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AND OUR ROLE IN OVERSEAS TRADE AND PAYMENTS

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TAX CONFLICTS WORLDWIDE AND IN THE EU POST-EMU

Extracts from a talk given by Ian Spence, Director of International Taxation in the Inland Revenue from 1991 to 1998, to members of the Economic Research Council on Wednesday 9th May 2001

Prologue

How can one establish effective tax rules for a global economy – and then maintain and develop them? At issue is the balance between rates which allow us to maintain needed levels of public expenditure and levels that can be attacked as a confiscation of personal wealth, and invasion of privacy and (more emotively) as the weapons of a 'global network of tax police'. The solution must involve setting the right rules – rules in the right place that keep pace with reality, that can command adherence and with the means to pressurise the deviants. Such rules have to keep pace with both commercial developments and the ingenuity of tax advisors trying to make sure that their client companies don't pay any tax at all! All of this involves a tangled political agenda.

The arenas in which this 'rules game' was played out as far as I was concerned was Paris and Brussels. The two were rather different. 'Paris' related to the rules worldwide and 'Brussels' was where the basic game was resisting the centralising and harmonising ambitions of the European Commission and their allies – sometimes thirteen or fourteen states. It was a contrast between pursuing harmonisation at the world (or at least OECD) level and resisting harmonisation in the EU.

The players were an interesting mix of Ministers and officials from the UK government; opposite numbers in other governments; business people wearing their interest group badges, their national badges and their international badges. All claimed to be representative, with varying degrees of credibility. Then there was that happy group of officials from the OECD whom I remember fondly, the officials from the European Commission who were amiable and honourable people who may on occasions have been a bit over-partied, and the other side players – the IMF, the World Trade Organisation and the non-OECD countries. The common factor about them was that sometimes they were friends, sometimes they were enemies and sometimes they were allies. Sometimes they were two or three or none of those at the same time. Roughly the same cast squeezed themselves on to the stage whatever the area for conflict – Brussels, Paris, Washington or wherever – but with different interests, enthusiasms and suspicions.

Progress at the OECD

The OECD has succeeded in promoting international standards that work effectively together with detailed rules on operation – and this is continually updated. Both governments and some members of the private sector have applauded this achievement – and there has been some success in making OECD standards into world standards.

One challenge to these standards was the attempt in the USA to operate the 'Unitary Tax' system (based on US sales rather than on a company's world-wide activities) in conflict with the OECD model. This was a battle about maintaining international standards – and resisting deviationists, and it was a battle fought in the courts (eg 'California against Barclays') and a change of policy by the US President. (When Bill Clinton came to office in the 90s it turned out that he'd written an incautious letter to the leading California tax official saying 'rest assured that a Clinton administration will support the Franchise Tax Board of California against Barclays'.) Eventually the principle of international standards won through – but some valuable lessons had been re-emphasized. More players felt that international standards are worth fighting for; a long campaign demands co-ordination between governments and the private sector; the UK is able to deliver a cross departmental campaign in the USA in a way other governments can't match; the threat of retaliation has to be credible (at least to the opposition); and in the USA one has to play the game with lobbyists whilst also recognising the tension between the Federal Government and States rights. We can say that, in the end, the 'Tax World' – government and business – had looked into the abyss of tax wars and decided that the price was not worth paying.

I found the Unitary Tax battle period an interesting time from the point of view of being inside the UK government. It is quite impressive to be a guy who happens to be running the international bit of the Inland Revenue. You find that you've got the whole British government machine at your disposal and when you press buttons anywhere (including No. 10) things happen. There were moments when I was engaged in Euro campaigns when I thought it would be neat if the British Government could be as effective in Europe as it was in the USA!

The other OECD initiative which I want to mention is the harmful tax competition agenda, where the basic proposition is that the international tax system is not sustainable if individual countries are going to create tax breaks and tax niches designed to attract international business to their shores, against other people's shores. And it's not sustainable if the world's tax from international business profits are whisked away to tax havens. So the OECD has launched an initiative to knockout 'harmful tax practices' within the OECD and marketing this to countries outside the OECD. In particular this concerns threatening tax havens with sanctions so that they will at least provide information to tax authorities of OECD countries and others about where the tax is going.

This is ambitious because it is the first occasion on which the OECD has tried to dictate the terms of tax regimes of member countries and it is the first occasion on which it has tried to dictate the tax regimes of countries outside the OECD. Some members of the Bush administration see this as invading the privacy of US business at a time when they say we should be restricting tax income in the interests of 'small government'. To illustrate the controversy I'll mention the full page spread in the free newspaper for the parish of St Patrick's (population 10,000) which I saw in Grenada last week, which talked of the 'wickedness and perniciousness of victimisation of the black Caribbean states by the big OECD countries led by the high-tax, inefficient Europeans'!

Smoke and Mirrors in the EU

Within the EU we need to contrast the myth and the vision on one hand, with the experience so far on the other. The visionaries' vision is that you need direct tax harmonisation because a single market will not be effective unless there is a harmonised business tax system. A politically unified Europe ought to have a unified corporation tax because it is part of the EU's political logic. Monetary union seems to multiply the case beyond resistance.

However, alongside the visionaries there are a lot of EU politicians. Now some of them may actually be convinced intellectually by the integrationist agenda but there is a larger number that one might call pragmatic or even cynical. What usually happens when there is an 'initiative' is that all the European finance ministers ask themselves 'Do I use up political capital by opposing this?' The answer is 'no' and so they 'support in principle' and then, if they are determined that it is not going to happen or if they want to set up some bargaining counters, they tell their technical people, 'make sure this gets into the long grass and never emerges'. So despite the harmonisation rhetoric, and the shivers of apprehension this sometimes generates in the UK, very little has happened so far.

In 1992 I presided over the EU tax committee. I found that the sum total of EU harmonisation activity was a thing called the parents and subsidiaries directive which was pretty trivial. There was a mergers directive which seemed to be ineffective because there was no underlying legislation on how to handle mergers involving companies from outside of the EU. There was an arbitration convention which taught one how to resolve disputes on transfer pricing but this didn't seem very impressive. In 1998 I found myself in the presidency chair again – how much had changed? Zero, nothing.

This wasn't just a matter of politics. There is also the 'hassle factor'. What is a standard corporation tax going to mean unless there is a harmonised tax base as well? The mind boggles at harmonising the tax base. Even in theory this could only be done on a common accounting base. The problem is larger than the benefits. And one needs to achieve all this over 15 (more soon) countries which are expected to sit around and agree on the technical detail, achieve unanimity on it, and then, if it needs changing, achieve unanimity on the changes. After corporation tax we could talk about a withholding tax on investment income paid to non-residents or the taxation of interest and royalties (which anyway is covered by the OECD tax treaty code). So much still in the 'long grass' – which has a lot to do with the mix of an amateurish Commission and the obstructionist opportunism of national officials.

So the end product is that any EU tax measure you get is likely to be a fragile policy, it is likely to be technically defective and incapable of correction. The basic political problem is to convince yourself that as a country, the hassle is worth the benefits. At EU level, establishing a pressure group for the change, establishing a pressure group which really wants it, as distinct from saying it wants it, and wants it enough actually to push it to a technical level, and also given the time these things take, keeping up the momentum through all the changes in the political complexion of member states, the changes in the personnel of government and the fluctuations in political alliances where if you rely on the German/Franco axis … Well, it may be a good year … it may be a bad year.

Nonetheless, it is interesting to note that there has been a lot of harmonisation of indirect taxation – VAT and Excise taxes. Here was a greenfield site, a recognition that harmonised rules were needed, a recognition that they were achievable and a perception that the benefit disadvantage balance was completely different.

