



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

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## THE WAY AHEAD

In the last issue of *Britain & Overseas* we suggested that 1979 could be a year of decision as to whether Britain's economy would continue to decline, or whether we would advance to a more prosperous and better life for our people. Since then an election has taken place and the people have decided to return as the Government a party which has pledged itself to a change in course. The policy of the previous Government offering the country more of the same policies as they had followed over the past five years was decisively rejected. The electors preferred a party which held out hopes of reduced taxation, restoration of incentives, reduced Government spending and cutting out waste with less Government interference in industry. These and other measures, it was claimed, would re-vitalise the country with a resultant increase in the production of real wealth which alone can ensure higher living standards.

Mrs. Thatcher starts her role as Prime Minister with a great amount of good-will. She will need all this as well as willing co-operation on the part of the British people if she is going to achieve all that she has set out to do in the next five years. There are pessimists who point out that Mr. Edward Heath, when he took over the reins of Government, was elected on a programme not dissimilar from that of the present Conservative Government. They point out that when the crunch came, his Government did a U-turn and went back on much that had been promised at election time. It is questioned whether Mrs. Thatcher, confronted by an increasing hostility and opposition from the trade unions and other opposing interests will not be forced to give way to the mounting pressures.

### Favourable Factors

We do not know the answer to this question but there are a number of factors which would seem to indicate that the new Prime Minister will not be intimidated in the same way as the Heath administration. In the first place there were, nine years ago, no revenues from North Sea Oil to underpin the exchange rate and to some extent cushion the impact of wage inflation.

Another important factor is undoubtedly the tide of public opinion which has learned from bitter experience the chaos that can ensue from policies of appeasement. Even trade union leaders themselves must now be aware that public opinion has been steadily running against them as a result of the excesses of last winter. It will be the task of the new Government to persuade them of the truth that their present policies which lead to wealth destruction must give way to positive policies of wealth creation if the higher levels of standards of living for their members, to which they aspire, are to be achieved. Instead of

confrontation with employers and government in an effort to obtain more money in their wage-packets regardless of the amount of wealth produced, they must be persuaded to co-operate with industry to fully utilise the resources available so as to ensure increased profitability. It is essential to get them to realise that this alone will make possible higher real wages, based on real wealth.

Another favourable factor is that those Ministers that the Prime Minister has appointed who have been charged with the vital task of rehabilitating the economy have themselves learned a great deal as a result of recent experiences. Moreover, much research has been done into the cause of inflation and the basic economic facts, including that provided by the Centre for Policy Studies and National Recovery Programme. This has been instrumental in bringing about the change in thinking on the part of those mainly concerned.

In selecting the Ministers charged with the main economic and financial policies it is obvious that the Prime Minister has had this very much in mind. Sir Geoffrey Howe, the new Chancellor of the Exchequer has stated his firm intention to cut taxation and public spending. Sir Keith Joseph, Industry Secretary, has been largely responsible for the re-thinking on the question of inflation and the importance of monetary policy in maintaining the value of the pound. John Biffen, Treasury Secretary has also contributed a great deal in this direction. David Howell, Energy Secretary, is also well-known for his contribution to the new economic approach to inflation and monetary policy. As Financial Secretary to the Treasury, Nigel Lawson has also much to contribute.

### Changing attitudes to Common Market

Another factor is the changing attitude towards the Common Market. Under Mr. Heath this was a major factor, which he claimed would give Britain immense economic advantages. Far from this being so, it has been shown that the advantages were largely non-existent. Both major parties have changed their attitude to some extent to this important question. It is true that the Conservative party is more pro-European than Labour, but there are signs that shifts of opinion within the Conservative party have taken place as is shown by the following extract from a speech made recently by one of the new Ministers. John Nott, the newly appointed Trade Minister said on 14 March last –

"The E.E.C. is fast becoming the despair of its friends .... the original concept of a community in which people, goods and capital moved freely across traditional frontiers has been superseded by undue legalism and needless bureaucracy and by a series of artificial devices calculated to undermine the free market and redistribute wealth always away from the private individual to the public purse. Tax more, redistribute more, is the order of the day, rather than tax less and spend less."

