BRITAIN OVERSEAS

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

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Editor: Edward Holloway

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THE TASK FOR C.O.R.A.

As we announced in the January/February issue of BRITAIN & OVERSEAS, it is proposed to form a new reasearch association under the title COMMONWEALTH & OVERSEAS RESEARCH ASSOCIATION (CORA). Good progress has been made and promises of support have been forthcoming which should enable the new organisation to be launched in the near future.

The principal aim of this association will be to advance education by promoting research into the whole field of Britain's overseas trade and to make available to press and public the outcome of such research. As the Lord Mayor of London put it in his message published in our last issue—"our trade in the past has always been world-wide and our entry into Europe in my view makes no difference at all other than it *does open up further opportunities for us.*"

The extent to which the world is still our market is shown in the following table giving the composition of our export trade.

EXPORTS AREAS

OVERSEAS TRADE STATISTICS BASIS

Seasonably adjusted values £ million fob per month

	Total	Sterling area outside Europe	Western Europe inc. Irish Republic: Total	EEC	EFTA*	North America	Latin America	Soviet Union & Eastern Europe	Rest of World
1972	812	156	391	245	112	133	28	23	79
1972 1st Quarter	775	155	363	230	105	127	28	22	76
2nd Quarter	818	159	381	239	108	137	31	23	83
3rd Quarter	735	121	387	241	113	117	21	22	65
4th Quarter	921	187	431	269	124	151	33	24	93
December	893	162	438	273	122	153	25	23	98
1973 January	937	174	450	284	135	170	28	25	90
February p	958	170	469	297	135	158	31	28	96
1972 Sept.-Nov.	913	180	435	271	125	150	33	27	84
1973 Dec.-Feb. p	930	169	452	285	131	161	28	25	95

p Provisional estimates

In this table figures for the Irish Republic are included with those of Western Europe and the EEC and have been excluded from the Sterling Area, now designated as "Sterling Area outside Europe." Figures for Denmark are now included with the EEC instead of EFTA.

It will be important to investigate and make available significant changes in the over-all position of our trading relationships with the various areas concerned.

IMPORTANCE OF INVISIBLES

In the work to be carried out by the new association there will be particular emphasis given to the importance of our invisible earnings and overseas investment. The vital contribution which is made by these "invisibles" which include transport, travel, banking and financial transactions, net overseas income in the form of interest, profits and dividends and private transfers is shown by the fact that in February of this year the deficit on visible trade was £77 million while the balance on services and other current transactions is estimated to be running at a monthly surplus of approximately £56 million. Thus, the overall deficit on our balance of payments was reduced to £21 million. The need to safeguard these invisible earnings is obvious.

CORA will be concerned to provide useful statistics and information on trends in trade with the EEC, North America, Latin America, Eastern Europe, Japan and the Commonwealth and Sterling Area. It will be a major objective to bring the Commonwealth as close to the European Community as possible and to encourage the European Community to become much more outward looking in their approach to world trade. In this, the association will be reinforcing the already expressed intention of the British Government in its relations with its European partners.

TRADE NEGOTIATIONS

There will also be the necessity of keeping a close watch on the developments in trade negotiations which follow the Kennedy Round and in particular trading relationships with the developing countries. While the African countries have a choice in the form of the links to be established with the enlarged EEC, the same does not apply to the Asian Commonwealth countries whose needs are equally urgent, if not more so.

The multilateral trade negotiations which are under the anspices of GATT are to be opened at the end of this year. The Report issued by the GATT secretariat which has recently been published comments that these negotiations "will affect critically the economic and political relations among the developed countries, and between the developed and developing world. They are capable of influencing the living standards of the whole of mankind."

Friction and protectionist tendencies have increasingly shown themselves in the past five years but it is obviously a main British interest that these negotiations should succeed in overcoming the many problems confronting nations in their trade with each other.

