 1966. Over the intervening period it has established itself as an international school, judged eighth worldwide by the FT in 2000 and 2001. Of significance has been the provision of quality programmes, market based fees, and the undertaking of meaningful research. The success of the LBS model appears to support the 'Russell' group of universities in their quest to charge additional tuition fees as a guarantee of continuing excellence.

With health and education providing direct benefits, it is possible to make comparisons with the private sector at large where improvements over recent decades have been linked to the matching of three interests: ownership expectations, market opportunities and the culture and resources linking the two. Within this concept ownership is represented by the terms of funding. Business school teaching provides managers with an understanding of how best to match and keep in balance the 'three interests'.¹

As with the ailing parts of the old private sector, health and education services demonstrate similar characteristics, being large, centrally directed and open to political influence. This position is at variance with the quality and success of privately supplied health and education. In the public sector model, ownership expectations, market match and the linking resources are out of balance. Bureaucratic factors appear to be in play along with interference from non-accountable 'democratic' influences.

The current practice of 'throwing' money at health and education is

1. destinations for early graduates were finance and consultancy, functions interested in change.

unlikely to bring expected benefits to consumers. There appears to be a case for establishing a tripartite model based on 'accountable' terms. In the private sector, funding in the form of equity, loan, private, is by and large understood by managers and central to corporate planning. Why not introduce accountable loans² at the 'grass roots' in parallel with clear definitions of the services to be supplied? The present health service approach where everything appears possible and free on demand cannot help planning. For change to take place leadership is essential, along with sensible spans of command. As in the private sector, why not establish 'equivalent business schools' as a new resource and change agent, instruction and research to be based on the 'tripartite model' and open to international participation as a boost to best caring practice? Health and education would each require tailored institutions. As in the private sector, effective management with appropriate spans of command would guarantee those professionals charged with delivering the freedom to do what they do best. This would be in keeping with Professor Forrester's July 1982 Sunday Times letter, 'Management is now the world's most critically important profession'. With reduced bureaucracy and increased job satisfaction recruitment problems would be a thing of the past, especially if devolved pay arrangements came into play. Society, as represented by the tax payer, would in turn have less cause for complaint. (There is already a precedent for a centre of excellence in the public sector where training has been given to the best, The Royal Military Academy, Sandhurst Now there is a Combined Services Institution.)

Returning to real life, what does the future hold? Without an economic crisis, change will be resisted. It also has to be borne in mind, change, especially for large organisations, takes time. Political horizons by comparison are short term. A second factor is also in play. Politicians enjoy using the levers of power. Since 1980 with nationalised industries moving into the private sector, many levers have been removed. With only two large levers remaining, education and health, it is only natural they should move to the centre of the political stage. We can therefore expect more statistics and claims of success alongside recruitment problems. Who knows, educational claims for success might reach down to the bottom 20%.

2. a topic in its own right.

HENRY, EQUITABLE LIFE AND THE RECESSION.

By Peter Kruger

Henry was five years old when he, and his great grandfather, appeared in a television advertisement for an insurance company. The advertisement implied that Henry would have retired to a life of relative luxury by the time he reached his great grandfather's age. However Henry's great grandfather, and come to that, his grandfather and father have been rather unhappy of late, having seen the value of their pensions reduced by a quarter.

Blame for the plight of Henry's family has been laid at the door of Henry's grandfather who, a year ago, took early retirement from the motor industry. While great grandfather worked up until the age of 65, grandfather threw in the towel at 55. In a bid to increase the value of his pension fund grandfather invested forty thousand pound in a high technology company whose shares had already doubled during the previous six months. If it had only been grandfather who had done this things might not have been so bad. But private and institutional investors around the world were piling in – driving up the prices of shares of companies that never had, or would, make a profit. Some got out before the crash, but others – including grandfather – did not.

The crash brought down the value of both grandfather's and great grandfather's pension funds. Even father was told he must increase payments into his fund if he wanted to retire in comfort at 65. Some say it was grandfather's stupidity that triggered the recession. It is easy to point an accusing finger at him – after all he is one of the baby boomers, and they have been responsible for everything that happened to the economy since the Second World War. It was baby boomers who created a mass market for toys, who made the Beatles famous and created the fashion industry. They consumed Ford cars and caused the 1972 oil crisis. Now they are retiring early and bleeding the UK economy dry.

