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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MORE CONFUSION IN THE MARKET

We commented in our last issue that come the autumn there would be many serious problems and difficulties confronting the EEC after the relative quiet of the summer recess. True enough, the proliferation of contentious issues has exceeded even our expectations. Perhaps the most immediate and pressing question is the huge net contribution which Britain makes to the Common Market budget. This is estimated next year as being more than £1,000 million. Moreover, as Sir Geoffrey Howe warned recently, Britain's payments to the EEC budget are likely to rise by 50 per cent in the next three years. He estimated that, unless EEC heads of government agree to change the system of collecting and distributing Community funds, the U.K.s net contribution was expected to rise to £1.5bn. in 1983 and £1bn. next year.

The Prime Minister, Mrs. Thatcher, has made it abundantly clear that this heavy burden on Britain, which threatens to absorb between 30 per cent and 50 per cent of each years increase in our national wealth is "politically indefensible". "I cannot play Sister Bountiful to the Community while my own electorate are being asked to forgo improvements in the fields of health, education, welfare and the rest" she said in Luxembourg when delivering the Winston Churchill Memorial Lecture on 18 October.

A Major Crisis

This vital matter will undoubtedly come up at the EEC summit meeting which will be held at the end of November. Mrs. Thatcher's requirement that the U.K. contribution should be in "broad balance", that is not being a net contributor to the EEC budget, will inevitably mean that the contribution from other countries would have to be increased to make up the loss. The P.M. said that Britain was looking for a decision on this issue at the two-day European Council meeting on November 29 and 30 "and no later". Prospects of success in this endeavour do not, at present, look very good. It seems clear, that unless there is a change of heart on the part of other countries, if Mrs. Thatcher remains adamant, there could be a major crisis on this issue.

Reform of the CAP

The Prime Minister also made it clear that in her opinion the Common Agricultural Policy "cannot go on as it is going at present". Having pointed out that more than 70 per cent of the total EEC budget went on paying for the CAP, she claimed that "the CAP must therefore be curtailed and the policy itself reformed".

Here it seems that she has to hand the means of cutting the CAP down to size. The looming question of budget replacement means that in about a year member governments will be asked to increase the percentage of their

value added tax they contribute to Brussels. When this happens, Mrs. Thatcher says that Britain will say "No". The CAP will have to change, otherwise the necessary finance will not be available in the future. The news that the Common Market has just begun to export surplus wheat at subsidised prices to prevent a "wheat mountain" reinforces the need for this change.

The Lamb Trade War

Besides these two serious questions which remain unresolved there are a number of other issues which are causing concern. The illegal curbs on imports of mutton and lamb from Britain to France has made it necessary for the Common Market Commissioner for Agriculture, Mr. Finn Gundelach, to issue a final warning to the French Farm Minister to obey the ruling made by the European Court of Justice on 25 September. The Court ruling "requires an immediate opening of the French borders without restrictions to the imports of mutton coming from Community member states". **Mr. Gundelach warned that "the European Community could not survive long if the rules of the Treaty of Rome and the judgment of the court were ignored or rejected by member states".**

When a trial consignment of British lamb was refused entry into France recently, it caused Mr. Tom Boden, deputy president of the National Farmers' Union to call on our Agriculture Minister, Mr. Peter Walker, to place import controls upon agricultural products from France. He said – "This is the only kind of language the French seem likely to understand". Mr. John Cameron, president of the Scottish NFU went even further, accusing France of "police state" tactics. No wonder the press has referred to this as "the Lamb Trade war!".

This underlines the way in which the Rome Treaty is having an adverse effect on the good neighbour relations and economic welfare of member states as well as other nations. Some time ago about 10,000 farmers in Limoges demonstrated against the courts ruling to reinforce the French government's stand. Writing in the 'Financial Times' on 17 October, John Cherrington showed that if the price of lamb fell towards the UK level by as little as 20 per cent, a large number of producers would have to go out of business. He commented – "All my informants insisted that New Zealand supplies are the key to the situation. They say unless they are controlled in some way there will be nothing to prevent the British eating New Zealand lamb while destroying the French market with their own".