Also of immense importance to the future of world trade is a satisfactory outcome to the negotiations to remedy the chaotic condition of the international payments system. The progressive withdrawal of sterling as a means of settling payments in international trade has left the U.S. to take the full strain of providing a means of payment and has resulted in the U.S. dollar becoming weak and vulnerable. The proposal to set up a European currency area which the British Government has supported has run into difficulties as a result of the decision to float sterling. There will be great pressure brought to bear on Britain to fix its exchange rate, but this has so far been successfully countered by Mr. Barber.

A NEW APPROACH TO MONETARY UNION

In the Editorial published in the 'Financial Times' on 19th March the dilemma of the British Government was summarised thus—"The whole concept of early European Monetary union achieved by rigid exchange rates within the Community needs a great deal of re-thinking. So far the British Government has been behaving like the saint who asked to be made free of sin "but not yet". The U.K. has done surprisingly well from these tactics; but ultimately its credibility will begin to wear. Instead of professing beliefs which are widely doubted in Whitehall, and on which action is unlikely, British Ministers should begin to think of formulating an entirely new approach to the whole problem of political, economic and monetary union. While the Community was being enlarged, there were strong arguments against reopening such issues but the time is approaching when it will be less painful to face them than to pretend that they are not there."

END OF AN ERA

The decision by President Nixon in August 1971 to end the "Gold Exchange Standard" and thus to end the situation where overseas holders of U.S. dollars could convert them into gold brought about the end of an era in the international payments sphere. In the European Community there are many who want to see a system of fixed exchange rates and who call for a return to the position where international liquidity is again based on gold. We may well echo the words of Winston Churchill when he said, "Is the progress of the human race in this age of almost terrifying expansion to be arbitrarily barred and regulated by fortuitous discoveries of gold mines here and there or by the extent to which we can persuade the existing corners and hoarders of gold to put their hoards into the common stock?"

Mr. Reginald Maudling reinforced this view in a speech he made in the debate on the International Monetary Situation on 22nd February. He said, "Without the American deficit the financing of the expansion of world trade would have been totally impossible. Gold could not have carried it. It is a barbarous process to try to rest the international supply of purchasing power on the accident of the rate of production of a particular mineral in certain parts of the world".

There is no doubt that to attempt to return to a system based on gold would have a restrictive influence on the growth of world trade and it is clear that this lesson has been well and truly learned in the United States.

From the foregoing it will be seen that there are no lack of problems to be tackled if the nations of the world are to go forward into a

new and more expansionist system of trade and payments. It is these and similar questions with which CORA will be concerned in the days which lie ahead.

A VISIT TO RHODESIA IN MARCH 1973

Specially contributed by Ralph Turton

Professor Christie, head of the Law Faculty of the University of Rhodesia has said recently that the difficulty about the Pearce Commission and the test of African opinion is that nobody is agreed as to a proper definition of African opinion. There is a basic difference between the West European idea of an independent mind and the African tradition which is an intricate network of rights and duties and the African is not free, as a European, to make rational judgments and choices. There was thus no need for intimidation once it became known that the Nationalist leaders in Rhodesia favoured the rejection of the proposals. Elspeth Huxley hit the nail on the head when she said that you cannot translate the title "leader of the opposition" in any African language; the nearest you can get to it is "chief enemy."

The many farmers I met who had attended the mass meetings during the time that the Pearce Commission were making their report told me that at each mass meeting one usually saw the same set of faces, who sat in the front row and shouted "no" to all the proposals and that the mass of the Africans present would be quite happy to leave the decision to them.

It must be quite wrong to suggest that they are not yet educated enough for the vote (as is admitted by all parties) and yet ask them to give an opinion on these complicated proposals.

