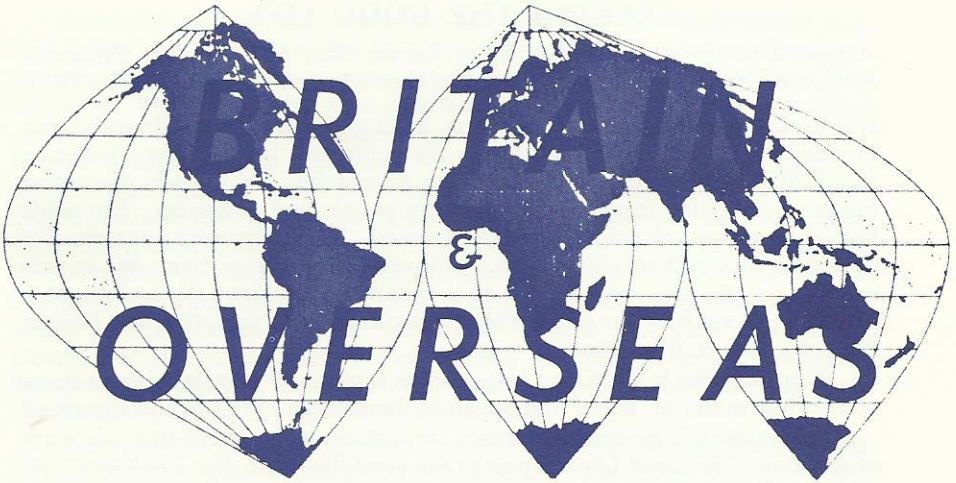


A DIGEST OF NEWS AND VIEWS ON BRITAIN'S ECONOMY AND OUR ROLE IN OVERSEAS TRADE AND PAYMENTS

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# SEEKING THE GOOD LIFE

*A speech by the Rt. Hon. Sir Keith Joseph, Bt., M.P., to the Economic Research Council at St. Ermin's Hotel, Westminster, on 15th January 1975:*

It is useful, from time to time, to raise one's glance above the financial and economic statistics, to ask where we are going and why. I have chosen to speak of political economy rather than economics, for we are discussing human action, the inter-relation between people and resources. Economic behaviour reflects all facets of men and society. It interacts with our setting of objectives no less than with our means of seeking to achieve them. We cannot legislate for posterity; what we can do is to hand over to them the best possible society as we see it by our own present criteria; if we do this, they will be best fitted to take it from there.

Our objective is The Good Life—which is not to be translated as *la dolce vita;* it has material, social and spiritual dimensions. Who would disagree?

But many will disagree, Marxists for certain, when I add that our ways of achieving *The* Good Life are part of the good life itself. For *The* Good Life is not a plateau to be reached but an infinite series of peaks. Each generation's striving for *The* Good Life is part of *its* good life. And to strive in ways which are incompatible with the good life, or contrary to it, is to vitiate the effort *ab initio.*

Our attention is focussed at present on solvency, national solvency, and rightly so. But this is not so much an objective as *conditio sine qua non,* for the attainment of any objectives. The objective for our lifetime, as I have come to see it, is *embourgeoisement.*

It is significant that we lack a native English word for embourgeoisement—at least to the best of my knowledge. We tend to translate *bourgeois* as middle class, but the words are not identical. A middle class implies that there must be a class or classes above and below. If one could say "we are all middle class now", one would strictly be saying that we have a classless society. To say that we are all bourgeois now—provided it were to be made true—would be to proclaim a common value system.

### Alternatives

What alternatives are being proposed to *embourgeoisement* as the economic and social basis for advance towards *The* Good Life at this stage in our social evolution? Class struggle for class struggle's sake? Permanent revolution as a good in itself, as one segment of the Communists are so compulsively committed to? Our idea of the good life, the end product, and of embourgeoisement—in the sense of the life-styles, behaviour patterns and value-structures—has much more in common with that traditionally held by Social Democrats than divides us; we differed over the kind of social economic structure best capable of bringing about and sustaining the state of affairs we desire.