New Zealand plays a fundamental role in the British market for sheep-meat, supplying about half of the market for lamb. **As a result of Britain's entry into the Common Market, a steep EEC tariff was imposed on NZ imports, but otherwise their huge trade in lamb and mutton has so far not been affected. If, as a result of new regulations, this trade is curtailed, the whole New Zealand economy will be in trouble.**

Fishing Policy

There is also trouble about fishing policy. The British government spokesman, Mr. Alick Buchanan-Smith, in dealing with the suggestion that the government might compromise on its stand on fisheries policy in return for a reduction in the British contribution to the Common Market budget said that our fisheries policy was "not up for trading". He made it clear that "the conservation of fish stocks is essential. This issue is crucial to the renegotiation of the Common Fisheries Policy". This complex issue is generating a good deal of acrimony within the Market. Reports are current that French fishermen are ignoring a Common Market ban on herring fishing, and that several tons of herring were recently landed at Boulogne fish docks. This can only add to the bitter controversy.

Another group which has become deeply disenchanted with the EEC is the Wool Textile Delegation. The Chairman, Mr. Tom Hibbett said recently – "I regret to say that the British wool textile industry has become very disenchanted with the EEC. When the referendum was held our trade organisations strongly supported continued membership and, in fact, organised a public relations campaign in favour of a positive vote".

"Our experience of EEC industrial and trade policy has, however, been bitterly disappointing. Developments in the past 18 months have progressively reduced our faith in the EEC. It seems political considerations are being allowed to override economic priorities such as the preservation of the EEC's textile and clothing industries". As a result, said Mr. Hibbert, jobs were being lost and the industry's technical and economic basis seriously undermined.

Another problem giving grounds for complaint is the flood of Golden Delicious apples from France which has swamped the British market. This season imports are 36 per cent higher than at the same time last year. UK growers are making plans to protect themselves for this influx.

The so-called "spy-in-the-cab" tachograph which Common Market regulations require to be fitted to all lorries is also causing dissension. The TGWU commercial group is calling for a series of weekly one-day strikes to prevent the planned introduction of the device.

A Mirage

Writing in 'The Sunday Telegraph' on 21 October, Peregrine Worsthorne suggested that during the 1980's "Western Europe is going to be unprecedently vulnerable to Soviet military pressure'. In summing up the EEC contribution to counter this threat he wrote – "the EEC is turning out to be as much a mirage as was the League of Nations. It is not even a paper tiger; more a paper pussycat. **In so far as it has produced anything, it is bad blood; inter-European rivalry rather than reconciliation. Because so many Western European statesmen have invested their entire careers in building it up, they are unwilling now to recognise the futility of their creation, just as their**

predecessors, for the same reason, were unwilling to recognise the futility of the Leage of Nations."

So much for all the great hopes of those who so vehemently urged British entry into the EEC. It is a sorry tale and it is little wonder that so many of the British people have become completely disillusioned with the entire concept.

THE EXCHANGE PATTERN – PART I
by SIR GEORGE BOLTON, KCMG.

The U.S. dollar is the subject of much debate generally around the length of the crisis and the conditions – political and economic – that will bring about a return to stability. The dollar/oil equation is believed by many to provide an answer, but this is a chicken and egg situation – was American inflation the reason why OPEC decided to increase the dollar price of oil? or was the continuing weakness of the dollar the main reason behind the decision? Arab sources have stated that American support for the Jews persuaded them to use the oil weapon, but it is possible that Israel was only an added inducement to increase the price of oil. Recently there has been an attempt by some members of the European Economic Community to produce a European Monetary System for the purpose of insulating the European trade system from the consequences of exchange fluctuations, particularly of the U.S. dollar. The System is hopelessly complex, needs continuous adjustment and so far offers little or no protection to European domestic and international trade. As the dollar fluctuates in response to anxieties about the competence of the American Government, the control of the European Monetary System becomes difficult to the point of being impossible.

Ever since the breakdown of the Bretton Woods system in 1970 there has been a constant search for an international monetary system which guarantees at least short periods of stability. So far no scheme has emerged which has appealed to banking systems and business and all those engaged in foreign trade. It is, I suggest, unlikely that arrangements based upon fixed relations between paper currencies will succeed in a world where paper money is issued by sovereign Governments subject only to the will or decisions of the individual Government. It is generally conveniently forgotten that the Bretton Woods system, conceived during the last war when in practice only two countries had to agree – viz: America and Britain – was based on a fixed price of gold, namely the U.S. dollar price of gold, and that every country admitted to membership of the Agreement had to establish either the real or notional weight of gold of their currency, thus fixing within narrow limits the possible fluctuation of the exchange value of each currency in terms of all the others. In practice, the Agreement which came into force at the Savannah Conference in February, 1946, was dependent upon the U.S. dollar which could be redeemed in gold by other Central Banks or

Finance Ministries provided that the Government of the country wanting to exchange dollars for gold obeyed certain rules. The system broke down when President Nixon refused to sell gold to foreign Central Banks after a period of substantial gold losses by the U.S. Treasury. Anxiety is growing regarding the possibility of the dollar becoming permanently suspect, unable to maintain a world price system or to continue the massive contribution to international capital demands or to carry the main burden of defence against Russian aggression.