All this though, refers to harmonisation through the front door. There is also harmonisation through the side door – the European Court of Justice (ECJ) which, by interpreting the fundamentals of the Treaty of Rome such as the non-discrimination article, will affect national proposals for tax changes. Side door harmonisation is going to be a continuing feature.

Accidents and EMU?

Will the introduction of Economic and Monetary Union change the scenario and produce more 'front door', direct tax, harmonisation? Of course, this is the realm of speculation which I enter with trepidation but my slightly reckless answer is that it ought not to and it probably won't.

It ought not to in economic terms because I've seen no evidence that the success of EMU is dependent on tax harmonisation. And if it were then it would be curtains for EMU, which some might want but I don't see that happening. I see no evidence of that from other countries with a federal system, like the USA, Canada, or Switzerland. In those countries there are substantial variations in the tax regime between regions and states, but they have single currencies, and yet the economic convergence dictated by market forces has not required the addition of harmonised taxes. Anyway, EU member states will be at least as reluctant to surrender control of tax policy post EMU they are now because they will feel the need for flexibility of manoeuvre in the tax field to compensate for loss of flexibility on interest rate policy.

In political terms, I don't think the balance between small benefit, big hassles, low return on investment is such that it will be worth doing. Objectively, I don't think that the political balance will change.

But there is a caveat – where does the UK stand in future in the EU? How much influence will it have? Will the UK be squeezed out of the decision-making chambers if it doesn't join the EMU?

It is a fair bet that the strongest anti-harmonisation voice in the EU has been the UK. Partly this is generated by our position as a world trader and world player in the tax/trade scenario. But the UK's influence has also been of crucial importance because other countries, particularly the smaller ones, have waited for the UK lead before they put their head above the parapet. The taxation of savings agenda, for example, would have turned out differently, with a withholding tax long ago, if the UK had not been there to lead the opposition. The other EU countries have got used to the idea that the UK is the leader in resisting tax harmonisation and resisting it effectively in committees and in political campaigning.

Post EMU the pro-tax harmonisation rhetoric will increase but I do not think that this will necessarily lead to a significant number of harmonisation measures that are actually delivered. But this assumes that the current political balance in the EU is maintained. If the UK voice is muted and if the UK is sidelined, then I think that accidents will be more likely to happen.

HOW IRELAND JOINED THE EURO, REJECTED THE NICE TREATY AND WILL VOTE AGAIN

Extracts from comments given by Anthony Coughlan, Secretary of The National Platform, Ireland, to the sixth Congress for Democracy meeting in July 2001.

The National Platform is essentially a research and information organisation which provided the basic criticism of the Nice Treaty that was widely used by the diverse range of organisations that fought on the 'No' side in the recent referendum in the Republic of Ireland. There was no formal alliance among these very diverse organisations, ranging from left to right and so on and including many people of the centre, but we provided a common hymn speech from which all these groups more or less sang, though each one added their own respective grace notes. Thus the National Platform did not itself do any mass canvassing but it stressed the importance of the availability of good leaflets and of being 'on-message'. As you know, the result was quite good – 54% to 46%.

This success should be seen in the context of the rising publicity concerning the introduction of the euro. In 1998, 160 of the 166 members of the Irish Parliament decided to abolish the Irish pound and join the euro, even though the Irish Republic does only one third of its trade with the eurozone, on the assumption that the British, who are the Republic of Ireland's most important trading partner, would be in it in two years' time.

We now have totally inappropriate interest rates and the penny is dropping among our politicians and more widely among Irish public opinion that it is really a very unfortunate course to tie our currency for all future time with this area when our principal single markets are the United States of America and Britain – and Britain may decide to keep its pound.

There were many elements in the 'No' side of the Nice Treaty referendum campaign. For example, the Catholic traditionalists who were very worried about the implications of the Fundamental Rights Charter. The strength of the campaign was in its diversity and it was aided by Ireland's referendum funding arrangements. We have the Referendum Commission which is a non-party quango set up by the Irish Government and handsomely endowed with public funds to provide an equal basis for the 'Yes' and the 'No' side. In Britain, in contrast, the funding arrangements are not so helpful although the *Political Parties, Elections and Referendums Act* allows for umbrella groups.

In addition to diversity and funding, a crucial point was to appeal to the 'middle ground'. Nobody could be more eurocritical than I am. I am a long-term hardliner in relation to the EU, but in relation to the Nice Treaty we did designedly and deliberately, our group and everyone we could influence, make a pitch for the middle ground. While euroscepticism and eurocriticism has been rising in the Republic of Ireland over the years – in fact nearly 40% said 'No' to the Amsterdam Treaty three years ago – the way we got a 54% 'No' majority on this occasion was by appealing to previous 'Yes' side voters.

The most important political element of the Treaty of Nice was the enhanced co-operation provision which allows an inner group of eight states to do their own thing, even if the other seven – perhaps soon 12 – disagree. The Nice Treaty is the necessary legal path to allowing the inner group, led by Germany and France of course, to establish what Jacques Delors said last year was a 'union for the enlarged Europe and a federation for the avant garde'. And this is the necessary legal path to bring into being Joschke Fischer's picture of an 'inner' government and federation that would speak with one voice to the rest. This cuts right across the traditional stance of europhiles which is that Europe is a genuine partnership because this is a proposal to divide the club into two clubs.

And so our key message, and the way in which undoubtedly we won the referendum, was to urge people 'Vote No to keep Europe together'. That was our main slogan. When, towards the end of the campaign, we got some decent donations arising from promising opinion polls, we used the money to highlight that slogan. This was not mere opportunism because the Treaty of Nice does indeed provide for two clubs with the inner laying down the law to the outer. The Germans and the French are hijacking the EU institutions for their own particular purposes.

But now the Irish government is conniving with our so-called European Partners to overthrow the result. They have told the other states to go ahead with the ratification process. If the Irish government said 'We are not going to ratify this Treaty, please stop the ratification process' they would stop but the Irish government has said instead, 'Go ahead, ratify, and then we will confront the Irish people down the road in a year's time or so, with round 2, Nice Mark II, and get them to change their minds'.

Now I have the impression from Romano Prodi and some of his eurocrat/apparatchiks who accompany him that they are not going to be able to make any significant changes to the Treaty of Nice and do not propose to. They will instead accompany it with a Danish pastry, as my friend Jens-Peter Bonde calls it, of declarations and political statements. But I don't think that it is going to be that easy. It is by no means guaranteed that the Irish people are going to change their minds.

THE NET REAL RATE OF INTEREST ON LONG TERM INVESTMENT

(Division of Labour • Wealth • Economic Anxiety (Angst) • Free Markets • Speculation • Profits • Banking • Interest • Price • Money)

By Beverly Antrobus

This article was requested because, at an ERC dinner, I mentioned how low was the after tax long term rate of interest.* To explain this, all the items in the above sub-heading have to be touched on.

> 'We Jews have nothing. Always we are refugees. But we have skills. My father came to New York penniless. He went to the money lender.

* B&O invited further information on this point. Beverley Antrobus has chosen to respond with this editor-defeating intellectual romp of thought-provoking points!

He borrowed. He bought needles, thread, cloth. He cut the cloth. He sewed. A week later, a beautiful overcoat. He sold it. He bought more cloth, a sewing machine. Years pass. Eventually a factory employing many.' (From the play, *The Pawnbroker*)

Everything needed for economic advance is described here: money, interest, division of labour; or is implied: a legally enforced right to personal several property, a mercantile code, a work ethic. Take just one out of the equation and there is no proper economy. This is the case in most of Africa where land registered to an individual or corporate name, which can be traded or mortgaged to raise development finance, is an alien idea. (Except for their own colonists, colonial governments encouraged 'traditional' land apportionment by chiefs, discussions and 'need'.)