INVASION BY TERRORISTS

My personal contacts covered the whole spectrum of political opinion from the extreme right to the extreme left and found there were two points on which all were united. Firstly, that the greatest problem for the country was the invasion by communist agitators and terrorists from Mozambique and Zambia, all specially trained by the Chinese communists, for propaganda and terrorist purposes. I myself stayed on two farms near the terrorist area and experienced some of the problems which are faced day after day by the Rhodesian farmers. The security of each area is mainly in the hands of volunteers. The Minister of Defence himself, with the help of a map explained to me how the bush areas came down within 50 or 60 miles of Salisbury from the Mocambique border and in this impenetrable area it was quite possible for the terrorists to move about freely. The police and army forces are very small in proportion to the area they have to cover; it is argued by many in Rhodesia, and I have no reason to suppose that such a wide unanimity of opinion may not be correct, that the great danger to Africa is a takeover by the Chinese communists who are in force in Tanzania with 40,000 men and also infiltrating into Zambia. The railway which the Chinese are building across Tanzania is on a different gauge so all the copper coming from Zambia will have to be trans-shipped into new wagons on reaching the border. It is argued that the real object of the railway is to reach the Cape and thus endanger the whole communication system of the western world. Whether or not this is true is a matter of opinion but I was very much struck by the fact that even those who are most critical of the Smith Government were quite convinced of its truth. In particular, Sir Roy Welensky spoke strongly about this danger to me.

BORDER CLOSURE EFFECTIVE

As to the closure of the border with Zambia on 9th January, the Minister for External Affairs, Mr. Howman, told me that this had been effective in preventing terrorists crossing in spite of the general concensus in the British press to the opposite effect. It has been reliably reported, in particular in a report from a correspondent of a South African paper who was actually watching the trains crossing the Rhodesian-Zambia frontier at the bridge over the Zambesi, that the rail traffic is now as busy at it has ever been. This correspondent watched three trains each with at least 20 wagon loads of copper being shunted on to the bridge by Zambian locomotives and hauled southwards by the Rhodesian engines. According to the Zambian leader, no imports would be permitted to travel through Rhodesia and it is stated that the copper was from Zaire (formerly the Congo) only. The small community of Victoria Falls has not noticed any reduction in the amount of railway engines across the bridge. If anything they say the trans-frontier activity has increased since the border closure. It is surely not beyond the bounds of possibility that a part at least of the large loads of copper coming over the bridge from Zambia may contain a certain amount of Zambian copper as well as that from Zaire.

The second point on which there is almost complete unanimity among Rhodesians is that it is quite impossible for approximately 240,000 whites permanently to govern 5½ million Africans with the highest birthrate in the world. The only point at issue is the speed and the method by which the Africans should be brought into control of their own destiny.

STEPS TO A MULTI-RACIAL SOCIETY

It was a member of the centre party with extreme liberal views on racial matters who said to me that if, when the Central African Confederation was broken up, Rhodesia had been given independence it would have been possible for a multi-racial society to have been created by now with the then liberal government in power. It was only the way MacMillan and MacLeod treated Sir Roy Welensky at that time about

ten years ago that brought the Rhodesian Front into power. It was a Minister in the present government who said to me that if only the United Nations and the black independent countries of Africa would let Rhodesia carry out her plans of a slow evolvement of a multi-racial society that it would be possible for the great experiment to succeed. What was required, however, was time. Practically all I spoke to and in particular the leading members of the great multi-national companies with stakes in Rhodesia felt that Smith should negotiate with the A.N.C. who were more moderate than Zapu and Zanu.

The big problem which all felt needed tackling was first the land. This was allotted to white and black in segments all over Rhodesia, originally to prevent the Africans having their land bought by the whites; if land in a white area now comes up for sale no African can purchase it. This effectively prevents the appearance of the large African middle-class which is essential for stability in a multi-racial country. Secondly, jobs for the Africans are another problem which must be tackled. The immigrant white craftsmen are determined to keep Africans out of their jobs and this is well illustrated by the Rhodesian Railways who only employ white lorry drivers at £150 per month whereas private firms employ African drivers at a very much lower wage. It is essential to have training colleges where Africans can be trained in technical skills and the newly-arrived white technical worker is the main obstacle to the formation of an African middle-class. One big farmer told me he had a mechanic in charge of his transport who is a really good craftsman but cannot progress further without technical education which is at present unobtainable.

It was generally conceded that the most powerful man in the black African countries is General Gowon of Nigeria, owing to his control of 20% of the oil imports to the U.K., any final agreement with the Smith Government would have to be discussed with him, such, it was said, was the dependence to the U.K. on Nigerian oil.