But Henry's great-grandfather – born in 1920, just after the Great War and the influenza pandemic, is one of the original baby boomers. In fact in 1920 1,127,000 people were born – the highest annual figure that century. Nevertheless the first baby boom caused little more than a ripple. It is only recently, during the last ten years, that Henry's great grandfather has shown up on the economist's radar. Not only has he, and a large number of his friends, lived ten years longer than his pension company originally expected,

but during those ten years he has been in and out of hospital (two heart bypasses, a hip replacement and a respiratory problem brought on by years of smoking). Until ten years ago great-grandfather was one of the people time had forgot. What he may be able to tell us, now, is just how long the recession will go on. Early indications are it may be twenty-five years before we see an upturn.

Twenty-five years is the time it will take for Henry's grandfather to reach the age Henry's great-grandfather is today. This seems a long time but it is comparable to the number of years between the great depression and Harold Macmillan telling us 'We've never had it so good.'

To illustrate just how bad the situation is let's look at Henry's father. While the news that he will have to increase his pension payments is bad enough it is likely he will, at some point, have to pay increased tax and national insurance to pay for great grandfather's hospital treatment. He will have to become more productive as his company must to keep up dividend payments on the shares that make up grandfather's pension fund. He is the only one in the family producing anything – everyone else, including Henry, is consuming goods. For this reason a large amount of goods are imported into Britain, increasing the balance of payment deficit. At some point the pound will crash, imports will cost more and inflation will erode everyone's savings. Henry's father does not expect to retire until he is 65 (some economists, in the treasury, expect him to still be working when he is 72). And there's one other thing: Henry will start college in a few years and father has to pay the fees.

The only respite for Henry's father, and the economy, will be the gap between great grandfather passing on and grandfather reaching an age where he needs constant medical attention. There will even be a short period when the crisis within the National Health Service appears to be over. This may be the only bright spot during the next general election campaign – and, for that matter, during the remainder of Henry's father's working life.

The root of the problem facing the UK economy is in the models used to determine its performance. These are based on a radically different demographic profile from the one we have today. In the 1960s there was a half-hearted attempt to reform the economy by creating highly automated industries manned by skilled, well educated workers – the so called White Heat of Technology. However it subsequently proved easier to expand an underclass to provide low wage workers for over manned, low value added, manufacturing processes. Today we have few alternatives other than to patiently wait while the demographic profile of the UK reverts to a shape

that fits the treasury's economic models.

That is not to say there won't be periods of adjustment. However these will prove painful for most members of Henry's family. Pension funds, like those of The Equitable Life, will shrink to such an extent that Henry's grandfather will be forced back into the labour market. While this may be good news for the economy Henry's father will not welcome the resulting reduction in the average wage. However grandfather's skills will no longer be relevant, and his old job will have gone, so his main threat will be to the increasing army of unskilled workers.

Of course grandfather himself will be less than pleased with the situation. While unskilled workers have never placed much faith in pensions – even when they could afford them – grandfather is bound to feel cheated. The underclass merely riot and bum a few cars when they get the raw end of a deal – the middle class tend to be more vocal and, on the whole, far more dangerous.

Lastly, what of Henry himself? Well, even assuming his father can afford to send him to college, he will enter a highly competitive labour market. His will be paying high rates of national insurance and, most likely, exorbitant (and compulsory) pension contributions. Not such an 'Equitable Life' after all eh Henry?

FUTURE PERFECT IN THE PAST

*A topical review of Ernest Bramah's 1907 book variously entitled 'What Might Have Been', 'The Secret of the League', and 'The Story of a Social War'
contributed by Peter Davison**

A question posed to Ruth Lea at a recent meeting of the Economic Research Council asked what should be the response of those overwhelmed by regulations from an intransigent government with a massive majority. I couldn't help but think of a futuristic novel published nearly a hundred years ago, and probably little known today, which envisaged circumstances which dramatised a response to an oppressive government with a very large majority. As Alan Bennett wrote in his script for 'A Shy Butcher' in the *Telling Tales* TV series recently, 'Anyone who writes is aware that the act

* This contribution was written before the announcement of the General Election.

of writing carries with it a degree of involuntary prediction of the future, as it were, let out of the bag'. Letting the future out of the bag is what *The Secret of the League* might have done, especially in the light of one aspect of that novel that came to pass in the summer of 2000.