### **Commonwealth Co-operation**

It is also very interesting to note that among Mrs. Thatcher's appointments is Neil Marten as a Minister of State, Foreign and Commonwealth Office. Formerly the Chairman of the Commonwealth Industries Association, Mr. Marten will have special responsibilities for overseas development and his new job could have far-reaching results in Commonwealth co-operation and development.

These reflections, written immediately following the election are necessarily tentative. We shall watch events with great interest and at last some real hope that 1979 will be a year of decision when the right choices will be made and we can, again, look forward to a truly Great Britain.

### **THE CHANGING INTERNATIONAL PATTERN**

by Sir George Bolton, KCMG

I would first refer to those countries or territories which are probably incapable of further growth or are in a state of decline. Western Europe — an area which before 1914, when it included Imperial Russia, controlled or substantially influenced the whole world — has in two wars lost all the advantages of political control and the effective control over the raw material resources of what is now called the third world. It is now disguised as the European Economic Community, a combination which the supporters believe should rival either the United States or Soviet Russia as industrial producers. But it has become wholly dependent upon the rest of the world for the maintenance of its industrial structure for the import of energy and raw materials and a large percentage of its food. It is also a high cost area incapable of competition with any eastern country but will survive in an atmosphere of declining influence.

It may seem impertinent and indeed ridiculous to suggest that Soviet Russia is in a state of economic decline when you consider how their political power in the Indian Ocean and Africa has increased during the last two years, but this is perhaps a consequence of the marriage of a philosophy such as Marxist-Leninism and an historical inheritance of imperialism and despotism.

#### **Vast Burden**

Soviet Russia carries the burden of the largest military organisation the world has ever seen. It relies upon Western capitalism for the maintenance and possibly the growth of its industry, and also carries the burden of maintaining a vast empire with the aid of an all-pervading military and police organisation.

In addition, Russia maintains or helps to maintain Communist organisations in all parts of the world. The total responsibility which falls upon the shoulders of the men in the Kremlin must be soul-destroying and sooner or later cracks will begin to appear in the monolithic surface of Soviet Russian power. In spite of all the indications which point to an increase in Russian influence and the growth of Communism there are, I believe, forces at work which will prove that Soviet Russia is already in a state of near paralysis and a decline in power and importance may in time become a little more obvious.

I find it difficult to believe that India, with its enormous population and barely marginal resources of food, energy and raw materials, can change its lethargic acceptance of fate encouraged by a stultifying religion. It may survive in its present form but growth of personal initiative or a vigorous international role seem remote possibilities. India, with its enormous population, will survive largely because no-one else will want to take over the control of 500 million people barely existing on a very low standard of living.

#### **Africa — Return to Tribal Anarchy**

One vast area which deserves mention in this brief review is the continent of Africa where the removal of European discipline, which until quite recently controlled virtually the whole of Africa, is resulting in anarchy. As the veneer of the educated elite wears off there seems little hope for Africa south of the Sahara but to return to tribal anarchy. The suicidal liberal mind insists on transferring Western political ideals to the continent of Africa but I think we shall find that this will, in the short run, produce disaster and the rest of the world will neither be able nor willing to finance Africa nor rely upon Africa for natural resources.

On the other hand, there are some countries which have an assured future, and I would include among them Canada, which in spite of its current language problems will survive and prosper. It has the largest potable water surplus of any country in the world and many people tend to forget that industrialisation uses huge quantities of water: the United States has already reached, in many parts of that large country, a situation where water resources are already used to the maximum. In addition, Canada is not only in a position to feed itself but also has annually large food surpluses and is blessed with major energy resources in oil and coal together with other important resources including minerals and forest products.

#### **Latin America**

Brazil is another country enormous in extent which has vast agricultural and mineral resources. In spite of its 400-year old contact with Portugal it is fundamentally a young country with a young population, which began to

move away from a plantation society and to industrialise only 30 years ago. Although educational facilities vary tremendously between the States, my own experience is that the level of intelligence among the educated classes is higher than in many other countries.

The future of Argentina is not quite so certain as that of Brazil, but in a world of a growing population it is important to remember that Argentina is the cheapest producer of food products.