Sterling as an international currency

During the first years of the 19th century Britain rested on the enormous territorial gains and wealth that had followed the end of the Napoleonic Wars, and eventually devised a gold standard system. Sterling became the sole international currency and London the main world capital market, but other countries, e.g. U.S.A. and Germany, were rising rapidly and their industries were becoming more efficient, and so far as the U.S.A. was concerned, a tidal wave of cheap labour was reaching them from Europe, especially Eastern Europe and Russia. Nevertheless, when the war broke out in August, 1914, practically all commodities traded internationally were priced in sterling through London and Liverpool commodity markets. The war was not short and sharp as expected by the military, and the politicans and the belligerents proceeded to destroy each other in a decision to fight to the bitter end. In the process America became the main source of supply of food and armaments, although other neutral countries helped to the maximum extent. Their wealth swelled rapidly, America more than the other neutrals, as the belligerents spent their inherited resources in payment including foreign exchange, gold and securities: in fact, anything that could be sold for dollars. In addition, loan arrangements were organised that would further impoverish Europe post-war if serious attempts were made to service the loans post-war. American industry prospered as it expanded under continuous demand which, towards the end, included American rearmament when they joined the war in 1917.

USA the Victor

The war ended with the Allies victorious, Germany prostrate, the Austrian Empire dismembered, Eastern Europe Balkanised and Russia in a state of revolution which was hailed as a victory of democracy and human rights and the end of aristocratic tyranny. But in reality there was only one victor – the United States of America which had become in four years the wealthiest country in the world with the strongest economy, a massive military capacity and an unrivalled standard of living. It was on this solid basis that the boom which began in 1914 continued until 1929, when the New York Stock Market

crash triggered off a deflation which nearly destroyed the American banking system and ushered in the world depression of the thirties. But up to 1929 America was the major source of international long-term capital as it became clearer that London and Europe were no longer capable of financing the development of their European empires.

It would be a total waste of time to argue about the reasons for the world depression, whether the New York Stock Exchange collapse was inevitable after a prolonged bout of speculation, or whether the American industry, under the impetus of foreign demand and the monetary consequences of importing a flood of gold from 1915 onwards, was bound to suffer a violent reaction when gold inflation ceased to operate. But there seems little doubt that the combination of a violent deflation from the fall in Stock Exchange values continued with the existence of a new and untried central bank system, wedded to so-called orthodox monetary theories, made disaster inevitable. Between 1929 and 1933 Capitalistic system staggered on from day to day waiting for something to turn up. Something did! – viz. the total disappearance of the international monetary system and and unwilling acceptance by politicians of unemployment, deflation and industrial decline. The rise of the monetary theorist into public and political prominence was an obvious consequence and the Keynesian school flourished alongside a growth in the attraction of Communism, Fascism, Nazism and similar authoritarian doctrines.

During this period the money and capital markets of London and New York continued to operate efficiently but fundamentally only in short-term money, and interest in long-term investment was insufficient to provide capital to a world suffering from an acute and growing shortage of investment. In these circumstances the domestic American situation gradually settled down, the British banking system continued to operate in what became called the "Sterling Area" and something like stability was restored. But the dollar remained a suspect currency and the gold market in London grew in size and importance. American unemployment remained very high until the second European war began. We then had a repetition of the 1914/18 period: unemployment disappeared, and in spite of this time America carrying the weight of the war, America emerged in 1946 the only financial and military power in the world. For a short time any threat of Soviet Russia was a potential power was rejected on the assumption that all Russia's industrial and manpower capacity would be needed to restore war damage and that in any event Communist organisation was incompetent.