In fact, 'money' can be taken out of the equation if all the other elements are strongly there, such as work ethic, registered ownership, law.

This essay owes much to Christopher Meakin, the ERC dinner speaker of March 1999, who described the history and nature of money.

He explained that, although silver coin money was first made in Lydia (western modern Turkey) in the seventh century BC, sophisticated forward contracts existed 2,000 years earlier in Mesopotamia for deliveries of goats for grain. These were recorded on clay tablets stored in the temple. These could be endorsed to others (like old uncrossed bank cheques). What is involved here is *Division of Labour*. One man becoming a goat specialist. The other a wheat grower specialist. There were many types of contract.

A contract is described in the Old Testament. Jacob contracted to work for Isaac for 7 years to get his beautiful daughter Leah. He was tricked with Rachel and had to work another 7 years for the daughter he really wanted. (And they all lived unhappily ever after.)

Such Ratio non-money contracts confine trade to a small geographical area. With coin money it can become *international*. After 700 BC there was a surge in wrecks in the Mediterranean and a consequent increase in loss of life. Anti-globalisation protestors should have been active then! But in fact as consumers we all love globalisation.

Debt Nature of All Money

Even silver coin is debt. The King of Lydia had to expend resources to make the silver coins. His personal balance sheet will show a debt to himself and a balancing asset, the coins. Of course he will not have known about double entry accounting, but subjectively he will know what he owes to himself.

All Production is Debt to Self

The king sends his traders abroad for ‘objects of desire’ (OODs in my coining): cypress wood from Lebanon, wine from Greece, grain and oriental luxuries from Egypt. The producers of these all have a subjective knowledge of what it cost them to produce, and the merchants holding oriental goods know what they gave for them.

Seeing the silver coins offered, they visualise them melted down and re-worked into jewellery drinking cups or ornaments. If these ‘objects of desire’ values (to them) are subjectively greater than (subjective, again) debt-to-self expenditure, or cost of purchase of goods imported from further east, they will bargain and eventually agree an exchange.

In describing the urge to exchange goods and services I am using the classic Austrian economics of Hayck, von Misses, etc. This is somewhat different from UK/US economics in that it stresses subjective theory of value. As ‘subjectivity’ can exist only in the mind of single persons it follows that complex ‘objective’ mathematically-based forecasting equations, that were enthusiastically embraced by the US/UK economists a while back, do not work well in real life, which has such sudden changes as stock market crashes (eg 1987), OPEC oil ramps (eg 1999) and sudden economic slowdowns (eg now). Austrian economics with its emphasis on single persons judging what is in their own subjective interest is very individualistic, and politically very libertarian. Subjectivism says that not only is state economic planning soviet-style ‘oxymoronic’, but so also are all the ‘business plans’ of BT, Cisco, the auto industry, and Marconi. People change their (subjective) minds. All future planning is very difficult.

Anyway initially the exchange was for silver coins, and since the traders were unlikely to melt them down, these coins have acquired a value as *currency*.

Schumpeter wrote two generations ago that capitalist free market systems involve ‘constructive destruction’. That is why the long term rate of return on capital is so small, for most people. The return on *trade*, in contrast, is enormous. The economic system is simply exchange of debts-to-self on a world scale. But there are *angst* provoking catches.

One. The Quantity of Capital, physical and even more importantly the capital tied up in a person's education and training – is several times the value of all output. The return on physical and monetary capital is tiny: at the moment in the USA the profit on corporate capital is 8% of GDP. And the Schumpeter statement means that all is at risk from *change.* I mentioned 'monetary capital'. As above, this is *debt.* Obviously a lot is needed to lubricate trade, but in the present case of the USA, and even more so Japan, 'monetary capital' is at a ludicrous level of excess.

Two. Production is Always For a Future Delivery. Forward trading, such as the Mesopotamians invented, hedges out time specific risks. But many other risks remain, especially over the very long term, and especially risks in *investment.* And now there are few good 'jobs for life'.

Three. Every Extra Division of Labour Adds Value ... But. The uncertainty in *One* and *Two* creates immense psychological anxiety (*angst*) and the *Division of Labour* is *Unnatural* … it is not what the Human Ape evolved to do! It evolved for cooperation and sharing in small hunter gatherer groups which were violent towards other human groups, and to the environment.

Our choice seems painful. Either we choose 'natural', (ie cooperative and socialist) lives that are unwashed, brutish and short – or embrace the economic evolution that has occupied less than 1% of human existence.

No long term viable *Political Third Way* has appeared. The reason is that 'third ways' go against the Subject Trading Values held in people's thoughts.

Trading

All trading shares something with commodity trading: where the price guaranteed to the producer is called the *basis price.* For example, just started is a private as yet (I would very much like to play) futures market in UK electricity. This is operated on an electronic platform linking generators with major users, such as ICI plants and aluminium smelters and the companies that supply electricity to homes. Trading is for half hour periods. The unit traded is one thousand kilowatt hours of power. Trading begins several days ahead of each of these periods. Price can fluctuate in these few days like a speculative share does in a whole year. At the end a *basis price* is fixed, gas (mainly) flows, turbines spin, electricity flows so that aluminium and chemicals are made, mainly in the off peak hours, and homes warmed.

There are no outside speculators yet in this market, but in other markets there are. In *all* such markets the determination of a 'basis price' is the key and most rewarded function. Once this is made, production can begin.

It is not only production that is priced in a modern economy: investments, and now money itself, fluctuate in price, and have to have active markets. Let me make some provocative assertions.

The market itself is the most profitable area to operate in because facilitating basis price discovery adds most to subjective (of course) values added in the economy. It comes under a number of job descriptions: banker, underwriter, insurer, speculative price giver, but they are really only one, and the rest of the economy has an instinctive *hatred* towards them!

In history there have occurred countless usury laws, market governance laws, fixed price laws (recently in the UK), taxes, riots, murders, pogroms, funny money systems, all reaching an unpleasant peak under Goering (fixed prices and draconian exchange control from 1938) and Hitler (Holocaust from 1942). Apart from the 'unpleasantness' – an extreme understatement in the case of Germany – all these various fascistic market interventions, including FDR's New Deal, disrupted economies and diminished the total of subjective value added/GDP.

On the other hand, in history great strides forward in living standards (for most people, and there are losers) occur alongside great merchant profits, such as in Venice and Florence, or England in Victorian times.

Later Evolution of Money

The economy is now seen as an interlocking structure of deals, current and for the future, which have their origin in the trading of subjective debts-to-self. These are priced in a currency which was originally silver, then gold, then coins. At some point in the development process proper bankers appear, who live in stone houses with strong vaults. (The Jews' house in medieval England was always stone because it was the first target of a mob intent on destroying evidence of debt.)

Far more important than storage of coin and other precious assets became making loans. These ballooned to many times the coin asset base; and guaranteeing bank balances, likewise many times that coin base. These balances are 'cheque book money'.