From the mid-Victorian era until a few years ago, we were confident that our society was moving under its own momentum, or as a result of our reforms towards the goals summed up by the term *embourgeoisement*. The artisan of Victorian days, who read serious literature, supported radical causes, was sober and self-improving, gave hope that the workers would become bourgeois. This confidence was shared even by those who regretted the development, for one reason or another, highly disparate reasons too. Engels, in later life, in late-Victorian England, complained that the High-Victorian middle class values were conquering the whole of British society, that alongside a bourgeoisie there would be a bourgeois aristocracy and a bourgeois working class in this most bourgeois of all countries; who then would provide the impetus for socialism? In their inception, the Trades Unions, co-operative societies and friendly societies reflected bourgeois thought, and aspired to achieve the benefits of bourgeois life for their members, as Lenin among others complained.

Has the middle-class life-style including values spread further and further with the growth and prosperity and the substantial change in the pattern of income distribution between the social classes, as we were led to expect? It does not seem to have done so; in some senses the opposite has been taking place.

An important element in bourgeois, or what we call middle-class, values is a broader time-horizon, willingness to defer gratification, to work hard for years, study, save, look after the family future. By contrast, workers in this country have traditionally tended to spend their money as it comes. This is not a function of income but of class status and traditions; the small farmer and small shopkeeper have traditionally shared this trait with the better-off members of the middle class.

## Personal Economic Independence

Now historically, bourgeois values have rested on personal economic independence, whether based on property or independently marketable skills. The peasant or small shopkeeper or independent craftsman exemplified this independence, as did the free professions; "free" meant that the profession was self-governing, that any member of the profession was self-governing, that any member of the profession could put up his brass plate and earn his living by serving clients, unbeholden to anyone if he did not wish to be.

This was the historical basis of the emergence of bourgeois values, and indeed political democracy? When the middle classes set the tone of society, wage and salary earners' values and life-styles tended to be moulded by this dominant value-system, the more so in periods of rising incomes, mobility, and wider economic security. But will these values survive almost universal proletarisation—or salarisation? Will it survive as the self-employed are driven out of their modest castles and forced to seek paid employment, increasingly in the public sector dominated by the political machine. Will it

survive the independence based on property ownership—whether property provides an income or just the means of earning an independent living? This is not meant to be a rhetorical question. It is a serious question whether life-styles which emerged in one set of circumstances can survive under another. The question is complicated by the fact that at present it is not only the social and economic base of these values which is under attack, but the values themselves, often in a completely nihilistic way.

In this age of inflation, spend-what-you-have-because-it-is-not-worth-saving, and pop culture, one can hardly look for embourgeoisement, indeed we shall be happy if we can hold the line.

The middle class in this country are beginning to learn what they can from the working class; militancy, solidarity, put your claim in and spend what you have while you have it.

A generation ago, Montague Burton's dream of dressing every navvy like a bank-clerk came near to being realised. Paradoxically, your navvy still tends to dress like a bank-clerk away from work; if you see young men or women dressed like navvies or road-sweepers, they are unlikely to be manual workers.

As I say; our job is not to dictate general values, least of all when we speak as economists. As politicians and economists, our task is to re-create conditions under which the values we value can form the cement of our society. Our job is to re-create the conditions which will again permit the forward march of embourgeoisement, which went so far in Victorian times and even in the much maligned 'thirties', when home-ownership took such strides. As politicians we must take a large share of the responsibility for regression; a larger share than any previous generation of politicians could rightly have been asked to accept. The reason for this should be obvious: our powers and pretensions have been so much greater than those of British politicians at any time, since the Commonwealth at least, that our responsibilities must be correspondingly greater. We need to reassess with hindsight and humility the powers and responsibilities we have arrogated and the capacities they imply. We need to take a broader and deeper view, while giving back what we can to the spontaneous processes of society and economy.

As politicians, we have much to learn, not least about politics in themselves and in their interplay with economics and society. By-and-large it is true to say that our economic input into decision-making, whatever its many shortcomings, has been far better, more articulated and structured than the political input. Many of us politicians are highly professional in many fields, but in politics we tend to be amateurs. This stems from understandable historical causes, but there is much scope for change in this field. This has been marked in our dealing with political aspects of economic policy. I touch on it a little later in this talk.

I am going to speak for a while as a Conservative, though this, of course, is a non-political gathering. Many of our weaknesses stem from the fact that as a government party, or governing party, we have traditionally allowed the government aspect of our dual identity to dominate the party aspect. (This stemmed from the Conservative Party's origins as a ruling group inside the Lords and Commons, which subsequently built up its extra-parliamentary organisation quite late in its life, mainly to ward off competition from the new Liberal party machine, built up by Joseph Chamberlain—who was later to come over with his followers into the Conservative fold.) The Conservative Party is different in kind, not just in degree, from the Labour party, which began in the country, in the Trades Unions and socialist clubs, and only later fought its way into local and central government. We came in at the top, with the advantages and disadvantages this brings.