IMMENSE POTENTIAL

It is indeed tragic that Rhodesia, three times the size of the U.K. and with immense potential in the agricultural and mineral resources now so important to us should not be able to put these resources at our disposal at a time of rising prices of all these primary products. Rhodesia has a vast reserve of nickel, coal, copper, chrome, tin, asbestos and gold. The production of minerals has risen by nearly 60% from $64m. in 1965 to $100m. in 1971.

It seems essential that a less hostile attitude to Rhodesia by the British press and politicians and a correponding effort by the Smith government to adopt a more compromising attitude in negotiations with the A.N.C. is the only chance of producing a lasting agreement with African leaders in Rhodesia, the ending of the "midsummer madness" of sanctions and with it the development of Rhodesian resources to the advantage of the Africans.

THE BUDGET AND MONEY SUPPLY

In his Budget presented by the Chancellor of the Exchequer to Parliament on 6th March, Mr. Barber set as the main objectives the maintenance of faster economic growth and the control of inflation. His Budget was therefore broadly neutral in its effect, though he made it clear that he did not rule out further action that could be taken at any time of the year on expenditure, on taxation or on monetary policy.

Much of the interest in the Chancellor's Budget speech centred on his statement on the public sector borrowing requirement which he said would be high. "With real demand expanding" said the Chancellor, "the objective must be to prevent this large borrowing requirement from leading to too rapid a growth of money supply. I therefore intend to take action at once to ensure that, to the maximum extent, the Government's borrowing requirement is met by means which do not increase the money supply."

Commenting on this statement, Mr. Peter Hordern, the Conservative Member for Horsham said in the subsequent debate "Here is the clearest statement yet made by my right hon. Friend about the importance which he attaches to monetary policy to control inflation, a matter about which the whole House is most concerned. There is no question now, since this had been adopted as official Government policy, that the alternative, if we do not control inflation by monetary policy, will be that we shall have a high and continuing rate of inflation, and this opinion is shared by every central bank and Government in every major country in the world."

In our January/February issue we argued that "There is a clear case for a review of the method by which Government's borrow from the banking sector for this is one of the main sources from which new money comes into circulation." It seems that at long last the Chancellor is aware of the need to take action in this matter and is to take steps to prevent the money supply from growing too rapidly in 1973-74 as a result of too much reliance on borrowing from the banking sector. This the Chancellor proposed to do by stimulating sales of Government debt to the non-bank sector during the current year. His proposed measures include the establishment of Inland Revenue Tax Deposit Accounts, the issue of two new Government stocks, a new issue of British Savings Bonds with improved terms and extra Premium Bond prizes. He also proposed a new share savings scheme which would allow all employees to acquire, through Save As You Earn, shares in their employing company on favourable terms.

A CONSIDERABLE TASK

The Chancellor said that he expected the public-sector borrowing requirement to be £4,423 million. He admitted that this "poses a considerable financing task for the authorities." But he made it equally clear that "It would be quite unacceptable to rely to any substantial extent on borrowing from the banking sector."

It is clear that there is a big difference in the Government borrowing genuine savings from the private non-bank sector and borrowing from the banking system. In the first case the quantity of money in the private sector remains constant. Borrowing from the banking system, increases the liquid assets of the banks as the Treasury Bills they acquire are part of their liquid reserves which enable them to expand their loans and advances and thus to increase the flow of new money into the economy. The Chancellor is therefore right to try and switch Government borrowing to the non-bank private sector, but the difficulty which then arises is that to attract savings in present conditions it is necessary to offer a very high rate of interest. It has been estimated that even a yield of 10% is worth only 2% in real terms at the current rate of inflation.

AN ALTERNATIVE

The Chancellor would, therefore, be well advised to consider an alternative to offering a high rate of interest to savers. This arises from the need to give investors a sufficiently high return to compensate for the erosion in the purchasing power of their invested captial.

The alternative would be to offer an inflation-proof savings bond, linked to the retail price index and carrying a relatively low rate of interest. If it were explained to the public, and it was made clear that to invest in such bonds would (a) safeguard the investors savings and (b) make a substantial contribution to bringing inflation under control, it would undoubtedly have an instant and obvious appeal.