Ernest Bramah (properly, Ernest Bramah Smith, 1869–1942) is best known for his blind detective, Max Carrados, and for *The Wallet of Kai Lung*. The last-named was published in 1900 and the Carrados stories began in 1914. He published *What Might Have Been* in 1907. In 1909 it was reprinted as *The Secret of the League*. Both had the sub-title, *The Story of a Social War*. I don't think that what Bramah set forth is a course to be encouraged. George Orwell, who briefly reviewed the book in July 1940 with several other futuristic novels (including *When the Sleeper Wakes* by H. G. Wells, 1899, and *Brave New World* by Aldous Huxley, 1932) feared it pointed to the establishment of a Fascist state (a concept unknown in 1907, of course), and was puzzled that Bramah, 'a decent and kindly writer', should find 'the crushing of the proletariat a pleasant vision'. It is, perhaps, because Bramah was 'decent and kindly' that his vision – his warning – is still worth a moment's thought.

The climax of the story takes place eleven years after the book's first publication, specifically starting on 15 July 1918. That would prove to be the day that Ludendorff launched his *Friedensturm*, or 'Peace Offensive', crossing the Marne and advancing four miles before being pushed back with heavy losses. It would also prove to be the day before Czar Nicholas II and his family were taken down into a cellar in Ekaterinburg and shot. But that was the undreamed-of actuality. What Bramah envisages in 1907 is a government with a huge Socialist and Labour Party majority. In his newly-elected House of Commons, Socialists have 344 seats; Moderate Labour Party, 179; the Combined Imperial Party (Liberals and Unionists), 68. In a neat touch of verisimilitude worthy of Defoe, he adds in parenthesis, 'The above returns do not include the Orkney and Shetland Islands'.

The significance of this 'result' should be put into its historical context. In February 1906, the year before Bramah's book was published, there had been a General Election. The Liberal Party had routed the Tories. They won 399 seats (compared to 183 in October 1900) against the Tories' 156 seats (compared to 401 at the dissolution). The Labour Representative Council, founded in 1900, won two seats in 1900 but increased that figure to 29 in 1906; it was then renamed the Labour Party. Its leader, Keir Hardie, had won a seat in 1892 as an Independent, but lost it in 1895. In 1893 he was involved in forming the Independent Labour Party. The month

after winning the General Election, the House of Commons approved the principle of old-age pensions. In November 1906, Labour and Socialist candidates took a number of Liberal seats in the Borough elections but one year later, 1 November 1907, Labour lost heavily in the Municipal elections. Such was the political scene when Bramah wrote and published *What Might Have Been*; not much of a ‘socialist threat’, one would imagine. However, a government with such a large majority as that which Bramah envisages was, in effect, an elected dictatorship – to apply the words Lord Barnett (formerly Joel Barnett, Labour Chief Secretary to the Treasury, 1974–79) used to describe the current New Labour government. Bramah was, indeed, foreshadowing the future. In the novel, members of his fictional Government address each other as ‘Comrade’ (when they remember to do so), often printed as ‘Kumred’ and ‘Kumrid’.

Early in Bramah’s Parliament, a deputation meets the Home Secretary, the Rt. Hon. James Tubes. Tubes is a former collier. He has escaped the envy of the electorate ‘by continuing to occupy his humble villa in Kilburn’ (though how it is that a collier lives in Kilburn is not explained). Despite his vastly increased pay, he lives frugally on a tenth of his official salary and ‘prudently invested against a rainy day in the gilt-edged securities of countries where Socialism was least rampant’. The spokesmen for the delegation, a greaser in the service of the Great Northern Railway (the line, incidentally, that serviced Hatfield, scene of the recent accident), demands that the government legislate for union members to have seats on the railway companies’ Boards of Directors (with powers and salaries equal to those of existing directors). He also demands a major extension of the Employers’ Liability Act to cover accidents outside working hours and full provision for all employees’ dependants. The move to a total dependency culture is put into the mouth of another union delegate, Comrade Tintwhistle (a number of the characters have ‘representative’ names). He tells the Home Secretary, ‘It had taken years to convince people that it was equally necessary that children who did not happen to be attending school should have meals provided for them, and even more necessary to see that their mothers should be well nourished; it had taken even longer to arrive at the logical conclusion that if free meals were requisite, free clothes were not a whit less necessary’. Further, a Government pledged to equality should abolish the first, second, and third classes of railway carriages. These were ‘obsolete and servile’. The Home Secretary, ‘turned a friendly ear’ to this proposal but ‘the revenue yielded by the taxation of first and second class tickets was so considerable that it could not be ignored’.