The banker evolved to become the central element in the aforementioned interlocking structure of trading deals. Double entry accounting was essential for that evolution. The banker's function is *judgment* of people's characters, their collateral, the prospects for their business ventures. But the senior clerk, the cashier, was the one who wrote it all up. In the case of the Bank of England, he always signed the bank's *notes*. Christopher Meakin said that here was a crucial divergence between UK and US philosophy on what *is* money. England and Scotland had always understood that money was other people's debts, and that if there was to be an active economy, people accepting these banknotes had to accept the risks. The US on the other hand had, until recent times, a far more rigid view of money and the obligations of debtors – a view which has caused disastrous crashes and contractions. And a disaster occurred in England in 1821 when the Bank of England was forced to go back to the old fixed gold standard. A deflation of one third! When Churchill pulled the same trick in 1924 the deflation was only ten percent but that led to the miners' strike, and then to the General Strike.

There might not have been any socialism in the world if Great Britain had continued to lead the Industrial Revolution with a floating currency!

If an economic zone's currency floats against other currencies, there are two semi-political decisions to be made. One is the currency area's size. The EU is obviously far too large! We forget that the Imperial Sterling Area was also far too large, with problems with the Indian silver currency, then naturally declining, but locked into a larger gold system.

In some ways the UK borders are too large for one currency. The Irish Punt floated away with no stress. Theoretically parallel systems can function inside political borders. A chance was lost with the exit from the ERM for the pound to split into a Scottish pound, a Northern Industrial pound, an Agricultural pound, a London pound, each with its own mini central bank setting interest rates.

People are surprisingly un-fazed at the prospect of 'their' money declining. At my Canadian bank there are seven US$ accounts kept in a shoe box, and 7,000 C$ accounts. Over the period the C$ has lost a third versus its cousin the US$. Only me, my US wife and five others opted for the shoe box!

The other issue is globalisation. If there is free trade in goods and a free float of currencies there will be consequential capital money flows which can be very destabilising. Since 700BC we have embraced the system of free trade, division of labour, the expansion of the trading area. What cogent reasons are there to stop now?

1821. Throughout the Napoleonic Wars the Bank of England had suspended gold convertibility. By 1815 the pound had lost a third against gold and foreign currencies and average internal prices had risen by half. Note that this is a compound rate of inflation *below* the current Bank of England target of 2.5%. But in 1821 it was horrifying, disgraceful. 1815–1821 was the Vanity Fair world of living well on nought per annum, and where a £1,000 note signed by the Chief Cashier bought every corruption possible. Over heating!

But consider: Bank Rate was fixed for the war period at 6%, so few rentiers could really have lost; the first real world war had been financed and won; the industrial revolution had occurred. Maybe if Bank Rate had been 8% there would have been *no* inflation, no Vanity Fair.

After 1821 floating was academic: until recent years when, firstly, major currencies were 'allowed' to float away from their Bretton Woods pseudo gold parities, and more recently, when most developing world currencies crashed down from their US$ pegs, while very recently advanced world central banks were given the freedom to set short term interest rates. The result, after just a few short years, appears to be working well, at least for controlling inflation.

There Is An Even Better Way

The Swedish economist Wicksell, who was incidentally an 'Austrian' economist, declared that nobody could possibly know the true long term rate of interest in any economy. If the central bank put the short term rate lower than that unknowable long term rate of interest (typical negative Austrian, 'Don't know', to be compared with gung-ho Yank 'Can do!'?) there would be excess borrowing, investment, and consequent *in*flation. If the central bank set it above, there would be *de*flation.

Wicksell's Solution

Find the unknowable by shadowing the market-made long term rate with the central bank's discount rate. Market forces would then bring the rate on quality commercial debt to the unknowable rate by a feedback loop.

Until 1931 the Swedish kroner was fixed to the UK pound. When the UK went off gold the kroner also floated and Sweden adopted Wicksell's prescription until the outbreak of war in 1939. The Swedish economy was the most stable and best performing in the world, 1931–1939. QED! And if major central banks had had this policy over the last five years there would have been no boom, and now no bust.

So finally I have answered the question as to what is the net real rate of interest on long term investment. It is unknowable! But it is probably low, in the range of 2% to 3% *after* tax and inflation. And for equities it has probably *peaked;* and has done so in a very long term cycle.

If the major central banks are flooding the world with liquidity, whatever the rate charged on that liquidity, the fools (like Marconi) will rush out and build their empires with borrowed money. A very long term cycle of over-capacity results. What is the rate of return on equity investments then? Maybe *less* than nought percent!

This over-capital investment cycle has appeared many times in history. It does not need a central bank to emit cheap money. Irrational exuberance of investors and small banks can cause over-investment. Speculative inflows of foreign capital from old mature economies looking for a better rate of return can cause that also. This happened in the run-up to the Asian crisis of 1998, with the various fixed pegs to the US dollar inducing investor fools' '*moral hazard*'. They thought they had a guaranteed out. They did not.

These bubbles often involve real technological progress. In the early nineteenth century it was found that canals cut the cost of moving goods by two thirds in the US and UK, v. wagons and coastal shipping. So there was a canal boom, bubble and bust in which *nobody* made a profit – except landowners, contractors, and the consumer. And then steam trains arrived which out-competed canals. But here again there was no profit for investors through to nationalisation (UK). And then it happened all over again with airlines, which overall have not *yet* made a cash-back profit! Yet aircraft makers have made money. BAA makes a lot of money. Heathrow is supposed to have created a quarter of a million jobs around it. Thinking of that makes me sympathetic to Iron Duke Wellington who remarked, when he heard that passenger trains were coming, 'It will only cause the lower orders to move around unnecessarily!'

Net return on capital has proved to be very 'iffy'. There have been only four outstandingly profitable areas: oil, banking, pharmaceuticals, and land. All four are characterised by control of their markets.

What now? World central bankers are terrified that things will fall apart on their particular watch. Since the brief, but awful, crash of 1987 every problem, including 1987, has been met by a flood of new money. It happened with the crisis of 1998. It happened with the false fears of Y2K.

The 1998 and Y2K flood of money caused the stock market bubble. *It is happening now*, with the new cheap liquidity going into borrowing to spend and to buy houses. What all this cheap money also does is keep the excess capacity in existence.

For fifteen years new, and awful, management tricks squeezed ever more profit from capital and workers who, if senior, now work ridiculous hours for free. This is a self-terminating process, which has now terminated! US profits as a percentage of GDP peaked three years ago at 8%. This was up a half from the 70's profits low but was less than the post war boom peak in the 1950s. The world over-supply of auto plants, chemical plants, coffee plantations, etc., holds price inflation down, while allowing borrowers to spend. It is a fool's paradise that has no visible end – it could last for ten years! Meanwhile, the outlook for retirement on pensions paid from a rich dividend flow, or selling the underlying shares to the Greater Fool and buying a high yield based annuity – an ending that was possible briefly in the late 1990s – will be highly unlikely. In other words, the return on safe bonds may be the best return of any investment for many many years.

TOWARDS EUROPEAN ENVIRONMENTAL SUSTAINABILITY

*by Richard Irvine**

It is encouraging to see the EU move towards a more responsible position as it attempts to build a strategy around its 2000 Lisbon commitment 'to be … capable of sustainable economic growth with more and better jobs and greater social cohesion', a strategy which inevitably includes an environmental dimension, as growth can obviously not be sustainable if it is at the expense of the environment, land, and ecosystems upon which future generations will rely for their prosperity and quality of life. Very few buzzwords have been as pervasive in recent times as 'Sustainable Development', an objective of particular relevance as the chasm between

* This is the winning article of the Autumn 2001 Economic Research Council's Young Contributors' Competition. Mr Richard Irvine is at Trinity Hall, Cambridge

the EU and George W. Bush on the Kyoto agreement widens. Perhaps the clearest definition of sustainable development appears as part of the UN Agenda 21, the plan of action arising from the Rio summit in June 1992: 'to meet the needs of the present without sacrificing the ability of future generations to meet theirs'.