To the extent to which this plan attracted new savings, the Government would be able to cut its borrowing requirement from the banking sector, thus reducing the flow of inflationary new money into the economy. Thus, the continued erosion in the purchasing power of money would be reduced and the ability of the Government to maintain the value of investors money would be ensured.

Of course, the first requirement is undoubtedly for the Government to make a drastic re-appraisal of its spending with a view to a substantial reduction. Instead of approving expenditure piece-meal as at present, it should relate increases in expenditure directly to the increases in resources available.

WIDESPREAD IGNORANCE

It is clear that a much greater public understanding of the issues involved in the cure of inflation is vitally necessary if the Government is to succeed in their efforts to remedy the present situation. At present there is widespread ignorance of the function of monetary policy, the way money is created and where the responsibility lies. **It should be made clear that the aim of monetary policy should be to maintain the liquidity of the monetary system at such a volume that the general price level is held constant. It should be made equally plain that inflation occurs when the supply of money is allowed to outpace the supply of goods and services.**

The eminent historian, Sir Arthur Bryant put it thus:

"Money is the elastic instrument by which free men translate their needs into the production of the goods they require. The proper flow and distribution of money is, therefore, vital if a free society is to operate properly. If in a free society anything goes wrong with its financial system, everything else will go wrong and freedom itself will be brought into disrepute and endangered."

MONEY IS NOT WEALTH

It should be established clearly in the public mind that money today is not itself wealth, but only a claim to wealth—i.e., goods and services of all kinds. It should be explained that while an increase in money income to the individual, at least temporarily, can mean a higher standard of living, the same is not true of the nation as a whole. If a nation increases the volume of money and credit in circulation and this increase is unrelated to an increase in the output of goods and services, then the nation as a whole is confronted with a situation where the purchasing power of money deteriorates.

These, and many other basic facts need to be explained to the people of the country if their full co-operation in defeating inflation is to be obtained. At the present time the man in the street is confused and does not know what to believe. There is a great longing on the part of the majority of the people of Britain that we should solve our economic problems and a readiness to give support to any policy which carried conviction. The response would be magnificent if the right kind of lead were given. We have marvellous means of communication available, let these be fully utilised to tell the people the truth.

SQUEEZE ON PROFITS A DISINCENTIVE

Extract from a speech by Mr. Ernest Barrett, President, Engineering Industries Association in Leeds on 19th March.

Time and again governments have diagnosed a malaise of the economy only when the disease has reached an advanced stage. Too late then to apply a gentle corrective. Only the most potent specifics can effect a cure. And they have been applied with little consideration for or knowledge of their disastrous after effects.

So it has been with rampant inflation. The nature of the disease was identified far too late. Now we must suffer the unpleasant cure. It is futile of the Government to attempt to foist the total blame on to the Unions. True they do bear a grave responsibility for their repeated refusal of all co-operation and the selfish pursuit of their own sectional interests. But few doubt that Government policies have helped to fan the flames.

The Phase 2 Green Paper on Prices is a harsh document. I find nothing in it to encourage the expansion and investment which the Prime Minister is seeking. Indeed the squeeze on profits must act as a disincentive. At a time when Trade Unions are learning to appreciate

the signficance of the true role of profit, I am exasperated that the Government should choose to ignore it. Some companies will eventually find themselves in extreme difficulties. No doubt the taxpayer will be expected to pick up the bill for the rehabilation of ducks made lame by government "bovver" boots.

The Government is right to believe that majority opinion supports its present policy, but only because it wants an end of the recent rate of inflation. Ministers who proclaim that people consider it fair display an extraordinary degree of naivety. The justice of it is seen for what it is—exceedingly rough indeed! Anomalies are too numerous to mention.

The present policy may succeed, but as phase follows phase the distortions will compound whilst the public will become more and more disenchanted with the whole concept. Moreover uncertainty about the measures intended in Phase 3 can only dissipate business confidence still further. It is therefore essential that the Government formulate and publish its long-term plans for prices and incomes with the minimum of delay.