I also add Australia to my list, as this Continent has enormous resources in the production of food of all kinds and its mineral resources have barely been scratched. It is already the world's largest potential producer of uranium and its annual wool clip the largest in the world. Its main disadvantages are:—

(a) It is remote from the major centres of population.

(b) Its water resources are inadequate.

and (c) Militant Trade Unions.

I have mentioned two of the countries of Latin America, where for nearly 200 years every form of political experiment has been undertaken. Most of the 23 States have rejected northern European political ideas and structures and in many cases have adopted one-party rule. It is possible that the idea of dictatorships, which are terminated whenever the population feels they have served their term, fits in with the inherited Mediterranean culture which was exported from Spain and Portugal before northern European political ideas had taken root. However, from every point of view it would appear that Latin America has a great future which will become more apparent as Africa descends into a welter of bloodshed and corruption.

### Neo-Keynesian Economics

The Welfare State was born and is now foundering. The result of the success of the Keynesian school has been continuous inflation which until quite recently has been regarded as an incurable disease to be restrained by controls and abnormally high rates of interest. The symptoms are unemployment, rising prices, social unrest and demands for higher wages, and regular declarations by American and British Governments that they are fighting inflation. It rarely crosses politicians' minds that the Government, through continuously unbalanced budgets, are directly responsible for the motive force behind inflation and that until a rough budget balance is attained no wages policy, restricted money supply or control over prices is going to provide a cure.

Thirty years of currency depreciation, floating exchanges, rising prices and falling investment has at last concentrated attention on the long-term consequences of neo-Keynesian economics which are no longer completely respectable.

### Energy Policy

Another factor in this equation is energy and the source, price and geography that will play an important role in the development of international financial politics in the coming months. The expansion of Russian power has at last attracted general attention and the Western World is beginning to realise that their anxieties about the future of Southern Africa are misplaced and the real threat always was Marxist control of the Red Sea and Mid-East oil. Russia now controls the southern end of the Suez Canal and has turned Aden into an important naval base from which they could control Saudi Arabia and the Gulf. Afghanistan is now in the Russian camp and the Iranian Army is rapidly sliding into the divided hands of the religious bigots and Socialist mobs. The strategic aims of Russia are obvious and it seems difficult to understand how Western Governments can stand idly by while the enemy help themselves to the world's residual oil resources. The American oil shortage and dependence on Middle East supplies can probably be covered out of the huge new discoveries in Mexico quite apart from domestic action by using less oil and increasing the price. Little has been said about the effects of such a policy on natural gas and few realise that the gas shortage which caused great distress a year ago has already been converted into a surplus. In addition, Canada has now large gas resources for which the only potential user is the U.S.A. A ceaseless research for oil and natural gas is proceeding in every part of the globe and I am convinced that much more remains to be discovered.

### General Conclusions

If one relates the menace of Russian Territorial expansion to the decline of American political and financial power on which Western Europe and the rest of the free world depend for survival, it is difficult if not impossible to avoid the question: Will It Ever End? We have already seen Russia, with the aid of her client States, take over Angola, Mozambique, Ethiopia and the control of the Red Sea. The Moslem world is rapidly moving into a condition of religious civil war, and no matter who controls the Gulf the supply of oil, not only from Iran, will probably shrink. In these circumstances business over most of Africa and all the Middle Eastern countries will suffer and consequential defaults and bankruptcies will multiply.

Western Europe will be affected by the rising price of oil exacerbated by shortages. Europe has no immediate alternative sources of energy and will have to adapt economies to energy austerity and the abandonment of cherished social reforms, and governments will have to get used to electoral unpopularity. America will be jolted into action to protect the dollar and their domestic price system at a time when other regulatory forces will be at work throughout the world. It may seem paradoxical, but the general forecast that the dollar is

a doomed currency as the price of oil rises is probably wrong; the American economy is today in better shape than many others and the dollar is, I suggest, more likely to improve compared to the Franc and the Deutsch Mark as the oil picture becomes more distributed. America can put its energy situation right in one session of Congress – the E.E.C. cannot.