### Party should move ahead of Government

There is an inherent duality in party-government relationships—whether in government or opposition makes little difference, since the opposition is a shadow government, which goes through the motions of governing by urging and arguing. This is true of any party in a multi-party system. This duality should be the source of progress. For while government is bound by the constraints imposed by the climate of opinion at any given time—in addition to all other material constraints, domestic and international—the party should be moving ahead of government, moulding the climate of opinion to prepare it for more radical measures—radical in the Conservative sense, in a sense many of you here will share with me, in fact you held it before I did.

The party should never become an appendage of government or shadow government. It should be a partner, an *alter ego*. For if the party remains subordinate to the government, government turns in on itself, becomes stultified, and ends by being excessively dependent on the bureaucracy. Unless the party is scouting out the ground, and marching ahead as a skirmisher, the party soon becomes the prisoner of public opinion, of the short-term expedient. In other words, the party *qua* government is weakened by lack of a live party, *qua* organisation, reflecting the large segments of society and creating links and communication-channels in all directions.

A party qua government (which, as I say, includes opposition) should be in constant interaction with the party in the country, with ideas and with the realities of the situation. Either we as a party, a milieu, impress our will on ideas and fact, or they will come to dominate us. We cannot rest on our oars, or on ideas in the form and content they had a generation back. Still less can we do with other people's cast-offs.

### Power of Words

Ideas come down in the form of words. Words have great power—be they true or false. In the name of "social justice"—a term which defies definition—great injustices have been done. Twice during my political life-

time, the headline "a million unemployed" which probably meant at most half a million or so genuine employable unemployed in a country with over twice that number of unfilled vacancies, stampeded us into policies which most of us must surely regret.

For a word or a phrase, people will work, fight and die.

Words have great power, but so do facts, and in the long run, if there is a clash between the words and the facts, it is the facts which must win out, but at what terrible cost. We are suffering here from the gaps and contradictions between words and facts which have characterised post-war Britain. The slogans of social engineering, collectivism, the man in Whitehall knows best, the belief that you can have your cake and eat it, have helped lead us to our present pass. The number of untruths bound up in the term "social contract" would defy the powers of medieval schoolmen to count.

But the disease has gone a stage further than that. For when false ideas are allowed to dominate the facts, they create their own momentum.

We have shielded workers qua consumers from the price rises made necessary by grossly excessive wage-claims; we have shielded workers from the unemployment which would have followed the destruction of their firms' profitability by ca'canny and strikes and strike-threats; we have protected the cause from the effect—and the result has been the increasing insulation of the people of this country from the realities, the remorseless realities, the Gods of the Copybook Headings. No wonder politicians have limited room for manoeuvre. We made people believe that we can't lose.

Even when our diagnosis is right our prescription is all too often irresolute. Russell Lewis, Director of the CPC, coined the expression "Socialism makes Socialists". He meant that intervention creates distortions which demand new intervention to protect their victims, which in turn creates even greater distortion and correspondingly greater dependence and vested-interests in them. One man's subsidy is another man's penalty, so he shouts for a subsidy too. If you give vast grants and subsidies to some new factories in some areas, you are making life difficult for the rest, the more so if you tax them to pay for lucky ones. So in this way, more and more firms can be forced to turn to government for help, which hardly helps self-reliance.

Nor can you expect industrialists and businessmen to be outspoken, when they fear that one day they may stand in the queue before Mr. Benn and Mr. Shore?

### Creating Dependence

While Minister at the DHSS, I was concerned that we might be pauperising growing numbers of people by our welfare system, creating dependence instead of self-reliance. I have not got far in finding a way of doing better in these complex and sensitive issues; but my apprehensions remain. But it is not only what are now called the poor or problem families who are in danger of becoming pauperised. Our welfare state—with the very best of in-

tentions—increasingly makes more and more people dependent on the state instead of on themselves and their family.

Once people were responsible for housing themselves and their family. Now we have come to take it for granted that the state should do this. The expedients used to implement this aspiration could have been better chosen, in which case they would have been less dramatically counter-productive than they have become and are increasingly becoming. But even if they were radically improved to recognise human and market realities, it would remain true that to decrease self-help and increase dependence while encouraging lavish expectations is bound to lead to rising homelessness and a growing housing crisis.