The Allies – effectively the U.S.A., Britain, Canada and the Commonwealth members of the Sterling Area – had joined together from 1943 onwards to organise a post-war world that would avoid all the post-1918 mistakes, an idea strongly supported by the intellectual survivors who remembered the consequences of the American Congress' rejection of the League of Nations. The hub of the structure was to be the United Nations, from which would sprout a variety of specialist organisations such as the International Monetary Fund, the International Bank for Reconstruction and Development and others, some of whom survived and some died at birth. The domestic horror that politicians and officials wanted to avoid was the deflationary consequences of demobilisation and continuing and growing unemployment. The whole weight of the Keynesian doctrines were brought into play. The new generation of economist succeeded in persuading a majority of the public that any return to the gold standard would invite endemic deflation, unemployment, and prevent the introduction of the new panacea "planning" which would promote a policy of social welfare and so improve the position of the "under-privileged". The whole process was to be protected by the maintenance and expansion of exchange control. America opted for free markets and a modified gold standard and the dollar rapidly became the only world currency, sterling beginning a thirty-year decline in value and usefulness leading to the collapse of the Sterling Area and of the British Commonwealth.

Marshall Plan

Two major differences emerged compared with the First War, perhaps the most important being the discovery that Soviet Russia was an actual enemy with its own plans for world domination. There was also the fact that the two international institutions that had been established in Washington had neither the resources nor the will to reconstruct a devastated Europe, and so the Marshall Plan was formed by the American Government and avidly welcomed by the distressed European Governments especially British. The financial plan was rapidly followed by Nato, and the Western Powers accepted a foreign policy of resistance to Russian aggression. The enormous American contribution was the strategic positioning of military and air forces in Western Europe, Japan, Korea, the Caribbean, etc., and with complementary naval forces. Very expensive wars were fought in Korea and Indo-China, and equally expensive activities took place in the fields of nuclear development and space exploration.

American industry and finance had not suffered post-1946 from demobilisation and post-war deflation, nor had there been, apart from occasional disturbances, a world depression similar to the conditions of the 1930s. America became attuned to the siren song of a permanent shortage of dollars, to her permanent military superiority and her God-given burden of maintaining the peace of the world and imposing her own political system on a world aching for guidance and leadership. In this atmosphere no American Government gave serious thought to the economic consequences of maintaining a huge burden of armaments; armies abroad, especially the consequences of Nato; fighting hideously expensive wars such as Korea and Vietnam; and protecting the marine flanks of land positions by the maintenance of complete

fleets at sea. While this foreign and strategic policy was developed and accepted it was assumed that the American standard of life could be maintained and even increased.

The withdrawal of gold payments in 1970 was the first public defeat of American monetary policy and the consequential attempt to convince the world that the paper dollar was as good as gold made many observers conscious for the first time that the American Government was unaware that the fundamental foundation of the American economy was damaged beyond repair. A further manifestation of this charge occurred when the OPEC countries decided to quadruple the price of crude oil: the only reaction from American monetary authorities was to advertise the importance of recycling the enormous dollar balances of the OPEC countries. During the last ten years there has been a visible erosion of American self-confidence and yet American Government policy continues as though nothing has changed and that the present discomforts are temporary and can be ignored.

It is, of course, arguable that American wealth and prosperity in the first period of boom years beginning in 1915 and ending in 1929 and in the second period beginning in 1939 and ending in, say, 1960, had only a secondary connection with economic consequences of the two wars, and that American supremacy was inevitable. But there can be no doubt that war provides an unusual stimulus, especially if the survival of the community is involved and the "arsenal of democracy" viz: U.S.A., protected by geography from invasion would enjoy the greatest benefits from all the modern inventions and technology produced by the belligerents.

Fall of the Dollar

My thesis is that America had worked through the monetary, industrial and technical inheritance of the Second War by about 1965 but has continued to behave as though the immediate post-war situation represented permanency. An unsustainable foreign policy, unbalanced budgets, adverse balances of payments, declining industries and weak, indecisive Governments have all made their contribution towards the declining purchasing power of the dollar and its fall in relation to other currencies (including sterling) in the Foreign Exchange Markets. In these circumstances it is unlikely that sterling will depreciate against the dollar as the markets are likely to be influenced more by political realities than by statistics. There are genuine fears of something in the nature of a political crisis in Washington while Britain enjoys a strong Government with a guaranteed life of five years.