Environmental organisations have long been highlighting the damaging effect poor agricultural practice can have on ecology and human health, and see current farming practices as one of the clearest areas of unsustainability; an unsustainability they claim results from the quantity rewarding Common Agricultural Policy. It is positive, therefore, to see the intent that the mid-term review of the CAP in 2002, the first major test of the EUs intentions toward sustainability, will reward 'quality rather than quantity', with encouragements and subsidies quite possibly directed towards more responsible, organic methods. However, in the meantime, the problem is exacerbated by initiatives such as the December 1999 rules on claiming EU subsidies, which state that lands will not be considered for subsidy 'if the distance from the centre of the field boundary to the edge of the crop or forage area is more than two metres'. Organisations such as the RSPB have long maintained that this area should be set aside for wildlife, with the hedges not being cut back, as it is the margins of the field and the shaggy hedges allowed to encroach there which provide the natural habitat for varied bird and small mammal life. And as well as affecting these populations, the ecological effect is farther reaching, as a whole food chain is disturbed; this is the natural feeding area of field mice and, in their turn, barn owls.

While grants are offered to leave a certain proportion of land every year in order to allow wildlife to flourish, a policy which has given species such as the skylark a degree of respite, there is a level of inconsistency which undermines any EU policy which seeks sustainable development; while farmers are encouraged to act in some ways which benefit the environment, in other ways they are prevented from doing so and directed towards methods which favour volume of produce regardless of the cost to wildlife and the community. If the European Union seeks to turn its rhetoric regarding sustainable development into a long term reality, the mid term review of the Common Agricultural Policy will be a critical point at which to ensure that all strategies and policies are cohesive in their intention to balance economic and ecological necessities, rather than offer token incentives to think environmentally while the mass of policy prevents farmers from doing so.

The excessive consumption of fertiliser is a common area within which the EU appears to undermine its sustainability, with the highest EU levels within Belgium, the UK and particularly Ireland, which uses over 5000g per hectare of arable land. The use of excessive amounts of fertiliser has significant destabilising effects within a nation's ecosystem, altering the chemical balance of the soil, and often draining into nearby rivers and brooks, where the nutrients cause algal bloom, preventing light from reaching plants below the surface of the water, which leads to eutrophication of rivers, as bacteria break down these plants as they die, depleting the oxygen supply for the fauna within the river. This is one example where a lack of ecological thinking within the European policies which dictate farm management can have a damaging and lasting effect on the ecosystem not just of the farmland, but also of other important habitats.

The anticipated move towards 'organic' practices within farming is to be welcomed. The recent farming practices which have brought an excess of fertilisers (particularly artificial), a loss of winter food and nesting sites for the bird and other life within these habitats, have also brought a loss of small farms in favour of impersonal mass agribusiness which seeks to undermine all aspects of rural culture. It is also hoped by many that this method of farming will help improve both the short term and long term health of our society, another key aspect of sustainability, as logic would suggest that consumption of many of the insecticides and herbicides used agriculturally cannot be anything but detrimental to our health. However, with the added dimension of EU expansion into eastern Europe, it is important that any measures do not cripple the capacity of underdeveloped nations to supply food for their population and to compete within a European Free Market, which preventing them from developing advanced farming practices could well do, as it becomes more economically attractive for people in these countries to purchase mass produced food from western Europe available at low cost through the free market, at the expense of local farmers who have not been able to take advantage of EU modernising grants. Therefore, it is suggested that the review of the CAP ensures that Eastern Europe is able to modernise its equipment and increase its profit without being forced to create the same ecological disasters as western Europe, perhaps through subsidising sale of Eastern European produce in order to make it competitive on the European stage without small farmers having to adopt damaging practices.

Perhaps the most unsustainable practice, that of encouraging or failing to discourage usage of our rapidly diminishing supplies of fossil fuels, is a clear target of any Sustainable Development strategy. Discouraging excessive use of car transport and petrol consumption in general is described as 'reducing public choice failures' within the World Economic Forum's Economic Sustainability Index. However, this is only a realistic course of action when the public is offered effective choice. The most obvious tactic, that of raising tax on petrol, particularly favoured by UK governments, has been attempted and rationalised in environmental terms. However as last year's direct action in the UK and France showed, this option is simply not justifiable until an adequate public transport infrastructure has been put in place, something particularly lacking in the UK as rural bus services become non-existent, and Railtrack continues to fail to inspire consumer confidence both in terms of safety and logistics. The rural community, entirely reliant on their cars as the only means of transport, find themselves greatly disadvantaged by petrol prices at a time when their very identity and livelihoods are at threat, not to mention through the recent disastrous results of Foot and Mouth in both the agricultural and tourist sectors. High fuel pricing also has a detrimental effect on the haulage industry, who find that in order to cover the cost of fuel, they are forced to make their prices uncompetitive in comparison to those offered by their continental competitors. It is important that, as is already the case with farm vehicles, those businesses and communities that are reliant on petrol consumption are offered a lower rate of taxation. It is not in any way sustainable to punish whole industries and communities, whose loss to the economy would be devastating.

Another key area in which irreplaceable resources are depleted is in irresponsible packaging practices, especially within the UK and other nations without a clear recycling strategy at waste collection level. Unfortunately, health and safety measures regularly introduced seem to require the need for more packaging, contributing to greater and greater amounts of household waste. It is important that any sustainability strategy encourages the reduction of the amount of packaging used, so that while the hygiene and quality of the product are maintained, packaging is not excessive in quantity, and packaging used is recyclable, if not reusable, as many currently disposable bottles and bags could be.

Research and Development is a critical part of any economy's attempts to try to understand and solve current economic and environmental problems. Although some European Economies show encouraging levels of investment, particularly Sweden and Finland, with Research and Development accounting for 3.76% and 2.76% respectively of their GDP, the majority of EU nations fail to reach the levels of the United States and Japan. This undeniably places Europe at an economic disadvantage when attempting to fulfil its 2000 Lisbon commitment 'to become the most competitive and dynamic knowledge-based economy in the world', and also limits the European capacity to find innovative solutions to environmental problems. While Romano Prodi speaks of encouraging targets, for example alternative fuels accounting for at least 7% of the fuel consumed by cars and trucks, and ensuring that, by 2020, chemicals are produced and used only in ways that do not pose a threat to human health and the environment, he must understand that more Europe-wide investment in R&D is essential if these targets are to become an economically viable reality. It is through both private and public funding of Research and Development that we shall discover and find ways to implement the most competitive, sustainable and ecologically minded practices in all fields of science, industry and agriculture.

Romano Prodi states that 'if we are to develop a better quality of life for ourselves, our children and grandchildren, we need to make sustainable development happen and become relevant and exciting to 'ordinary' Europeans'. Prodi should make no mistake; the strength of feeling surrounding issues such as the Kyoto agreement, public transport, consumer support for organic produce, and the significant Europe-wide rise to prominence of Green parties with their environmentally sustainable agenda, shows that the concept sustainable development is backed by a great Europe-wide strength of feeling. If the EU is to honour its Lisbon commitment, it must now act, and show us all that Sustainable Development is more than empty rhetoric.

CAN JAPAN COMPETE?

Michael E. Porter, Hirotaka Takeuchi and Mariko Sakakibara. Macmillan 2000

When, in the mid 1960s G. C. Allen wrote the *Hobart Paper* 'How Japan Competes' he pointed to that successful country's business operational effectiveness – especially with regard to the use of pyramidal sub-contracting in manufacturing which facilitates flexibility, just-in-time scheduling and cost savings.