Housing is not the only basic field of human responsibility in which we have with the best of intentions stepped between men and their natural impulses and priorities. The result has been to make it harder for those who would house themselves by their own efforts to do so. Hence they too clamour for state aided housing, including subsidised owner-occupation. And so on it goes. The rot spreads.

There are many examples of distortions breeding distortions. You will not need me to relate them here. The result has been that—Arthur Shenfield I think coined the phrase—we have replaced the pendulum in politics by the ratchet. The Socialists move it up a few notches during their term; at best we leave it still while we are in office. But once the ratchet goes too far, that will be the end of the independent people. We shall be a nation of dependents, a servile nation.

Why did we allow it to go so far?

The intellectual climate has been against us. Why, I am not sure. Schumpeter thinks it is because capitalism destroyed the pre-capitalist values without which capitalism itself cannot survive. He may be right, he may be half-right; there is still much to be worked out. Britain never really internalised capitalist values, if the truth be known. For four centuries, since wealthy classes with political standing began to be thrown up following the supercession of feudalism and the selling off of monastic property, the rich man's aim was to get away from the background of trade—later industry—in which he had made his wealth and power. Rich and powerful people founded landed-gentry families; the capitalist's son was educated not in capitalist values but against them, in favour of the older values of army, church, upper civil service, professions, and land-owning. This avoided the class struggles between middle and upper strata familiar from European history—but at what a cost.

### Bureaucratisation of Society

If you re-read the original Fabian essays, you will find in them so much of the upper middle class professional-service families' disdain for commercial folk —for the businessman, the industrialist. The idea that the government ought

to run everything, rather than private individuals or companies, which forms the core of socialism, is not new at all. It is pre-capitalist, it is upper-class. In a sense, it meant the militarisation of society; for the army is organised as socialists would organise an economy. It meant the bureaucratisation of society, with the civil service running everything instead of just something.

We Tories have been unnecessarily inhibited from pointing this out. We have been unnecessarily inhibited in drawing lessons from modern socialist experience, from the Union of Socialist Soviet Republics, Yugoslavia, Cuba, Syria—where the regime frankly calls itself "military socialism"—among others. We have not pointed to the countries which do better because they have a large private sector, less government interference and widespread appreciation of the social value of profits earned in competition.

Some would explain academic hostility as a by-product of the tendency of academic establishments to grow by natural processes. They want a larger academic sector, hence a larger state sector, given the present system of financing higher education. Would this necessarily be the case if higher education were financed differently? We should be asking these questions. If we do not, who will?

Socialism contains a good deal of emotion, not all healthy emotion by any means. There is a good deal of masochism, projected self-hate. George Orwell wrote so cogently on this, far better than I could, and he wrote from within the belief system of socialism.

But we have been on the defensive. This is in part due to our illusion during the wartime coalition that bi-partisanship could be continued, that ideas could be fudged indefinitely, that the "middle ground" paid highest political rents.

In fact, predictably, the middle ground proved to be a will-o'-the-wisp; as we moved towards it, it moved away from us. Every concession we made to the socialists was used by them to press the centre of gravity leftwards, to push the ratchet another notch along. If we abstained from de-nationalising, they took nationalisation further. Sometimes a socialist threat to restore whatever we repealed effectively stymied us; who would invest in a denationalised firm which Labour had threatened to renationalise? But there were other reasons too, including our old friend the failure to win the battle of ideas. If we accepted some comprehensivation, against our better judgement, they then used the comprehensives' visible failures as an excuse to destroy the grammar schools which—in a total reversal of their stand on the eleven-plus—they accused of creaming off all talent. And so it went on, in every field. So the middle ground moved well to the left of public opinion, but who spoke for the public?

The climate of educated opinion was against us. But you will argue that even given the unsatisfactory climate of opinion we should have done better in government and out of government. True, in retrospect. But then, in

office, it seemed different. I am explaining, not excusing. A Minister is under all kinds of pressures, from vested interests, civil servants, fellow MPs. The classic case is when a lame-duck or white elephant wants public money to save it. The application always invariably comes to you at the last moment; you seem to be the last to hear of it. All kinds of reasons are urged on you for making this a special case, a lesser evil: it is in a high unemployment area, or in a marginal constituency, perhaps in two or three marginals, or in one of your own members' constituency, or in a politically-sensitive area like Scotland or Northern Ireland. Perhaps it exports or saves imports: it has defence contracts, is the only high-technology industry, or perhaps gives employment for many unskilled workers. To close it would cause riots, sit-ins, emigration of skilled workers and technicians, trouble in other factories. You are isolated.