Demise of Sterling System

The demise of the sterling system not only as the centre of an international monetary system but also as a commodity pricing media can be dated from

1952 when the second Churchill Government decided to continue the financial control system they had inherited from wartime, reinforced by the policies and techniques of the post-war Atlee Government. The then Chancellor, now Lord Butler, aided by the Bank of England and senior Civil Servant, made a valiant initial attempt to restore a market economy and in the early stages commodity bullion and exchange markets were re-opened. But the effort died away as tired old men, fear, prejudice and the influence of the new economists dominated political decisions.

From 1952 onwards the British financial and political organisation degenerated, the Suez fiasco was an additional adverse stimulant, until today the sterling system has disappeared together with the Empire and Commonwealth, and Exchange Control is more comprehensive and all-pervading than it ever was at the worst moments of the war. It is impossible nowadays to defend controls and planning on the grounds that Britain has been saved by them from currency depreciation, unemployment, rising prices, inflation and a falling standard of living, because we now have the comparison between Britain's troubled post-war history and the success of those countries, e.g. Germany and Japan, who followed policies of individual freedom and market economies. Hopefully Britain now has a government determined to suppress the virus of inflation which has flourished during the post-war period when it was believed that comprehensive controls could isolate the British economy from the consequences of world movements.

In these disturbed times it is foolish to indulge in precise forecasts about foreign exchange markets and the future of individual currencies. Current economic uncertainties are made worse by anxieties arising from the growing influence of Soviet Russia aided by surrogate territorial conquests and a materialistic religion which purports to take from the rich and give to the poor. Yet there are certain conclusions which can be drawn which might serve as guides to future events. It is impossible to recapture the past, and political movements pressing for the restoration of stability, growth and rising standards of living are likely to be doomed to failure. While it may be a difficult conception unlikely to secure acceptance, it may be possible that we are about to experience "normal times" where mediocrity prevails and leadership cannot flourish as there are no great causes to inspire mankind.

America having exhausted the proceeds and impetus of two wars, faces a period of relative decline which will be resisted by rich and poor alike under the illusion that in spite of the lessons that could be drawn from twenty years of gradual change, stability and prosperity will return. Irresolute Governments at the mercy of forces they do not understand will add to confusion and the economic processes could become progressively difficult to maintain. The dollar will not retain its dominant international role and will fluctuate generally downwards; unemployment will remain high; the role of defending the Western World will gradually be restricted to an absolute minimum, and

Western Europe will be expected to become responsible for its own defence. The maintenance of a solvent banking system will be a priority, otherwise communities will tend to become isolated from each other. The provenance of energy and water, which together keep the massive industrial machine in a condition of high production, will require constant attention, and America and Canada should have the vision to organise a North American National Resources Policy mutually beneficial and designed to help maintain Western civilisation. There should be less emphasis on the philosophy of "human rights" and instead there should be a greater understanding of the undeniable fact that the human child is born without any "rights" whatsoever. What passes for "rights" represents the inheritance of the work of past generations to improve the lot of the living and it is this inheritance which is under attack today.

I have concentrated attention on the U.S.A. and the dollar with only brief references to other countries as I firmly believe that the survival of Western Civilisation depends on the existence of a strong North America. If China could be brought into the Western ambit then the strategic balance could be restored, but it would be imprudent to assume that this could be done in less than ten to fifteen years. There are also many other influences at work which may change the course of history; for example, technology which could result in the permanent unemployment of the unskilled with major political consequences. My general conclusion is that for the remainder of this century the pursuit of "stability" will prove to be a mirage and that instability will be the normal condition in trade, business, banking and politics. The race for survival will be won by the intelligent.

(Part II will appear in our next issue)

CORRESPONDENCE

Dear Editor,

Although I note that you do not appear to publish letters in 'Britain and Overseas', I write this letter in case you may feel able to make an exception, since I have brief criticism of Sir George Bolton's otherwise interesting and erudite article in the Summer, 1979, edition.

I take issue where, in his last paragraph, Sir George blames 'the monetary gymnasts for destroying belief in paper money ....', for it is not monetary gymnasts who have done that, but it is those who are and have been so busily engaged in cutting off the limbs of our civilisation to spite its face, because they feel the internal distribution of productive energy has gone wrong. "Metallic convertibility" would hinder rather than help it. I firmly believe that the only true redemptive philosophy for monetary systems in high technology Economies is to ensure that positive provision is made for balancing the rate of money flowing through an Economy per day by the rate of productive manhour flow per day; because, be he rich or be he poor, or be he strong or be he weak, no-one can in fact get out of an Economy per day more than is put into it per day, or per any other chosen unit of time.