In order to pay for a massive growth in dependency, many new taxes, such as those on first- and second-class travel, were instituted or increased: on hen-roosts, on bicycles (unless owned by the working class), on cars (unless owned by MPs), on hotel staff (because hotels were used by 'the monied classes'). Charity was abominated. Thus, St James's Hospital, which had provided treatment for the poor 'freely every day', had first had a banner displayed across it, 'Curse your Charity!', but that had been replaced by one saying, 'Closed for want of Funds'. No longer, writes Bramah, did people thirst for their fellow-countrymen's blood but for their money. No longer were people 'equalised' through that form of 'moral suasion', the guillotine, as under Fouquier-Tinville; the new 'instruments of justice were represented by a Chancellor of the Exchequer, and an individual delivering blue papers'. Despite the equalisation of people, Bramah, consciously or not, occasionally has Cabinet Ministers refer to 'our people' (a phrase still on the lips of some of today's Ministers), which implies a division of the populace into two classes, 'our people' and the rest.

Bramah naturally foresees the sorts of innovations that any futurist might be expected to guess at. Thus, there was a new food called 'Chip-Chunks', fully cooked and pre-digested. It was advertised with its own 'snap-line', or catch-phrase, for example, 'Bow-wow! Feel chippy? Then champ Chip-Chunks.' There was a soap especially for 'those who disliked work and had something of an antipathy to soap'. It was called 'Isabella'. One did not wash with Isabella, one sat down and watched it. Political misrepresentation was permissible 'if on a sufficiently large scale'. Education was designed to ensure that what was learned was not remembered. Children 'could not apply the principles at all; and they could not think'. Police carried revolvers. The country was being reduced to bankruptcy and to becoming a third-class power (this, of course, at a time when readers of the novel were taught that the sun never set on the British Empire); all were 'filled with a new unnatural pain: the shame of being Englishmen'. There were Moderate Socialists and Practical Socialists (New Labour?) and 'the word 'patriotic' had been expunged' from the latter's vocabulary.

Bramah has two inventions that, although functional in his story, have no ideological implications. The first is alatics. The word does not appear in the second *Oxford English Dictionary* of 1991, although 'alate' and 'alated' do. The latter two mean 'winged' and go back to the mid seventeenth century. Alatics is man's winged flight, a rather cruder, if prettier, version of microlight aeroplanes of today. The second invention is the Telescribe, another word that does not appear in the *OED*. This is what we would call

a fax machine. The idea may have been derived by Bramah from a system invented in 1877 for sending weather maps by facsimile telegraph adopted by the Signal Service. Even by 1935 there is a reference to transmitting facsimile messages by radio but only as something ‘in store’ for us. The system is described in detail in the novel. Its mechanics are of no special interest here except, perhaps, that written messages were written with an agate pen and transmitted by wireless telegraphy. The system ‘had come just in time to save the over-burdened postal system from chronic congestion’.

Bramah is sharp on political developments with which we have become familiar. He shows the special access that some groups have to the Cabinet; there is a wonderful example of the way a politician can ‘spin’ a story for the press, in this case wholly taking in the Government’s main newspaper supporter, *The Tocsin*; that leads to a neat example of ‘leaking’. The Inner Cabinet of the Government is shown deciding how to be influenced by what we should now call ‘focus groups’. Most intriguing, in the light of current practices, is the way Bramah shows how Labour back benchers have been reduced to ‘mediocrity and moral obsequiousness’, and the real power lies not even in the Cabinet, but in its inner body, ‘the Expediency Council’.