A different climate of opinion with greater thought for the implications of our expedients would bring different decisions. So would a different political milieu, much closer two-way influence between party and government. Otherwise, we become prisoners of the short-term, undertaking some expedients to meet contingencies, others to ward-off unexpected—but usually predictable—side-effects of earlier expedients, and some in order to win popularity or ward-off criticism, "bribing the electors with their own money" as one of our great house-builders put it. "Just this one special case—we say—this is surely a lesser evil." But each special case breeds seven more; added up to make a greater.

### Short-term becomes Shorter

Under such circumstances, the short-term becomes shorter and shorter, while the longer-term strategy is put off further and further: virtue indeed, but not just yet.

And in such a climate, hope and exhortation become better than analysis, criticism comes to be seen as treason, tracing cause and effect comes to be seen as doctrinaire. The party loses its sense of direction. It *must* do without doctrine, it bans criteria because they might reflect its doings unfavourably. Blame for this is widespread, I cannot escape my share.

But we always come back to the question: what are we going to do about it? There is certainly no point in our sitting here and saying what fine clever people we are and what a damned silly lot everyone else is. If we are so right, why have our ideas not made more way? The time for feeling clever will be when we have reversed the present tide. How do we do this?

This present phase of our history began with ideas, wrong ones, the recommencement of our long march forward must begin with ideas too.

### Hunger for Ideas

People are hungry for ideas, hungrier than they have been for a long time: this is not surprising, given the situation. We no longer need argue that

Butskellism, social engineering, printing-press economics, vulgar Keynesism do not work. Everyone can see that. What we must do is explain coherently and convincingly why they have failed, in terms which people can grasp and internalise. We shall not do so by proclaiming eternal verities, but by presenting the facts as they are, analysing them with our conceptual methods, and working out policies for the short-term which best accord with our long term strategy. We shall be doctrinal, not doctrinaire. A move in the right direction would create its own momentum, its own further perspectives, its own interests and pressure groups, no less than a move in the wrong direction has done. It is the first step that counts. Do we dare to take it now?

This is where we come in: your Council and the new Centre for Policy Studies. You have been doing admirable work for many years. All I can ask is that you redouble your efforts, preaching not only to the converted, but also to those who should be converted, starting nearest home. I have often thought that we on our part of the spectrum sometimes become too sectarian, too self-righteous, feeling that so long as we are right, we can happily look down on the unenlightened and say: "I told you so". We cannot, because we are all in the same boat. It is not enough to be right. We must be successful. The time to congratulate ourselves is when our ideas are accepted in practice.

Our Centre is a new venture. Our name policy studies indicate that we shall work towards influencing policy rather than just producing research briefs, with no disrespect to the latter. We shall work to shape the climate of opinion, or, to be more exact, the various micro-climates of opinion.

In some questions, the time-scale of research and education predicates years before we begin to impinge effectively on opinion and policy. In other matters the scale may be months, weeks, or even days. We have in hand studies which challenge many received ideas.

Much of our work will be comparative. We shall see in greater detail what they are doing in other lands. We shall look at the success stories, and ask why they succeeded.

But the main thing is that we shall argue. In the first instance, we shall argue the case for the social market society.

I said in Upminster last June, when I began my campaign for capitalism, that we must not be mealy-mouthed. I mean it. I am more convinced than ever that we have a very strong case. We have no need at all to be on the defensive. We can afford to argue calmly, factually, courteously. We need not shout like the Socialists do, nor abuse opponents as they do, because our case is a strong one. We should not let our frustrations make us shrill, because our job is to win, and if we have the truth, then we are to blame if we fail. I believe that we shall not fail. I believe that the time is ripe for fresh thought: we do not really need to argue that me-too-ism has failed, only to explain why it has failed, and what should be done in its place. It is up to us.