INFLATION

Extract from an address by the Rt. Hon. J. Enoch Powell, M.B.E., M.P., to members of the Economic Research Council on 26th February, 1973.

We have, from the Government themselves, the monetarist explanation of the phenomenon of inflation and the repudiation of the myth that inflation is the prime condition for economic growth. The paradox is that the Government reveal that they know what is virtue in the very act of indulging in vice; they repeat with unabated ardour what they themselves have refuted.

Those of us, therefore—and we are a large and growing company—who are convinced that inflation is uniquely the product of government action, the result of government financing of the excess of outgoings over incomings, must not rest content with that conviction. We have to realise that we are confronted with a great challenge; for there must indeed be strong forces at work which, despite all the evidence of repeated experience as well as theory, still draw governments back again and again into the old, false and foredoomed courses. As a professional politician it seems to be my duty not merely to argue, not merely to refute, but to try to understand the motivation behind the error; for if we can understand the motivation, we may be able to strike at the root of this nightmarish repetition.

PREOCCUPATION WITH UNEMPLOYMENT

Perhaps the simplest, and certainly the most obvious, motive in this present cycle was preoccupation with unemployment. I believe that the preoccupation of the Government with unemployment in 1971-72 was excessive both economically and politically. They grossly over-estimated the political blow-back from unemployment; and I say that as one representing a wholly industrial seat in a part of the country which had not experienced any substantial unemployment for a matter of 30 or 40 years, and which then moved rapidly towards the top of the regional unemployment league.

I have to record, what I would not have believed before the event, that not one single political repercussion reached me, as a constituency member, from beginning to end of that phase. No doubt this is connected with those well-explored facts about the statistics of unemployment, which have revealed how fallacious the gross totals are. Nevertheless, even when due discount has been made for those fallacies—and they are very far-reaching, one must admit—still the totals **have** varied upwards and downwards, and they did show a marked and continuing rise in 1971-72, though in its origins that rise went back to the late 60's. The variation, however, was grossly exaggerated by the politicians as to its political effect.

It is one of our characteristics as a profession that our analysis of public reaction tends to be extraordinarily time-lagged. Each generation of politicians seems to live very much upon the mythology of the previous one, and I am sure a most interesting study could be made of the way in which each generation of politicians is influenced in its actions, not by the phenomenon of its own times, but by inherited dogmas based upon the phenomena of the previous generation.

Be that as it may, an over-valuation of the factor of unemployment and an under-valuation of the factor of monetary stability was a prime cause for starting the new prices-and-incomes cycle, of which we have now reached Phase II. I record it as my own opinion as a practising politician that we still greatly underestimate the public desire for monetary stability and mistake the fact that nearly all incomes are in fact revised in terms of depreciated money as arguing a general acquiescence in the depreciation of money. It appears to me that the anxieties inflation inspires are not banished by what we all know, namely, that, broadly speaking, prices and wages are bound to mirror the progress of inflation. In practice that does not render the instability more tolerable to the great mass of electors. Retrospectively, we can all quote the figures which ought to reassure the pensioner and the rest that their standard of living has not only not diminished but, if anything, advanced. The important thing is that it does not seem like that to them, when they have to live in a world of constantly changing and depreciating money values.

So my first proposition is that there is a grave and gross misappreciation of the factor of unemployment as compared with the factor of inflation.

MANIA OF "GROWTH"

Secondly, I designate as one of the culprits the mania of "growth". This can be traced very graphically through the last decade or so. In the early 1960's, when politicians wanted to talk about a good substantial growth rate, they referred to 3%, which was already higher

than Rab Butler's "doubling the standard of living in 25 years". But 3% was obsolete before the Conservative Government went out in 1964; 4% was then the respectable figure, and nobody would have dared to go on to the hustings in 1964 and talk about a steady growth rate of less than 4% per annum. When the Socialists hoisted it to 4¼%, we tuttutted and said, "There you are, you see, inflation will soon be under way under a Socialist administration". But now 5%—5% under the Tories!—is the least anybody aspires to, that anybody would dare mention; and I guarantee that by the next election it will be 6%.