In order to pay for this dependency culture, in addition to new taxes, the Navy and Army (there was then no air force, of course) are severely cut back. ‘The goal of complete disarmament is one that we never fail to strive for’, it is said – what might be called ‘seeking the Peace Dividend’. On the grounds of economy, no gunnery practice was allowed, so putting an end to the old slogan, ‘Gunnery! Gunnery!! Gunnery!!!’ (an antecedent of ‘Education, Education, Education?’).¹ A lavish policy of ‘Bread and Circuses’ – although not even Bramah can foresee the Dome – ‘was again depleting the countryside, choking the towns, and destroying the instinct of citizenship ... Betting and drunkenness had increased ... there was no longer any necessity to save ... It was almost the Millennium’. A Minimum Wages Act, an Unearned Incomes Act (with its special Schedule B listing rates), and a Personal Property Tax (‘drafted under the impression that government was a parlour game and Society a heap of spelicans’) were imposed and these proved the last straw for the middle classes, who bore much of the burden of the new taxation and could afford it far less than the wealthy.

1. The slogan may be related to the foundation of the Navy League in 1895 to foster national interest in the Royal Navy in the light of Germany’s growing naval ambitions. George Orwell recalled that at the age of seven he was a member.

Bramah describes the Unearned Incomes Act as one in which interest earned was reduced from 10% to 7% and then, when there was ‘need of a few millions to spend on free amusements for the working class’, to 5%. Perhaps most intriguingly today, Bramah describes his Labour Government tampering with the Constitution as ours has with Devolution. He likens its amendment to a little boy examining a fine silver watch and finding ‘a confounded little *hair* entangled round the balance-wheel’. He removes the hair – the hair-spring, of course – and after racing for a while, the watch comes to a dead and final stop.

Had Bramah gone no further, one could have seen this as no more than a satire on bad and intrusive government, and could go along with Orwell’s surprise that this ‘decent and kindly’ author should find ‘the crushing of the proletariat a pleasant vision’. Such satire, like Defoe’s ‘The Shortest-Way with the Dissenters’² and Swift’s ‘A Modest Proposal’, always has an unpleasant edge if it is to work. What makes Bramah’s novel intriguing today is the response of the middle classes, led by appropriately named men, a Captain Salt (a Royal Navy hero), and Sir John Hampden, named, obviously, after the John Hampden whose refusal to pay taxes (Ship Money) and whose opposition to Charles I, was one of the sparks that ignited the Civil War.

Salt and Hampden establish the Unity League and set out not merely to bring down the Government despite its massive majority, but to destroy the democratic parliamentary system. As they see it, the mob has taken over and the country is being ruined financially, culturally, and as a nation. This is not the place for a full account of how they do this; it would be a mere retelling of the story. What is of interest is the means that they adopt, for this has been echoed very recently. In the past, the League argues, workers have struck, not necessarily selfishly, but nevertheless ‘bringing a great deal of poverty and misery in their train’; employers have combined and, using similar means, served their own ends. ‘It was now the turn of the consumers to learn the strike lesson ... the weapons would be similar but more destructive; the track of desolation would be there but wider ...’. The strike proposed (it is the summer of 1918) is a consumer strike, a refusal by the 5,000,000 members of the Unity League to buy coal. The effect is to throw colliers, carters, railwaymen, and many others, out of

2. This led to Defoe standing in the pillory. Such was the public’s contempt for the government that, instead of his being pelted with refuse or worse, the pillory was garlanded and he was treated as a hero.

work. This puts an intolerable burden on the state's finances. The League corners the oil market (a reversal of the contemporary situation, of course), which it reserves for its own members. A bitterly cold winter leads to terrible hardship for the mass of the population which is dependent on state handouts: the Treasury runs dry. There are riots, marches, and an outbreak of smallpox in Leicester which leads to upwards of 120 deaths a day. Finally, the League's store of oil at Hanwood is attacked – but the army has been so depleted and is so lacking in gunnery practice, that the League outguns it. It was useless to look for foreign aid, for 'England had been cordially hated in turn by every nation in and out of Europe'. France and Germany impose swingeing taxes on coal imported from England, stopping that trade, and the government realises that an appeal to the Arbitration Court at The Hague would be pointless: 'We've never had a single decision given in our favour'. The mob invades the House of Commons, threatening to string up Labour MPs from lampposts, and Members flee in panic and even have to seek Hampden's protection. It was, says one Cabinet Minister, 'our Sedan', the scene of France's catastrophic defeat at the hands of the Prussians in 1870.