# THE AUSTRALIAN SCENE—JUST LIKE HOME

*by Lord Tranmire*

Arriving in Australia on October 26th, it was just like Home. Grumbles against the Australian Labour Government, Inflation running at over 20%, Money supply which last year increased at the rate of 25% now clamped down to 7%, overdraft rates at 12%, businesses liable for an advance payment of tax in November when they were suffering from a paralysis of cash flow, unemployment at 190,000 out of a working population of 53/4 million, Government predictions that this would rise to 250,000 next year, whilst businesses facing insolvency put the figure at 500,000, imports mounting, though exports were hardly gaining the anticipated advantage from devaluation, farmers unable to sell their cattle except at a loss convinced that the Government had an anti-rural bias, Mr. Hawke and the Unions apparently in control of the Executive, and finally, the media claiming a crisis of leadership in the Opposition. It was just like Home.

Early in November, Mr. Whitlam seemed to be trimming his policy to meet the gusts of unpopularity. The Minister of Mines and Development who had been growling menacingly at foreign investors, and appeared to be determined to keep in the ground as much as possible of Australia's mineral wealth until prices rose still higher, gave the first evidence of change. Then Mr. Whitlam postponed the advance payment of tax. The Deputy Prime Minister was sent to the USA to raise money. Those who had been prophesying the defeat of the Government in a Spring Election tended to revise their optimistic forecast.

## Diversification

How will all this affect Britain? During the ten years of EEC negotiations, the proportion of Australia's exports that went to Britain declined from 18.6% to 9.7%, and imports for Britain declined from a 30.5% share to 15.6% (the value of invisible trade did not suffer so remarkably). In the same period Japan's share of Australia's exports nearly doubled (16.7% to 31.1%) whilst her imports trebled their share from 5.0% to 17.9%. So the policy of diversification of trade was succeeding, Japan's share advancing as Britain's receded.

However, at the moment, Australia is gravely disappointed at the Japanese refusal to continue to buy her beef and wool, and is unnerved by the increase in imports of Japanese cars and other manufactured goods. It was hoped that Mr. Tanaka's visit would result in a resumption of beef and wool exports, and a decrease in the flood of Japanese imports. But all Australia obtained was a polite apology from Mr. Tanaka, and an agreement on uranium that changed the Minister's policy of nationalisation to participation, and, contrary to his previous declarations encouraged Japanese investment.

## Rising Wage Rates

The Trade Unions' success in raising wage rates has been so great that the effect both on the balance of trade and on employment is becoming very critical. Japan has been permitted to breach Australia's policy of restricting car imports whilst encouraging the manufacture of cars in Australia with the help of foreign investment. This was a major factor in Leyland's decision to shut down their plant near Sydney. Now it is hoped Britain's balance of payments may be improved by the export of Leyands' finished products from Britain. Another typical example was cotton vests. How can Australia vest-manufacturers, paying wages of A $100 (£60) a week compete with vests from Taiwan, produced by workers earning A $9 (£5.40) a week? Recently, too, retail shops have been ordered to pay a minimum wage of A $100 a week. Many retail businesses are having to reduce staff and branches as selling becomes uneconomic.

In spite of the strain on our relationship in the last ten years, Australia appears most anxious to retain her trading connections with Britain. British manufactured goods will be welcomed in Australia provided that punctuality of delivery and quality can be assured. There was in some quarters doubt under both these heads, and a suspicion that the short haul to the EEC from Britain was more attractive to British exporters, who were insufficienly keen to compete in the Australia market.

## Britain—A Growing Market

The Australian Department of Overseas Trade firmly believes that, in spite of the disappearance of Commonwealth Preferences, Britain presents a growing market for the export of Australian manufactured goods, which in the last five years has risen in value by 60%, and also considers that Britain's accession to the EEC should provide opportunities for obtaining tariff-free entry to that trading bloc by direct investment in manufacturing industries in Britain. But against this optimistic outlook must be set the relevant fact that even last year manufactured goods accounted for less than 10% of Australia's export trade with Britain, and also by the doubt in the current tight financial conditions Australia has any surplus left for overseas investment.

The rejection of Australia's sugar offer will not help to improve our trading relationship, though Australia seemed relieved at the outcome.

I left Australia convinced that, in spite of their current difficulties, Australians have such a vast potential in agricultural and mineral wealth, and such determination and courage, that they will be one of the great powers of the future.

In the short time I had been there, in cities and on the farms I was overwhelmed by Australian generosity and hospitality. They made me feel at home, and in so many respects, it was just like Home.