Remember these percentages are compound interest. One can do sums in compound interest. With compound interest at under 3% per annum (which doubles the standard of living every 25 years), the standard of living when a man who attains the normal Psalmist's span of human life dies, will be eight times what it was when he was born. Staggering as it may be to try to conceive what an eightfold increase in the standard of living in a single human lifetime could be, just try with 5% per annum. Our septuagenarian when he dies is then contriving to consume at 25 times the rate he did when he was born! The relevance of this to inflation is that these growth rates provide governments with a figure which renders an alarming increase of public expenditure respectable. The reason why 3% was hoisted to 4% in 1963 was that government expenditure was rising at 4% per annum. It was not thought desirable to curb that projected rate of increase. So a 4% growth rate was devised in order to cover it. Always your governments will overestimate the potentialities of long-term economic growth as a means of justifying the rate of growth of public expenditure which they have no intention of fully meeting by receipts from the public but in practice invariably bridge in part by inflation.

PROPENSITY TO SPEND

So I designate the mania for growth as the second factor which is at work. The third factor is as old as government itself. That is the long-term propensity to spend more, to over-bid one's opponents in spending. We have seen what can be done in this direction in the last 18th months. It is not often that one turns to a report from a Commons expenditure committee to produce the material for an extreme monetarist **exposé** on the causes of inflation—this at any rate is one of the bonuses on this particular cycle—but here is what, under the leadership of the good Sir Harry, the Expenditure Committee reported to the House of Commons last week:

> "According to the figures estimated by our Specialist Adviser, the new public expenditure plans imply that even if the economy expands at the rate of 5 per cent per annum between now and 1974, the rate of growth of personal consumption will have to slow down from nearly 7 per cent in the past year to about 2½ per cent per annum."

That is a very nice way of putting it. What it really means is that since in the run-up to a General Election (which covers most of a parliament even under own own happy constitution in Church and State, let alone in the United States), it is most improbable that the rate of increase in personal consumption is going to be cut to a third, other measures are going to be taken to meet that rate of increase of public expenditure. There is, then, this built-in tendency of all governments to spend, and to increase spending, unless some countervailing force exists.

VESTED INTERESTS

Finally, I invite your attention to the vested interests, including vested intellectual interests, of the three main partners in the dance: the trade unions, the Socialist opposition and the Conservative government. You might have thought that the trade unions, tired of being falsely denounced as the authors of inflation, would have rejoiced to hear people like the Member for Wolverhampton South West going round year after year declaring that, so far as inflation is concerned, the trade unions are "innocent as new born lambs and white as the driven snow."

Why should not the unions embrace the proposition that it is the fault of government, that the government is doing it all by over-spending, under-financing and producing (what no one else can produce) an excess of monetary demand? Answer: Because the unions' power and influence, their sense of importance in the community no longer rests upon the belief that they are defending the real living standards of their members, but upon the fear and awe in which they are held by the public at large, as the unchained forces which, unless they will agree at No. 10 or somewhere else upon a modest concession towards the other elements in the State, will have their own way and sweep us onward into ever-accelerating inflation. So the trade unions, as one of the parties concerned, have a vested interest in the denial of the true explanation of inflation and the exaltation of the false explanation.

Then the Socialists. I never think that professions of dislike for inflation come very convincingly from a socialist party. After all, inflation can be a very powerful engine for achieving some of the objects which socialism sets itself. Apart from having been themselves the authors and the victims of the previous cycle of this same operation, the Labour Party is not averse from the proposition that Whitehall can and should determine what each man is to receive and what is to be the relative position of each good or service in the price spectrum. So there is a built-in pre-disposition on the part of a Socialist Opposition to accept and to defend the false mythology of inflation as a manifestation of original sin and to scout the explanation that government has done it and therefore only government can control and reverse it.

Finally, there are the producers of the current drama. We have examined some of their motives, but what a tremendous act of will, now, in February, 1973, would be required to say: "All this is really the consequence of our own miscalculation in 1971-72; this is the result of our having boosted public expenditure and cut taxation; it was bound

to follow, and followed it has. "Now therefore" (addressing the public and Parliament) "If you do not like it, we must do the other thing: we must, and we call for your support in this, increase taxation in the short term and reduce the present trend in public expenditure in the longer term". You see how immensely strong are the bonds of a government's own past acts.