The settlement, apart from the expulsion of the government, is presumably what Orwell described as Fascist. Existing adult suffrage was to be swept away. In its place would be a £10 occupation qualification (very much more at today's values, of course), 'with, still worse, a plurality of voting power in multiples of £10, according to the rateable value of the premises occupied'. Bramah offers his own comment on such an undemocratic solution: 'It was wholly immoral according to the democratic tendency of the preceding age, but it was wholly necessary according to the situation which had resulted from it'.

It is only a novel, of course; it describes only 'what might have been'; as we know an even worse disaster befell the world, the United Kingdom and Commonwealth not least. That said, I am not sure that there aren't useful lessons to be learned, if only in governments (of all colours) showing a necessary humility.

Although *The Secret of the League* is out of print in England, a paperback reprint of 1995 can be obtained from Dawn Treader Bookshop, 514 East Liberty, Ann Arbor, Maryland, 48104, USA. It costs \$15; postage is \$5. The e-mail address is: books@dawntreader.com. It may also be obtained at \$10 plus \$5.50 mailing charge from Bookfellows, 238 N. Brand Blvd, Glendale, California, 91203; e-mail: bookfellows@gowebway.com

THE MAKING OF MODERN ECONOMICS

Mark Skousen, published by Armonk. NY: M.E. Sharpe, 2001.

Lord Rees-Mogg recently suggested that the best way for an intending student of economics to get into the subject is by looking at the history of economic ideas and writers, rather than regarding economics as a set of diseases (problems) for which there are prescribed pills (solutions). What is therefore needed is an entertaining, readable and informative introductory textbook covering the evolution of ideas and controversies from Adam Smith to Milton Friedman, after which drawing graphs and writing equations might be the only appendix necessary for a firm grounding in this subject. Ah, what a dream!

But a dream come true in this delightful new publication subtitled ‘The Lives and Ideas of the Great Thinkers’. This book I will hand to my 16 year old son who plans to start his A-level study of Economics this September. He will need some encouragement, persistence and real application (for this book is more suited to undergraduate level and is rewarding for readers long versed in the subject), but to help him along he will find it fun and as engaging as a good novel. If he manages to grasp the drift of events, a fraction of the concepts and a few of the names he could well be the star of his class. Watch this space!

The style is engaging. Chapter headings read like headlines from The Sun newspaper – beginning with ‘It All Started with Adam’ (get it?) and moving on to such headings as ‘Marshalling the Troops’, ‘Milton’s Paradise’ and ‘The Dark Vision of Joseph Schumpeter’. Each great writer – Smith, Ricardo, Malthus, Mill, Marshall, Veblen, Marx, Keynes, Robinson, Hayek etc. and each tangential (often amusing) side story is placed in a handy separate box leaving the main narrative uncluttered. And there is a splendid innovation. Each chapter begins with a ‘music selection’ piece to accompany the text. This is, of course, no more than we have become used to in film and television presentations but it is the first time I have seen it used effectively with a book. How delightful a thought it is to read a chapter about 1776 when Adam Smith published *The Wealth of Nations*, and America (or was it Britain?) gained independence, to the strains of Aaron Copland’s ‘Fanfare for the Common Man’. To maintain interest why not read about Karl Marx to the sound of ‘Mars, the Bringer of War’ from Holst’s *The Planets* or Keynes to the sound of the ‘Sabre Dance’? There are numerous photographs.

Yet the content has depth. In only 450 pages one gains a real understanding of the ideas of each writer, a real appreciation of the development of concepts and, whilst a fair treatment is given of the theory – written in plain English prose (which proves that Skousen really does understand what he is talking about) – of each ‘Great Thinker’, it is followed by a patient explanation of why this or that was either right – or just inconsistent and misleading.

The overall picture is that Adam Smith laid firm foundations and now, at the beginning of the 21st century, those foundations have been proven to be correct, durable and creative. Along the way, some writers have explored and embellished Smith’s ideas and some have, like Ricardo, Marx and Keynes, sought other, dangerous, paths, only to be counter-attacked by yet others like Marshall, Weber, Von Mises and Friedman who have returned economics to the true way. Thus the whole story has great consistency.