When a monetary system is properly geared to that fundamental principle of our physical existence, inflation will be swallowed up in stability and corruption will wilt under the sun of righteousness.

5.10.79 Yours sincerely

Christopher Havergal.
Newbury, Berkshire.

THE RESPONSIBLE SOCIETY:

COULD IT CURE BOTH INFLATION AND UNEMPLOYMENT?

by M.A. Cameron

'The Responsible Society' is the title of a book published in America in 1977 by Regina Ryan, Two Continents, 30 East 42nd St. New York 10017, which I have recently read. It can be bought here for £3.05 through any bookseller who will order it from the publishers, and can also be obtained through our public libraries.

The authors are two Czechs from strongly contrasting backgrounds. Stephen Roman is 58, Chairman and Chief Executive Officer of Denison Mines Ltd. of Canada, which owns one of the world's largest uranium mines. He is a Knight Commander of the Catholic Order of St. Gregory The Great, and Chairman of the Slovak World Congress.

The other author, Eugen Loebl, is now 72. He became a leading Marxist theorist, and as head of the Czech Ministry of Foreign Trade after World War II, he developed trade with the West. He was therefore arrested by the Russians in 1949, and in 1952 sentenced to life imprisonment. Released after 11 years (including 5 years 'solitary') and at first forced to work as a manual labourer, in 1963 he became Director of the State Bank; but when the Russians invaded Czechoslovakia in 1968 and ended the Dubcek regime, Loebl escaped to the West. After lecturing in Germany, and one semester as Professor of Economics at the University of Southern Illinois, he became Professor of Political Science and Economics at the prestigious Vassar College, until retirement in 1976.

Eugen Loebl has written 'Humanomics', on which Peter Drucker commented 'At least a humanist economics, post Marxism, post Keynesism, an economics in which the human spirit and human knowledge are in the

centre. This is a truly important book, one that should make a profound and lasting impact'. The Responsible Society is a sequel in which the theme of 'Humanomics' is developed further in partnership with a highly successful business entrepreneur.

The Theme of the Book

The two authors suggest that conventional economists have gone astray through a natural science approach to a social science subject. So long as the economy is seen as merely a means of allocating scarce resources, and economists confine themselves to phenomena that can be measured and analysed, economics ignores human values and becomes just a sophisticated form of book-keeping, and not a tool that can really help to solve our economic problems. We need to focus on why the economy works as it does, rather than how.

After a critical glance at the ideas of Adam Smith and Karl Marx, and a brief look at the history of money, Roman and Loebl suggest that we have failed to notice the basic changes that happened when commodity money was replaced by the 'promise to pay'; commodity backed promises to pay by paper money; and paper money by credit, when circulation becomes largely a matter of book entries. Then what matters is not the amount of credit available but the purpose for which it is being used. The concept of a 'money supply' is then more of a fiction than a fact of economic reality; the real issue is providing the amount of credit needed in an economy functioning with full employment.

Proposals

From this comes the main proposal; that the Central Bank would be required by the Government to issue interest-free credit to independent commercial banks, who would then be able to issue credit to their customers at rates just high enough to cover their operating costs, risks and profits. Banks would continue to accept savings deposits, but would not pay interest on them, and so could offer loans and mortgages at 3% or 4% (though building societies would no doubt continue to deal with mortgages). The Commercial Banks would be responsible for issuing credit only to enterprises which were or could become viable, and able to repay their loans in due course. Under no circumstances would the Central Bank create credit relationships with individual business enterprises, but only with the commercial banks.

Gone would be the accepted but harmful concept of Government spending (except on services for which the Government itself must pay, such as Defence, Law and Order, Govt. representation abroad, social relief and other similar items, and central administration). Government spending would be replaced by Government lending, offering the banking system credits free of charge, to provide the economy with all the credit needed to maintain full employment, with the provisos that the credit issued would be used for productive purposes, and would be repaid.

Government spending, rightly urged by Keynes when economies were grinding to a halt through collapse of demand, has now become not only a justification for, but an invitation to inflation, with all its consequences. Government spending creates debts on which interest has to be paid, which in turn is charged to the people in the form of taxes. (Consider the interest burden now imposed by the National Debt, and the continuing expansion of Government borrowing). Taxes are in turn projected into prices, and so devaluate the very money the Government issues. Inflation is then fought by increases in the rate of interest, decreases in the money supply, and even by the creation of unemployment.