It is remarkable that, 35 years later, his title should become a question that attracts the attention of commentators, expert and naive. Each such 'guru' naturally offers a solution based on his own expertise. Micro-economists advocate deregulation and privatisation, political theorists look to reform in the Japanese Diet, macro-economists advocate Keynesian expansion, social anthropologists point to cultural weaknesses and the need for greater opportunities for the development of creativity in Japanese children's education. The field is open – Japan can await the attention, no doubt, of bishops, generals, mediologists, psychotherapists and many others – no doubt including astrologers.

No surprise then, that one of the most influential and respected writers in the world of modern business management teaching – Michael Porter of 'Porter's competitive forces' fame, should have combined his structure of thinking with the local knowledge of two Japanese colleagues to produce this 'strategic management' solution for Japan's debilitating economic sclerosis.

Porter acknowledges Japan's strengths in operational effectiveness – the sub-contracting system, treating employees as assets, the endless search for quality, the strength of basic education etc – all of which have combined to make Japan the world's second largest economy. But he argues that whereas 'strategic thinking' was little required in 1950s and 60s, that is precisely the weak ingredient today. He makes the case, based on case studies and detailed research, convincingly.

Let us just track his methodology. Firstly, a search for comprehensiveness in perceiving the problem – the symptoms in low profitability, reduced growth rates, the growth of bad debts and much else. Next, the recognition that, since many Japanese firms have been successful and continue to be so (Sony, Nintendo, Sega, Honda etc), there is no intrinsic reason why Japanese firms should fail. Thirdly, he searches for correlations between the claimed success factors in Japan (government-industry involvement, co-operative R&D programs, consensus decision making and so on) and individual firm's achievements. Then by blowing away the chaff of failures/practices leaving the wheat of successes/practices he extracts the formula needed to enable more Japanese companies to prosper, finds this formula to be (surprise, surprise!) much the same as the formula for business success everywhere and finally lays out the detailed steps required in Japan's particular circumstances to implement it.

The key to this formula is 'competitiveness'. Japans's government must foster, not blunt, competition, Japan must rethink its understanding of the concept, and Japanese firms must develop better competitive strategies. Firms must aim at enhancing shareholder value rather than market share. Profitabilty must guide decision making at all levels and, above all, firms must abandon 'me-too' policies within 'convoy systems' where all do everything for all customers in favour of a concentration on 'core competences' and the aim of 'strategic market positioning' – that is to say, to concentrate on whatever they are best at.

'Strategic positioning' involved each company discarding activities where others have an advantage and seeking a 'unique' role in some sense – a segment of the market, a particular technology, a stage in the production process, the exploitation of a skill. Having chosen such a role judiciously the firm can widen the gap between price and cost, aim at profitability, develop and deepen the market and contribute more effectively to economic growth. In fascinating contrast to competition as understood in so-called 'perfect competition', strategists see differentiation and market influence as the keys to wealth creation and the promotion of public welfare.

All of which makes this book valuable to Japan – and a valuable perspective for us all.

J.B.

BUSINESS IN LITERATURE

The Representation of Business in English Literature. Introduced and edited by Professor Arthur Pollard. The Institute of Economic Affairs (Readings 53), 2000, £12.00, ISBN 0-255-36491-1. 2 Lord North Street, London, SW1P 3LB

It was imaginative of the Institute of Economic Affairs to commission half-a-dozen distinguished academics to write on what the General Director of the Institute, John Blundell, calls in his Foreword, 'Three centuries of bad press' for Business (p. xi). The result is five stimulating essays. The first, 'Eighteenth-Century Attitudes Towards Business' is by Professor W. A. Speck, Emeritus Professor of History at the University of Leeds and

President of the Historical Association. He draws on Defoe, Addison, Pope, Dyer (author of *The Fleece*, a poem which 'enthused about commerce [but] drew the line at the slave trade', p. 33), Cowper, Southey, Sterne, and others. Geoffrey Carnall (who was for twenty-five years Reader in English Literature at Edinburgh University) considers the early nineteenth century and takes his title from Jane Austen's *Emma* in which Selina Suckling is suspicious of the Tupmans (p. 45): 'How they got their fortune nobody knows. They come from Birmingham, which is not a place to promise much … One has not great hopes from Birmingham. I always say there is something direful in the sound' (a sound that will surface notably in David Lodge's Rummidge, mentioned below). He discusses the revulsion of Blake and Wordsworth for industrial development, Burke's dictum that such tradesmen as hairdressers and tallow-chandlers 'ought not to suffer oppression from the state; but the state suffers oppression, if such as they … are permitted to rule' (p. 49), and has very interesting sections on Sir Walter Scott and the now little-known, John Galt, author of *Annals of the Parish* (1821). Professor Angus Easson of the University of Salford is concerned with the High Victorian Period, 1850-1900. He pays attention to the bricks and mortar of business and gives the earnings of some of the very successful authors of the period, of which a little more anon. There are here excellent discussions of *Little Dorrit*, 'intensely concerned with business that involves economic transactions' (p. 74), Trollope's Melmotte of *The Way We Live Now*, money, race, class, morality, social climbing, commerce and trade. Professor Easson also discusses the work of, among others, H. G. Wells and G. B. Shaw. He touches on Balzac and Zola (though curiously not *L'Argent* (1891; *Money*) with its depiction of the workings of the Paris Bourse, banking, unscrupulous finance, and what we would now call junk bonds). His is the only chapter to be provided with a bibliography. The last two chapters, 'The Early Twentieth Century: Uniformity, Drudgery and Economics' and 'Mid-Late Twentieth Century: "An Unprecedented Moral Quagmire"' are by, respectively, Dr Allan Simmons (Senior Lecturer in English Literature at St Mary's College, University of Surrey) and Dr John Morris, who teaches English in the Faculty of Arts at Brunel University. Dr Simmons concentrates on Arnold Bennett, H. G. Wells, Thomas Hardy, and D. H. Lawrence. Dr Morris overlaps a little (though acceptably) with earlier writers. He gives a fair amount of attention to the poetry and drama of the period and touches on American literature. In his 'Final Thoughts' he notes books published since 1988 (including Tom Wolfe's *The Bonfire of the Vanities*, and Will Self's *My*

Idea of Fun, 1993). In his short Introduction, Professor Arthur Pollard, Emeritus Professor of English, University of Hull, well known as someone who has espoused maintaining high educational standards – in *Black Paper Two*, 1969, he famously wrote 'The great god Mediocrity is always willing to look after his own' (p. 72) – starts off with 'Making money is a dirty game. That sentence might almost sum up the attitude of English literature towards British business' (p. 1). In a dozen lines he touches lightly on Chaucer's rogues and Sir Giles Overreach, refers to Deloney's diligent Jack of Newbury, mentions R. H. Tawney (whose *Religion and the Rise of Capitalism* is listed by Professor Easson in his bibliography) and, as an introduction should, prepares the way for what follows. A book of this modest length (xv+182 pages) cannot include everything and so it is apt that he mentions works that are not discussed, such as Disraeli's *Sybil* and Dickens's *Hard Times*.