### **Areas of Potential Expansion**

Possibilities of potential expansion are, I suggest in the Americas, especially Canada, Mexico, Brazil and the Argentine. On the assumption that the Chinese/American/Japanese defensive alliance will prosper, the whole of the Pacific Rim will become an area of economic activity requiring the most sophisticated methods of banking and finance. I can think of only one European country that has real possibilities of growth, and the name may surprise you. It is Great Britain. We are not a poor country but a very wealthy one, and in spite of being misgoverned for 30 years still command authority in all the international service industries. We are the only European industrialised country with surplus coal and oil resources. If we could throw away the stranglehold of the economists demand management, substitute stable money and extinguish the disease of Socialism, we could become a proud people once more.

### **China and Japan**

With regard to super-power relationships, there is little doubt that both Russia and America find the burden of maintaining a huge military structure difficult to finance and, with the increasing cost of technological changes, a major factor in preventing any improvement in the standard of living. China, on the other hand, with a primitive military structure, has an enormous reserve of cheap labour and is now beginning to realise that Marxist-Leninism has stunted the growth of Chinese thought, foresight and culture.

Japan over the last 30 years has built up the second largest industrial super-structure in the world, and now finds it difficult if not impossible to employ the machines and the men involved in the industrial miracle. If the Chinese masses and the Japanese industrial capacity could be engaged together, then I believe that Russia, quite apart from any other problems, would find it impossible to continue its progress towards the conquest of the world. The new policy of President Carter of normalising diplomatic relations between the U.S.A. and China is probably the most hopeful development since 1945. It promises a restoration of military balance between Russia and America and thereby diminishes the threat of war, and promises a better life for the Western World.

## **COMMENTS ON EUROPEAN MONETARY INTEGRATION**

by Gordon Tether

Monetary union in Europe is no new idea. It was first mooted in the 1971-72 period and was presented as the next big move towards the integration of the Community countries. It was to be set in motion after the impending enlargement of the EEC through the entries of Britain, Ireland and Denmark.

It is interesting to recall that the Heath Government's attitude towards the proposal was to say that Britain would be prepared to go as fast and as far towards economic and monetary unification as the other members. The 1971-72 blue-print envisaged 1980 as the date by which the process of integration would be completed. Had the world not been thrown into disarray by the oil prices explosion and its consequences, there is little doubt that every effort would have been made to fulfil that programme.

The European Monetary System, now being presented as the result of a Schmidt – Giscard d'Estaing initiative was, in reality, a proposal Roy Jenkins had initiated shortly after his appointment as President of the Commission. It is now being presented as being primarily a drive to achieve stabilization of exchange rates. But it would be more realistic to see it as an attempt to exploit the disorderliness of currency markets for the purpose of getting monetary union off the ground.

### **Threat of Chaos**

This is not to deny that there is no call for the stabilization of exchange rates. The great orgy of speculation unleashed by the breakdown of the former Bretton Woods system of international monetary management has recently been getting out of hand. Competitive currency depreciation has become the order of the day and there was an increasing danger of chaos developing and precipitating a breakdown of international trade. Moreover, the weakness of the dollar precipitated by such speculation was posing a growing threat to the entire international monetary system. Something had to be done. But it did not have to take the form of a purely regional form of stabilization.

Mr. Healey, when Chancellor of the Exchequer, pointed out that during the EMS negotiations at no time had the important question of the dollar's relationship with the proposed new system been raised during the negotiations. Thus, to get to grips with the world currency problem in a meaningful way, reform had to embrace other major currencies as well as the European one – and more particularly the American dollar.

The very fact that, at this stage at all events, no plan for bringing other currencies within the scope of the stabilization scheme has even been mooted rings round the true purpose of the exercise – to arrange for the most

meaningful form of European integration to ride on the back of a currency stabilization scheme. The point that cannot be too strongly emphasised is that the importance of British involvement in such an operation for the future of the sovereignty of the British people is immense.

Economic affairs are so important in the life of the modern state that the ultimate effect of full British participation in European economic and monetary unification would be to bring about the surrender to Brussels of control over 80 to 90 per cent of the field of Governmental activity.