This confident, almost missionary approach, leaving the reader in the sure knowledge that he has set foot on firm ground, is probably the best way for a new student to feel encouraged and confident about the subject. Doubts and questions can come later.

And doubts and questions certainly remain. It may, for example, be convenient and tidy to paint the 18th Century French ‘physiocrats’ with their phrase ‘laissez-faire’ as an extended part of Adam Smith’s vision, but not everyone would see it that way. Hayek, in his essay ‘True and False Individualism’, felt that the French mechanistic approach was a damaging parody of Smith’s real intentions.

On the subject of money, Skousen introduces the topic by pointing out that money ‘is not like other commodities’ and then proceeds to discuss the work of Irving Fisher, Milton Friedman and others in the purely conventional manner of money ‘stock’ (M1, M2 etc) and its relationship to inflation, growth and so on. But the story of money has by no means been fully explored and money is no kind of ‘commodity’ at all. Money is nothing more (or less) than transferable debts. Increasingly these debts are undertaken directly by individuals (and companies) rather than by governments. Economics has yet to treat effectively the consequences of the great ebb and flow of humanity’s preparedness to accept debt – the massed force which can still boost or decimate economic activity. And if an overall picture of money has yet to be drawn, there is no reason why a good text on economics should not discuss some detailed complexities such as disintermediation and the development of derivatives.

And problems certainly remain. It is still true that some markets, even given much time, find difficulty in making adjustments. Wages, to use Keynes' phrase are still 'sticky downwards' as the forces of custom, contract and pride fight against reduced incomes. The whole question of exchange rates and optimum currency areas is largely ignored in this text even though such issues as the EU's 'single' (monopoly) currency is set to become a huge concern. Then again, whilst the threats of monopoly, state ownership and inflation might have been fully resolved by now, the dangers of bureaucracy and regulation certainly have not been.

What about current, outstanding issues? For example, Skousen has no comment to offer on the topic of Japan – even though he could very properly have pointed out that it is Adam Smith rather than John Maynard Keynes who holds the key to that country's recovery. And what about participation in capital ownership? Hernando de Soto, working from Peru, has shown graphically how so many assets are 'dead' in the sense that, since legal title is unclear, their use in all sorts of ways, is inhibited.

So the rosy conclusions of this book seem, to your reviewer, somewhat unjustified, but as a lively attempt to describe the story so far this book is quite wonderful. Once having started, I found myself endlessly looking forward to finding the time to read the next few pages. A world was brought to light and into focus.

J.B.

'ENGLAND: THE CURSE OF THE CELTS': ONE MAN'S VIEW

By Ron Read

Sunday 18th February 2001, newspapers report: the Lord Chancellor, a Scot, constitutionally required to be objective, raising funds for the party of Government. George Galloway MP, a Scot, travels to Baghdad to support Saddam Hussein's Iraq. Prime Minister Tony Blair, another Scot, addresses his Party Conference in Glasgow: Scotland the place which returned allocated asylum seekers to England. It could be claimed that Britain is ruled by Scots.

The English are not an ancient people; a mixture of many races, they stabilised into a recognisable culture around the time of the Tudors: a family of Welsh origin. By the late 16th century a talented commercially acute people, forged continually in a furnace of conflict and compromise, had emerged with the beginnings of Parliamentary democracy. Evolved to stabilise the conflicts of the powerful, this eventually became the system by which, today, the population at large elect their leaders.

The Celts are an ancient race: Talmudic Rabbis identify the Gomer, a troublesome people, mentioned in the Old Testament as such. Nomadic tribes, always fighting among themselves, Celtic genes have been found throughout Europe, including the Balkans, and as far afield as the Great Wall of China, the latter, along with Offa's Dyke and Hadrian's Wall in the UK, being built to keep them out.

In Britain the invading Romans pushed the warring tribes to the fringes. The coming of the English, albeit bloody, brought stability, industry, prosperity, civilisation (!) to the fragmented, often barbaric, tribal areas that became Scotland, Ireland and Wales, and, with England, eventually Great Britain. Led by the English, these island races, collectively known as the British, following trade rather than conquest, built the greatest empire yet seen: creating and exporting the seeds of democracy throughout the world in the process.