I am sure that scholars of English literature will find this a fascinating book but am less certain that those in business will be encouraged by what they find. In the main, the picture of business in literature suggests opposition rather than understanding. This is in part because, although some approving noises are reported, there is no space for such as *Thomas of Reading* (probably first published about 1602) which shows, with commendable exaggeration, how, through the work of clothiers (especially those he names from Reading, Gloucester, Salisbury, Worcester, Southampton, Kendal, Halifax and Manchester) 'our Countrey became famous through all Nations', and *The Gentle Craft* (of about 1597) on shoemaking, both by Thomas Deloney, nor, at a later date, for the Cheeryble twins of *Nicholas Nickleby* (1838–39), self-made merchants who were models of benevolence. A few Elizabethan plays, such as Thomas Dekker's The *Shoemaker's Holiday* (1599) and the anonymous *Fair Maid of the Exchange* (published 1607) might suggest some approval of industry and business but these are not mentioned. One of the most interesting of hated fictional employers (and he was hated even by his brother who worked for him as a collier) is the Lancashire colliery proprietor, Lomas, of Ernest Bramah's *The Secret of the League* (1907). Hard and hated though he was, there were fewer orphans in his pit village than elsewhere, his cage cables did not snap, nor did his tram shackles part, nor were there unexpected falls of rock and coal, 'and no mysterious explosion had ever engaged the attention of a Board of Trade enquiry' (pp. 80–1). Bramah does not develop this character, but the combination of harshness – perhaps tough discipline would be better – and his employees' well-being is fascinating. However, even were there space to mention such examples, the overall picture would not be markedly different. Why is this?

I suggest that in part it is because business and industry are coupled in many minds with oppressive employment and unreliable pay, perhaps more so in the past, and, today, the careless throwing of employees on the scrap-heap, especially through take-overs where the financial advantage accrues to a very small number of men and, occasionally, women. Business impinges on all our lives all our lives. The effects of business on the writers of books must influence their attitudes when they write. It is proper for Professor Easson to show how well Charlotte Bronte, George Eliot and Elizabeth Gaskell did from their books; Trollope's earnings are very well known because he listed them in his *Autobiography* (1883); and we have all seen the enormous sums that seem to be offered to unknown authors, sometimes for books not even written. However, a playwright in the grip of the Elizabethan businessman – coal merchant, builder, theatre entrepreneur, and moneylender –– Philip Henslowe, would see his situation very differently. And we know what a grip he had on his writers and actors because his diaries and accounts survive. To them, Henslowe must have seemed like a Harry Dampit or Young Gulf, usurers in Thomas Middleton's *A Trick to Catch the Old One* (1604–7), or Pecunius Lucre, a severe extortioner, or Walkadine Hoard, another skinflint, also from that play. In my own experience, I have not been paid $2,500 from one American publisher, $2,000 from another, and no royalties for a dozen years from a third, though the book has been reprinted. Takeovers led to one of my publishers being bought out more than half-a-dozen times whilst I was writing for them, with staff dispersed in all directions. Business affected me badly. But there is more to it than this narrow self-interest to account for the disenchanted view of business in literature.

Firstly, most groups of people are often represented, in fiction and in life, by stereotyped images. Take the other side of industry and business: the trade unions. Arthur Scargill and 'Red Robbo' in real life, and Peter Sellers's depiction of the union leader in the film, *I'm All Right Jack* (1960 – the date is significant) in fiction, to many people represent the beginning and end of the trade union movement. The medical profession has had as bad a press as business and industry, from the surgeons of eighteenth century fiction, to the comic but overbearing James Robertson Justice of the *Doctor in the House* series of films. In real life, Harold Shipman has done the medical profession no favours, nor have those hauled up for various reasons before the General Medical Council – nor even the GMC itself.

And in real life we are regaled with dreadful stories of patients killed in hospital through the charmingly expressed, but costly, 'adverse incidents', and a single doctor has recently defrauded the NHS to the tune of £4,000,000. The Church gets its fair share of contumely and ridicule in fiction and in life, from Derek Nimmo characters to its abuse of the young and the antics of the defrocked Rector of Stiff key, who ended his days displaying himself in a barrel on Blackpool Pleasure Beach until he was eaten by a circus lion whose cage he was sharing, a true-life fate more unbelievable than any fiction. Academics are said to live in ivory towers (never my experience: business, in which I worked for many years, was, for me, a great deal less public), and ironically, a merchant banker who has turned playwright, Rodney Clark, has recently had a play about academic corruption performed at Greenwich Theatre (April 2001). Landlords are always grasping, melodramatic villains, politicians – well, enough said – and prostitutes have hearts of gold. We know, if not from experience of that last-listed, that these stereotypes are, in general, untrue, but they live because fiction and plays depend upon readily recognisable types and dramatic situations. Further, evil makes exciting reading and the good is boring: just look at the newspapers and the news bulletins. It is hard to make the good dramatically interesting, though there are exceptions: the Cheerybles, Eliza Doolittle and Lily Dale, perhaps. So it is doubtful whether, viewed in the round, business and industry are so exceptionally badly dealt with in literature.

However, for business, especially its banking arm, there is another and very deep-seated reason for the suspicion it engenders in many minds. Ben Jonson's character, Volpone of the play of that name (1606, performed not only in London but at the Universities of Oxford and Cambridge), when explaining how he comes by his wealth, says, 'I turn no moneys in the public bank; / Nor usure private' (1.1.39–40). Mosca, his servant, has just stated that riches are a greater good than wisdom. What is going on? What would the learned audiences make of this? Take Mosca's declaration first. He is blasphemously inverting *Proverbs*, 16.6: 'How much better is it to get wisdom than gold', a sentiment that will pass by a modern audience, but which might be expected to be understood by, and appeal to, the academic Oxbridge audiences. And Volpone? The bank is the Banco di Rialto, then the only public bank in Europe, and 'turn' is our new friend the Giro: the reference is to abusing the bank's system of transferring money without cash. Chaucer's Merchant is also accused of breaking the law by selling French *écus* (as 'sheeldes' in the poem, line 278). How odd that Giro and *écu* are now again in fashion! The reference to usury is deeper seated. Chaucer's Merchant engages in 'chevysaunce' (l. 282), which is also usury. The Christian church inherited the Jewish condemnation of usury: money should be lent freely to one's own people. Thus, 'Take thou no usury of him [in need] . . . Thou shalt not give him thy money on usury' (*Leviticus*, 25.36-7), although to a 'stranger thou mayest lend upon usury' (*Deuteronomy*, 23.20). Hence, in *The Merchant of Venice*, Shylock is entitled by his religion to charge interest of Antonio (a Christian and thus a stranger) but offers to 'take no doit / Of usance [= interest] for my moneys' (1.3.136–7). The reason for not taking interest was that, as is explained a few lines earlier by Antonio, barren metal, which is inanimate, is in this way allowed to 'breed' (line 129), and to the Jews and Elizabethans, money (as Aristotle argued) should not breed money: it went against Nature. John Morris, in the IEA book. p. 157, quotes a splendid example illustrating this – dramatising it – from *Heaven's My Destination* (1935) by the much underrated American dramatist, Thornton Wilder. A bank depositor refuses his interest, to the great embarrassment of the bank:

> *Mr Brush (the depositor)*: The money [the interest] isn't mine. I didn't earn it.
>
> *Cashier*: But your money, Mr Brush, – I beg your pardon – your money earned it.
>
> *Mr Brush*: I don't believe that money has the right to earn money.