### **Promise and Performance**

As for the implications of the economic life of the British people, we have already experienced one massive disillusionment in respect of the benefit we were supposed to derive from closer involvement in European togetherness. It is hardly necessary to give a reminder of the way in which performance has contrasted with promise in respect of what we were told would happen as a result of our entry into a market of 300 million.

### **A Repeat Performance**

All the indications are that participation in the European Monetary System would be a repeat performance in this respect. The Labour Government has behaved in a cagey fashion on this occasion, affecting to believe that the consequences of British participation are so incalculable that it is impossible to make any reliable assessment. A leading Cambridge economist prepared a report for the House of Commons Expenditure Committee on the subject. This is less backward in its approach to the matter. It says bluntly that even if the Government was successful enough in combatting inflation to prevent earnings rising by more than 5 per cent a year, the gross domestic product would be 2 per cent lower in 1981 and employment 375,000 lower under a fixed rate system of the EMS type than under a floating rate. If earnings increased by 15 per cent a year, there would be a loss of 8.4 per cent in the gross national product sense in 1981 and more than a million fewer jobs.

Britain could conceivably derive some benefit from operating in a less turbulent exchange rate set-up. But would these benefits be of an order that would compensate her for the price that would have to be paid in terms of slower growth and higher unemployment? It seems highly unlikely.

### **Balance of Payments Weakness**

It has to be recognised that having the pound tied to the stronger European currencies could have the effect of aggravating basic balance of payments

weaknesses of the kind that have plagued this country ever since the end of World War II. A similar kind of backing down occurred during the run-up to the Referendum question of whether the United Kingdom should remain in the Common Market. The Government, we were assured would not recommend to the people that they should vote to remain in unless it had been able to renegotiate the terms in a way that made them much more acceptable from the British point of view. In the event, the renegotiation was a farce, as can be seen from the fact that the Labour Government made a great deal of fuss about the onerous burdens being placed on the United Kingdom by the present terms. Even so, in due course the nation was urged by the Government to vote to stay in.

### **Transfer of Resources**

There has been much discussion about the unsuitability of the technical arrangements and about the Government's determination to insist on a major transfer of resources from the stronger EEC countries to the weaker ones, including Britain, to enable the latter to cope with the additional strains that participation in a fixed exchange rate arrangement could impose upon them. No doubt the Government has in mind technical arrangements that would be more to the British taste and it would naturally like to see the stronger European countries dipping into their pockets to buttress the weaker elements in the British economy. But can one seriously believe in the light of past experience that objections of this kind will be allowed, in the last resort, to stand in the way of plans of pro-Marketeers to make use of the exchange stabilisation excuse for getting the United Kingdom committed to participate in another step towards the unification of the Common Market countries — to the realisation of their European vision.

The Bank of England can be relied upon to think up a settlement of the technicalities issue and some face-saving solution for the transfer of resources problem will doubtless be cooked up at the appropriate moment.

### **Political Straight-Jacket**

Economic and Monetary Union is doubtless in the interest of the big business battalions that have played such a large part in getting Britain caught up in the EEC venture. But it can hardly be shown to be in the interests of the British people even on economic grounds. When one thinks of the political aspects of the matter, does it not seem like the last word in idiocy to be endeavouring to put all the nations of Europe into a single political straight-jacket just at a time when the whole tide of opinion is moving in the other direction — when on all sides there is a great demand for decentralisation and greater emphasis on individual and regional liberty.

## DIRECT ELECTIONS TO THE EUROPEAN ASSEMBLY

Direct elections to the European Assembly will take place on 7th June. The U.K. will have 81 seats out of a total of 410. England has been divided into 66 constituencies, Scotland into 8 and Wales into 4. Thus, the existing Assembly, comprising nominated representatives from the Parliaments of the nine member countries, U.K., W. Germany, Italy, France, who nominate 36 members; Belgium the Netherlands, who nominate 14; the Irish Republic, Denmark, who nominate 10 and Luxembourg who have 6, will be replaced by a democratically elected body.