# LOOKING BACKWARDS

*Those who did not live through the 1930s cannot know how terrible that period was. A backward-looking comparison between then and now puts today's hardships into better perspective.*

It's not surprising that the current downturn is evoking comparisons with the Great Depression, even though some two-thirds of the people are too young to remember it. As this recession deepens—as the real output of goods and services falls and unemployment rises—the most spurious parallels with the 1930s will command great attention if only because it's easier to peddle fear than reason. But to see this slump as automatically degenerating into anything as severe and prolonged as the Great Depression is to over-react to what is happening now, and understate what happened then.

Those who lived and suffered through the Great Depression remember homeless men selling 5-cent apples on street corners, the soup kitchens, homes where milk was a luxury, and homes and farms that were lost when mortgages were foreclosed. Vast numbers of wage earners—almost one in four—were unemployed; thousands of people who had once given to charity now found themselves soliciting it. The phrase "jumped or fell" occurred with sickening regularity in the obituaries of the formerly wealthy. And many who lost their money also found they had lost many of the intangibles that money can buy—security, freedom and self-esteem.

## Economic Contraction

All segments of the economy were caught in the vise of economic contraction. The real gross national product fell more than 30% in the 1929-33 period. By 1933, real per-capita GNP had fallen almost all the way back to the 1909 level, and it did not exceed its 1929 peak until 1940.

In true domino fashion, the whole financial system was brought to the brink of collapse by policies that caused the money stock—currency plus checking-account deposits—to shrink by more than 25% in the 1929-33 period. More than one out of every five banks failed in the 1929-32 interval, as did many other financial intermediaries, including savings-and-loan associations, mutual savings banks, and insurance and mortgage companies. As the deflation of incomes and prices intensified, the burden of debt increased, bringing widespread defaults and bankruptcies that threatened not only industry but many state-and-local governments as well.

But to draw facile analogies between this recession and the havoc wrought by the Great Depression is to ignore the pertinent differences between then and now, the whole array of institutional changes that occurred as a consequence of the Great Depression. Then, the banking system collapsed under the weight of disastrously wrong-headed monetary policies. Now, depositors

*From: Monthly Economic Letter, First National C ITY Bank, New York, December 1974.*

are insured against loss, and bank failures, despite financial pressures, have been few.

At the onset of the Depression, there was very little by way of governmental machinery to provide income for the unemployed, the aged, the disabled, and the dependent young. Now, income-maintenance programs, while far from ideal, mitigate suffering. In 1929 the typical home mortgage was not amortized and fell due in about 7.5 years; now almost all home mortgages are amortized and the average maturity is over 20 years. These recession-braking changes in large part explain why, while real GNP fell by 9.9% in 1929-30, it fell at an average annual rate of only 3.6% between the fourth quarter of 1973 and the third quarter of this year.

### Encourage Expansion

None of the foregoing counsels complacency. The country is now gripped by a recession that will surely be longer and probably deeper than any experienced since the 1930s. But to say that is not to invite a perspective-bending analogy to the Great Depression. This recession will bottom out soon, probably by mid-1975. Such a turning point, however, while it will be duly recorded by business-cycle analysts and statisticians, will not bring an end to the pain. The recovery is likely to be sluggish, and that would imply that unemployment will remain uncomfortably high for some time. So the problem will be one of devising policies that encourage the expansion of real output without touching off still another inflationary explosion. The challenge is to avoid repeating the errors of the past. Looking backward in fear and trembling hardly sets the stage for achieving that goal.

## THE EUROPEAN COMMUNITIES

*On Thursday 19 December the House of Commons had a debate on the European Communities. The following are brief extracts from speeches made.*

MR. EDWARD SHORT (Lord President of the Council and Leader of the House of Commons)
"The basic difficulty is that Parliament has lost its sovereignty over this whole area of legislation which applies to the people of this country and the most we can do is discuss these points".

MR. GEOFFREY RIPPON (Conservative MP for Hexham)
"The truth of the matter, and we in this House must face it, is that sovereignty can no longer be exercised on a purely national scale. The whole history of political progress is the history of a gradual abandonment of national sovereignty. I welcome what the communique said on the subject of the Luxembourg compromise. It made it clear that in regard to that compromise there would no longer be the maintenance of the practice of making an

agreement on all questions conditional on the unanimous consent of the member States. That is a sensible provision, but refers only to abandoning or renouncing the practice in regard to all agreements, and there are minor matters in which it is manifestly sensible to proceed by a majority vote.