So I am not appealing to this Council as economists. The economic argument is really all over. There is no longer any serious economic debate about the monetary causation of inflation. I am appealing to it to recognise that economics always partakes in great measure of politics, and that it is the political reasons why this thing recurs to which we are bidden to direct our minds and our energies. We must identify separately, then weaken, and finally defeat these various motives which I have detected, and perhaps more. They are motives so strong that despite all the demonstrations, all the proof, all the past examples, the corpses littering the sides of the road, corpses of one's former antagonists who perished in the same way, they still tempt governments down the primrose path of prices-and-incomes policy to the perdition which lies at the end of it.

Therefore, I beg the Council to leave aside for the time being the demonstration, which it has carried through more than completely, of the true causes and mechanics of inflation. Instead, go and crusade against those motives which obscure and frustrate what I believe to be the underlying, predominant will of the public of this country—**that the prime service they require of government is to give them once again honest money with which to live their lives.**

Note: The full text of Mr. Powell's speech obtainable from Economic Research Council, 10 Upper Berkeley Street, London, W.1. 25p.

WHY MEAT IS DEAR?

A new pamphlet has been produced by the Open Seas Forum under the above title. It makes a comprehensive study of meat in the Common Market. It shows that as a nation, the British people are eating less beef, mutton and lamb than when they were rationed twenty years ago. It claims that there is only a marginal shortage of 'red' meat in the world and that the rise in price to the British people is predominantly the result of the operation of the Common Agricultural Policy.

The pamphlet calls for a drastic reform of the Common Agricultural Policy for unless this is done we will continue to have to pay more for our meat than is necessary.

"Why Meat is Dear"—published by Open Seas Forum, 6/14 Dean Farrar Street, London, S.W.1. 20p.

HOW BRITAIN JOINED THE COMMON MARKET

In a very revealing book* under the title "Diplomacy and Persuasion," Mr. Uwe Kitzinger, who is an advocate of European political integration, provides some interesting details of the way in which the campaign to take Britain into Europe was carried out. Of particular interest are his revelations on the financing of the campaign. He shows that the European Movement's original budget for a two-year campaign was £250,000 per annum. This was divided in the following manner: £85,000 for advertising and publications, £7,000 for exhibitions, audio-visual aids, speakers' training, etc., £20,000 transferred to associated bodies, £15,000 for opinion surveys, £10,000 for public relations at the centre, and £50,000 for administration—half at the centre, half in the regions.

As things developed, total spending for the single year ending 31st March, 1972 amounted to £550,000, about £450,000 more than it had spent in the previous year. He shows that in 1971-72 grants to allied and subsidiary bodies in Britain went chiefly to the Conservative Group for Europe, the Labour Committee for Europe, the Liberal European Action Group, the Trades Union Committee for Europe, Women's European groups and a few other bodies.

Mr. Kitzinger comments: "Rather over half a million pounds in the wider sense is in one way a fair sum of money. It was perhaps eight or ten times what the various anti-Common Market campaigns could deploy between them."

Examining the question of where all the money came from, Mr. Kitzinger makes the calculation that some sixty companies subscribing £100 each brought in only £6,000. A thousand individuals subscribing £3.15 each added another £3,000, making a total of £9,000 in 1970-71. "Clearly," he writes, "there was a sudden quite enormous flow of donations in the campaign year 1971-72. The total sum must have been well over £850,000.

In his conclusion, Mr. Kitzinger writes of the final outcome "it was a victory, but on points, and a victory that will require further consolidation."

"The Government succeeded in their primary aim. They obtained parliamentary approval of the principle of entry by a large majority and they secured—by a hair's breadth—the passage of the implementiing legislation. But they failed to get the "full-hearted consent of the British people before entry."

**Diplomacy and Persuasion" by Uwe Kitzinger: published by Thames & Hudson. £2.75.*

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