Some changes are likely as a result of this development. At present the powers of the European Assembly are very limited, the final decisions are usually made by the Council of Ministers who can, and sometimes do, ignore the views of the Assembly. Those attending the meetings of the Council of Ministers are the relevant ministers from the national governments of the member countries. However, when ministers are unable to attend, their place may be taken by Permanent Representatives and these, in practice make many of the less important decisions.

### European Commission

The Executive of the European Community is the European Commission. This has 13 Commissioners, two from Britain, France, Italy and W. Germany; one each from Belgium, Denmark, Irish Republic, Luxembourg and the Netherlands. It functions as the civil service of the Communities and must act independently of member governments and of the Council. The Assembly can, if it so desires, cause a vote of censure, which would compel the Commission to resign en bloc.

Now, with direct elections shortly to take place, the question arises as to what additional powers the Assembly may seek as a result of their more democratic background. At present it functions as a Parliament, but with no legislative powers, its main task being to guide the work of the Community by expressing opinions and adopting resolutions. It may question the Commission and the Council on every aspect of their activities and its main sanction is that it can, by a two-thirds majority, enforce the resignation of the Commission. It can also reject the entire Community budget, in which case the previous years budget levels would apply.

### Additional Powers

It has been suggested that the new Parliament with its democratically elected backing would certainly seek additional powers. These include — the right

to a second look at legislation, at the moment they only get one look (with the exception of the budget); the control of compulsory expenditure; and the right to initiate legislation, all the initiative at present lies with the Commission. Likely to come under attack is the Common Agricultural Policy (CAP) which takes over 70 per cent of the Community budget. This is still outside the control of the Assembly and criticism of the effects of the CAP in increasing food prices and subsidising inefficient farmers have been widespread.

Members will be known as MEPs and it is likely that they will initially be paid the same as MPs in the national Parliaments. This will mean that there will be huge differences in payments with British MEPs being near the bottom of the scale.

At present the Assembly meets in Strasbourg and Luxembourg, with committee meetings in Brussels. Not an arrangement likely to encourage efficiency, and no doubt after direct elections they will want a permanent home.

It will be interesting to see what proportion of the British electorate turn out to vote for their European representatives. Many who dislike the whole concept of the European Community are likely to refrain from voting altogether.

## SHARES FOR EVERYONE

The Premier of British Columbia, The Hon. Bill Bennett, has introduced a unique plan whereby every British Columbian will become a shareholder in the Province's resource industries. Five free shares in the British Columbian Resources Investment Corporation are to be given to every man, woman and child in the Province. This will come into operation on 6th August, British Columbia Day.

The shareholding plan will make BCRIC, with 2.4 million shareholders, one of the most widely-held companies in the world. In addition to the five free shares worth about \$ 10 each, British Columbians will have the right to subscribe for up to 5,000 additional shares. The BCRIC controls rich oil and gas rights, pulp mills, sawmills, a plywood plant and pipeline shares.

In introducing the plan the Premier, Bill Bennett said — "We live in a rich Province. The people of the Province have helped make it rich and now my Government wants to give them the opportunity to share in these riches through direct ownership in resource industries and the potential of further participation in all elements of the economic growth of British Columbia."

### A Unique Opportunity

"It is a unique, once-in-a-lifetime opportunity for the greatest number of people to become owners and not tenants in our own land. This is particularly important for our young people, and for those who have always been savers of money but not investors. It is their opportunity now to own something that can grow in value and help contribute toward the growth of our economy and Province."

Under the plan, every person (including children) who has lived in the Province for the past year or more and who is a Canadian citizen will be eligible for five shares in B.C. Resources, all of whose shares are at present held by the Provincial Government. The trading value of the shares will be determined in the market place when trading begins this coming autumn.

### On the Ground Floor

The Premier said that this provided an opportunity for British Columbians to get in on the ground floor in purchasing shares. "Too often we hear that only the wealthy and the privileged have a chance to enjoy such an opportunity. Now every resident of our Province has a chance to get a piece of the action."

The Premier added that the Provincial Government anticipates that about 80 per cent of the BCRIC shares will be put into the hands of individual British Columbians and the Government will retain about 20 per cent. No one person will ever be able to own more than 1 per cent of the shares, thus preventing the company being controlled by a few shareholders. Future share ownership is limited to Canadians, thus guaranteeing in perpetuity that the company will belong to the people.