"I am sure the Foreign Secretary will confirm that there is no question of our having to acquiesce in any policy which we consider to be against a vital national interest. We have pooled sovereignty in a number of organisations — for example, the United Nations, NATO and WEU — and we do not complain if on the advice of the Government we support in the United Nations a mandatory resolution and subsequently feel ourselves bound to follow it. We have to realise that the Government pursue politices which they know will subsequently command the support of this House."

MR. JAMES CALLAGHAN (Secretary of State for Foreign & Commonwealth Affairs) "What we are seeing at the moment is the Community moving away from its original belief that it was going to have one sovereign central body which was to administer the affairs of Europe.

"If there is a classic example it is in Economic and Monetary Union where, after the great statements of the previous summit meeting, there is really a welcome new realism in the Community's attitude. Nobody now sees EMU as a goal in whose name one should accept commitments to fix parities or to adjust one's economy to produce more unemployment. The final objective remains on a distant horizon. But what is important is that the detailed plans in which they endeavoured to contort the European economy in 1971/2 have been set aside. This is realism. This is the practial consequence.

MR. DOUGLAS JAY (Labour MP for Battersea North)
The present crisis in British agriculture is directly caused by the abandonment by the Conservative Government of guaranteed prices and deficiency payments, just as the sugar crisis has largely been caused in this country by the abandonment of the Commonwealth Sugar Agreement. Both were abandoned as a direct result of our entry into the Community. If the Commonwealth Sugar Agreement had run on, we would have had to pay more but would have had greater assurance of supplies — for example from Australia — than we have at present.

"What is true of beef is equally true of butter, cheese, mutton and lamb, on all of which we are now imposing heavy important levies or duties, and all of which could be bought more cheaply from outside the EEC if we were allowed to do so."

MR. J. ENOCH POWELL (MP FOR Down, South)
"This Parliament must retain its fiscal independence, its power to frame its own budget and its own taxation — what many of us, weary hour after weary hour, said to the Government, as we marched thorugh the Lobbies more than

100 times along with the right hon and hon Gentlemen opposite.

"Yet such independence is inconsistent with the very spirit, principal and aspiration of the Community. It is impossible to study the Treaty of Rome and imagine that the individual countries can permanently retain—that is what we are talking about — powers to pursue their own effective fiscal policies."

MR. NEIL MARTEN (Conservative MP for Banbury)

"We saw in the communique approval of direct elections to the European Parliament. The Foreign and Commonwealth Secretary reserved our position until after the referendum. But if we are to have a directly- elected European Parliament, what is it to do? It is supposed to be democratic. Therefore, the directly-elected European Parliament will be set up to control the Council of Ministers. In that way we should be moving towards parliamentary control of the Euro-Cabinet, which is what I call the Council of Ministers. Once one goes on to that, one has the beginning of the march down the road towards a federal State.

"That is precisely why I have always objected, and shall continue to object, to our membership of the Common Market."

## EUROPE'S SUGAR SHORTAGE

The Commission of the European Community may find it difficult in 1975 to provide member countries with adequate supplies of sugar, suggests a recent report. Because of the poor 1974-75 crop in the United Kingdom, there will be little or no raw beet for the port refiners in 1975, the study warns. If there is a further loss of through-put, wholly or partly because of the exclusion of Australian raw cane, it will also be hard to avoid redundancies.

The assessment of the extremely complicated European sugar situation was prepared by Mr. Ian Smith, of the University of Newcastle, for the Trade Policy Research Centre, formed in 1968 to promote independent research and public discussion on international economic issues.

Mr. Smith estimates that sugar production in the Common Market during 1974-75 is likely to fall short of total requirements by 1.75m tons of white sugar, in spite of an increase in beet acreage. If stocks are not replenished, the deficit could be reduced to 1.5m tons, which would have to be covered by the 1.4m tons of raw cane sugar from developing Commonwealth countries and by purchases on the world "free" market.

Mr. Smith stresses that it will be the United Kingdom that will go without if the European Community's sugar deficit is not made good. "It is ironical," he observes, "that Britain—who has deliberately restricted domestic beet production in order to help developing Commonwealth countries—should go short of sugar partly through the restraints and uncertainties imposed by membership of the European Community."

Trade Policy Research Centre, 1974),

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