Having played a major role in the defeat of Napoleon in the early 19th century, giving the beginnings of true democracy to Europe, and freedom from major conflict for nearly a century to herself, Britain, her Empire and Commonwealth, in 1914 and 1939, joined coalitions which, with the belated help of the USA (a nation formed from the ideals of English democracy and culture) defeated Germany's attempts at European and world domination. On both occasions the Celtic American lobby sought to keep the United States out of the war. In 1916, the year of the battle of the Somme, Irish Nationalists took the opportunity to rebel against union with Britain. The subsequent Republic remained neutral throughout the 1939–45 War, at great cost to allied Atlantic shipping and war effort. On Hitler's death, premier Eamonn Devalera is said to have signed the book of condolence at the German Embassy. Between the wars the first UK Labour premier took office: he was a Scot.

Throughout the existence of the UK Union, England, an economic magnet, has long attracted migrants, seeking a better life, from the Celtic fringe. With little counter migration, a majority Celtic population remained behind. Albeit many of those migrants came to occupy powerful positions

in finance and industry, a majority, working as labourers and artisans, developed left wing views; became politicians and union leaders; formed governments.

Until the Second World War an English genius for gradualism solved social problems as they were recognised, with education, housing, health and welfare schemes appearing piecemeal in response to need. The great majority of the hospitals that form the National Health Service today, and many that have been wrongly closed, were, like the massive housing association residential estates, built and run by charitable trusts.

In 1945 the British people, starry eyed from wartime propaganda eulogising their glorious Russian allies, elected a left wing government. Abandoning gradualism a programme of immediate change was embarked upon. With Nationalisation, management passed to bureaucrats: Welshman Aneurin Bevan indicated that with free healthcare the level of illness and with it demand on the NHS would fall. Britain's comparative economic and social decline, temporarily reversed by Thatcher driven governments in the eighties, can be traced to that time. Indeed current economic stability has its roots in the Thatcher years: albeit, recent, re-election driven, public sector spending promises may be seen to be whittling that advantage away and the spectre of inflation and wage conflict to be re-emerging. This may be said to be confirmed by recent Trade Union dominated disputes and the EU's expressed concern at the emerging deficit in the UK projected balance sheet.

Latterly an emergent university educated Celtic elite choosing politics as a career has gone on to form governments in which nationalistic, tribal preference is indicated. Typically in the 1970s, when devolution was first proposed, the Callaghan government, busy transferring industry and commerce to Wales, had a dominant Welsh content, which continues to influence: EU Commissioner Neil Kinnock comes to mind. Anyone using a call centre will encounter Celtic accents. As to today's Europhile government, with Prime Minister, Foreign Secretary, Chancellor, other cabinet ministers, the Speaker, and a disproportional number of MPs Celts, can decisions be regionally objective? Typically in 1997 the Labour chief whip resigned to become First Minister of a devolved Scotland where, unlike in England, care for the elderly and university education is free and circa £9 billion more is spent publicly than is raised in that country by taxes. With the leader of the Liberal Democrats and many English constituency MPs, including the writer's local Tory, Scots born, and no Englishman to be found representing a Scottish constituency, racial preference is again indicated.

In the meantime the clan wars go on, the Irish Premier's, Sharon like, visit to Scotland is called off due to potential sectarian strife. In Ireland the 'All give. No receive!' tax-costly peace process falters. In the Middle East the Israeli/Canaanite tribes battle on: 4000 years already! The ancestral parallels are there.

Only the English-evolved system of assimilation, which the government seems set to demolish, offers an answer. As the once near certain prospect for national prosperity, Britain at the centre of world commerce, an off-shore Switzerland, trusted by all, recedes, the spectre of full union with a continent that produced Napoleon, Mussolini, Franco, Stalin, Hitler, Slobodan Milosevic grows. Brought about by a government whose blinkered, populist, stay in power, regionally nationalist policies might arguably be compared to the substance its members see no moral harm pushing uphill.

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With this edition of Britain and Overseas members will find a separate page entitled 'Competition Announcement' and 'Application form'. The Council would be pleased if you can hand this to a suitable contact in university or school education to encourage further submissions.

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