### INFLATION IS A MALADY

The British-North American Committee, concerned with problems arising in Canada, the United States and the United Kingdom, has produced a study on the subject of pernicious inflation.\* This has been carried out by Carl E. Beigie, president of the C.D. Howe Institution in Montreal who is also a member of the BNAC.

Mr. Beigie expresses the view that control over inflation is a pre-requisite to sustained progress in resolving most other economic problems. He argues

*\*Inflation is a Social Malady by Carl E. Beigie published by the British-North American Committee Price £2.*

that inflation does not arise only from incorrect economic diagnosis and therefore inappropriate policies, but springs rather from underlying socio-political realities and social expectation. He concludes that productive approaches to solutions must seek causes and remedies within the lifestyle of modern Western society itself through the gradual achievement of greater discipline within it.

### Policy Errors

His detailed examination of the problem makes it clear that a major cause of the world's current economic distress is past policy errors resulting from either inadequate understanding of economic processes or political expediences.

He lists three such errors —

"First, fiscal policies were too stimulative. Government expenditures grew at an unsustainable pace, and policy-makers lacked the political will to finance these expenditures with higher taxes. Keynesian prescriptions were misused. Instead of employing fiscal policy to fill valleys and to shave peaks in private demand, new, long-term expenditure programmes were introduced that filled valleys and added to peaks in an inflationary manner. Furthermore, even where revenues were increased to pay for these spending programmes, inadequate attention was paid to the consequences in terms of "tax-push" (a variant of "cost-push") inflation."

"Second, monetary policies were allowed to become too expansionary. When governments found that their spending was increasing too rapidly, it was easier to boost money-supply growth rates than to accept the political costs of making the difficult adjustments (tax increases and/or spending cuts) required. Thus monetary policy accommodated inflation, although in the majority of cases it probably was not the initial cause of inflation."

"Third, a fixed exchange-rate regime was retained too long in the international monetary system. Differential rates of inflation and productivity growth, together with structural variations in nation's trading patterns, made it impossible to defend rigidly fixed currency relationships. Some adjustments would have taken place if nations had varied their currencies within established IMF rules, but the pivotal role of the US dollar created special problems when the United States allowed its external accounts to become seriously out of balance. The prescription that most other currencies should be revalued upward relative to the US dollar was simply impractical in the environment that existed at the time. In an effort to resist such revaluations, many nations allowed their domestic money supplies to surge upward, thereby fueling the global inflationary process."



### **Government Intervention**

On the subject of Government intervention the author writes –

“The most significant effect of the increase in the size of government may well lie in its aggregate impact on traditional individualistic values such as discipline, self-reliance and initiative. The larger government becomes and the more accustomed individuals, groups, and firms are to looking to it to provide answers to their economic problems, the more likely these problems will become magnified. If government has the responsibility of keeping unemployment down, why worry about competitiveness? If government can be relied upon to protect the subsidize troubled industries and regions, why not adopt the quiet life, which is much more relaxing than competitive struggle? And if every demand expressed loudly enough receives a hearing and generates a response, why moderate these demands?”

On the subject of trying to deal with inflation by resorting to some form of income controls he says –

“The historical record indicates that controls have had, at best, only minor impact on inflation over time, that record is one of the main reasons why a strong majority of economists would argue against their use. Most economists contend that it is better for a nation to practice restraint in the creation of money and in government spending, thereby dealing with the causes, rather than the symptoms, of inflation.

### **Better Understanding**

Mr. Beigie's analysis points to the need for better understanding by the general public of the real choices available for dealing with inflation. He writes of the need for primary conveyors of information to the general public – the media – to take a more responsible attitude towards subjects they have traditionally regarded as either too arcane or too dull to merit much time or space. “Reporters must be given more opportunity to achieve a degree of mastery of the policy topics they cover by being allowed and encouraged to specialize, and the commentators selected for exposure by the media must be chosen more for their reason and insight than for their ability to popularize and to titillate or for the aggressiveness with which they propound particular doctrines.”