The Romans allowed varying rates of interest from 12% down to 4% in the time of Justinium. To the medieval church, usury (taking interest) was immoral, a sin. It was designed to protect the poor from the oppression of the rich. The medieval kings (for example, Henry III in the Statute of Merton, 1236) maintained that taking interest was not permissible but that it was for the ecclesiastical courts to deal with offences. Only with Henry VII did the state begin to follow Roman practice. Under Queen Elizabeth a maximum rate of 10% was allowed in 1571; that was lowered to 8% in 1625; and to 5% under Queen Anne. The sense of oppression, justified or not, that interest aroused in the populace is well illustrated in *Coriolanus*, in which the First Citizen rejects claims that the patricians (the politicians) care for ordinary people. Among other things, they 'make edicts for usury, to support usurers' (1.1.79–80). It is this deep-seated antipathy to usury, even though few people will now know its Aristotelian base, and, Jewish people apart, few will know of religious objections to the practice, that lingers in people's minds and that contaminates business as a whole. As the Elizabethan state realised, business could not develop unless money could be advanced and who would be prepared to take that risk (especially if it meant crossing the seas with its attendant dangers, as Antonio found in *The Merchant of Venice*) without some return on the money lent? A headline, such as one I have before me, 'Underwriters fiddle while livelihoods burn' (*Daily Telegraph*, 31 March 2001) rouses primal instincts, just as do handouts to directors whose businesses are failing and whose staffs are being dismissed. Examples are manifold. It is, I think, a pity that the IEA volume did not have a chapter on the sixteenth and seventeeth centuries, as, perhaps, the references I have made thereto would suggest.

I am aware that books can only be of a certain length. It is bad enough to be asking for an early chapter but I would also suggest an Afterword. In his interesting Foreword, John Blundell suggests a way forward. His second and third proposals are that there should be an outreach programme for emerging writers, market-place practitioners, and academic theorists. This might involve, say, 'A day spent visiting a factory or similar capitalist institution'; that would be 'a positive eye-opener for most, if not all, such [writing] talent' (p. xi). It is a pity that in the light of this, the novel which does explore precisely such an outreach programme, but on a grander scale, is not mentioned, never mind discussed. This is the more the pity because it won the *Sunday Express* Book of the Year Award and was shortlisted for the Booker Prize, and was also made into an excellent television series. I refer to David Lodge's *Nice Work* (1988). In this, as the *Daily Telegraph* reviewer, David Profumo, put it, 'The campus novel meets the industrial novel'. The setting is Rummidge, 'an imaginary city' in 'the space where Birmingham is to be found on maps of the so-called real world', and whose university has a 'tall redbrick clock-tower' which bears a striking resemblance to the University of Birmingham's Old Joe. The hero, Vic Wilcox, is Managing Director of Pringle Castings; the heroine, Dr Robyn Penrose, a temporary lecturer in English and a devotee of semiotics. Whilst Vic is struggling to make Pringle's cost-effective, Robyn is lecturing on *Hard Times, North and South, Sybil, Mary Barton, and Felix Holt*, the very stuff of this IEA book. Their ways then cross when Robyn is nominated for precisely what Mr Blundell suggests, though on a larger scale: the Industry Year Shadow Scheme. You may know what happens, if not, do read the book; it is enjoyable, informative, and bitter-sweet. A discussion of *Nice Work* would round off *The Representation of Business in English Literature* to perfection.

Despite its many virtues, the book has some technical flaws. It should surely have an index and a full, general bibliography. The textual presentation could well be more elegant. The quotations are in a variety of styles. Some are centred when they should be lined-up on the left; the interlinear spacing varies; and on one occasion, a line of text appears as a line of poetry. (On p. 19, 'Sir Balaam's final sell out is when he' appears centred in italic above lines 387–8 of Pope's poem, *Epistle to Allen, Lord Bathurst*. It might have been helpful to explain who Balaam was for the non-specialist readership.) However, I would repeat, this is, at least for the literary scholar, a book worth reading and I shall certainly chase up some of the books to which it has introduced me.

P.D.

LETTERS

An alternative view to 'England: the Curse of the Celts: One Man's View' by Ron Read from Mr David Fifield

Dear Sir,

History suggests over the centuries two sets of tribes have merged to produce a nation, Britain, endowed with a range of complementary talents.

Long before the Roman invasion the British Isles were inhabited by a range of tribes with cultural elements similar to those found in mainland Europe. The language spoken was Celtic which has lead to the tribes being referred to as 'Celts'. Two versions of the language survived the post-Roman period, from which the modern British and Irish forms have descended. Britain the place was probably named by the Romans after a warrior tribe, the Brigantes.

Following the Roman occupation Britain was invaded by a succession of North European tribes from an area bordering the North Sea, starting with the Angles, Saxons and Jutes. Danes and Norsemen came later leading to an East coast occupation stretching from Shetland to the Isle of Wight. The balance of power changed with the arrival of the Normans, Norsemen who had settled earlier in France. With time two Anglo-Norman societies were established, one in England the other Scotland.

Over the ensuing centuries the two tribal groups, free from invasions and with only minor immigrations, ie the Huguenots bringing complementary skills, evolved into a cohesive nation. The tribal mix, in my opinion, has lead to a unique blend of creative talents set within a democratic framework. Based on population Britain has 'punched' well above its weight in economic and trading terms, while taking its influence to all four corners of the world. The population point was brought home to me some years ago when visiting the Waterloo memorial in Belgium. At the time of the battle the British population was around 15 millions, under half that of France. Britain has also given the world the English language.

I believe Ron Read's line of argument has two flaws.

- The definition of Celt should only refer to those who use one of the surviving Celtic languages. A minority.
- The statement 'the English are not an ancient people; a mixture of many races, they stabilised into a recognisable culture around the time of the Tudors' is at variance with history.

There is no reason why Britain as a unified state should cease to prosper.

David Fifield
Oaklands
Weston Underwood
Olney
Bucks., MK46 5JS

Some Thoughts About Controlling Scientific Research from Mr Brian Lewis

Dear Sir,

I suppose scientific research has had an overwhelmingly dramatic effect on economic growth and the standard-of-living over the past 100 years, besides unleashing rather more frightening effects upon society. Today Government seems to be paying more attention to what we do with our scientific expertise, not only in relation to such problems as pollution of the atmosphere, but also nearer to home on biological research in agriculture and the cloning of human beings.

I can't help wondering how Government is going to control all this! Since leaving Cambridge in 1958 with a degree in natural sciences, I have never once been contacted by any government agency – in any of the countries I have lived in – asking me to explain or confirm what scientific research I have been carrying out. How do your readers suggest Government should follow up on all those science graduates beavering away all over the world on new ideas?

It seems to me that most of the great ideas are conceived in one mind in the corner of a small laboratory, far beyond the control of any government. I don't expect to be asked very soon what I have done with my science degree over the last 40 years, and most politicians might not understand the answer anyway.

Brian Lewis
13B Molave Avenue
Molave Park
Parañaque MM
PHILIPPINES

CORRECTION

The next to last line of the top paragraph on page 8 of the Summer edition of *Britain and Overseas* should have read

'2,900 graduates, representing 17% of the graduates entering industrial and commercial employment in 1981 became articled to accountancy firms.'

COMPETITION REQUEST

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.

NEW MEMBERS

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

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

OBJECTS

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

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

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

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

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

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

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

BENEFITS

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

SUBSCRIPTION RATES

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

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

APPLICATION FORM

To the Honorary Secretary
Economic Research Council
7 St James's Square
LONDON SW1Y 4JU

Date ....

APPLICATION FOR MEMBERSHIP

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

This application is for
(delete those non-applicable)

Individual membership (£25 per year)
Corporate membership (£55 per year)
Associate membership (£15 per year)
Student membership (£10 per year)
Educational Institutions (£40 per year)

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

NAME OF ORGANISATION ....
(*if Corporate*)
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....
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PROFESSION OR BUSINESS ....
REMITTANCE HEREWITH ....
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NAME OF PROPOSER (*in block letters*) ....
SIGNATURE OF PROPOSER ....