By giving 'credit' to the nation via the Central Bank and the commercial banks, the Government avoids direct interference with business enterprises; and economic efficiency in itself becomes the responsibility of business enterprises. But some of the credit given through the banks could be earmarked for specific purposes, such as roads, schools and houses.

Investment would be stimulated by expectations of what business could do once the cost of any loans they required had come down to the level necessary to cover the operating costs of the banks – 3% or 4% instead of 10% – 15%. Expecting a healthy economy would promote productive economic activity, and if responsibility, initiative and creativity are incorporated into the economic system, these qualities would emerge in the individuals who make up the system.

Stable Prices and Profit Sharing

The need for stable prices is strongly emphasised, to make real wages and salaries stable. Roughly 50% of the prices of consumer goods and services represents accumulated taxes (U.S. figures), 40% wages and salaries, and less than 10% pre-tax profit. So the Government must reduce its Budget (not too difficult when interest free credit is used). Real wages could only be increased by higher productivity, allowing lower prices. This will also increase profits, and these must be shared among all who contribute to them. Unions would help when they see their members as consumers as well as producers.

With imports subject to unexpected cost changes (OPEC) a special fund could be set up to compensate for cost increases, fed perhaps by a 'skimming' (selective) sales tax, mainly on luxuries. This 'skimming' tax would be easy to administer, and would be variable, so that it could help to redistribute income.

The need for initiative, responsibility and creativity is strongly emphasised, as is the need to reduce bureaucracy, e.g. on the tax front, where Government lending, by replacing the general concept of Government spending, would ease matters considerably.

If ordinary personal income tax is to be abolished (as is suggested) there should be a progressive 'social share' tax which would not be channeled into the general Budget, but used for direct help to those who need it, and support for cultural activities. This tax would not be applied to profit sharing, which is stressed as an essential element of the new society.

Human Values

Democratic socialism which (as in Sweden) erodes personal responsibility by guaranteeing rewards to everyone simply because they exist and not because they contribute to the wellbeing of the community, is regarded as dangerous, leading to a decline of morale and rising inflation.

Our present economy is too much influenced by a philosophy which sees the capital/labour relationship as inherently antagonistic, whereas labour and capital should be an integrated organic unit.

'Man does not live by bread alone.' Technocrats offer us bread but ask us to pay for it with our humanity. Marxism appeals through pretended concern for human problems; and if we accept our present system with its unemployment and inflation, we fail to check the appeal of Marxism.

The authors know the importance of material incentives, but emphasise that human values must be dominant. Science and technology are only means, not ends in themselves. Adam Smith wrote about the 'invisible hand' that transmuted self interest into common benefits. We need the 'visible hand' of a sensitive Government creating conditions to channel the actions of free labour and free enterprise toward the interests of a free nation.

Our economy has become geared to the interests of powerful components rather than to those of the consumer. Trade Unions are beginning to concentrate so much power in their hands that they become more and more like Communist Governments, which have concentrated all power in their hands. The problem is how to project the humanistic values of the Judeo-Christian philosophy not only into the realms of our ethical behaviour, but also into the economic system. We need to reduce the tremendous power of the Government and make it the servant rather the master of the economy. A free enterprise system is possible only in a democracy; and democracy is only possible under the conditions of free enterprise.

In Jugoslavia, workers' councils are concerned with the profit of their own enterprise, and not with the needs of the economy as a whole or with consumers' rights. The result is severe inflation. What workers gain as workers they lose as consumers.

Worker participation as worked out in Sweden becomes trade union participation, which is a different matter. 1.8 million of Swedes are workers, in a population of 20 million. This threatens dictatorship by a minority. Worker participation on managerial questions is pseudo-democratic and economically detrimental.

Multi-nationals are vehicles for progress and can help to bridge the wealth-poverty gap across the world.

Conclusions

This book suggests a revolutionary (in the best sense) approach to problems which so far we have found insoluble. In their final paragraph, the authors emphasise that this book is not a blue print, nor does it claim to reveal absolute truth. It is a challenge to others to discuss the authors' views, improve the proposals where the authors have failed or made mistakes, and show further ways to build a humane and responsible society.

There are of course plenty of unanswered questions, e.g. what happens to Government stocks? Interest would have to be gradually phased out. Investors in industry would continue to receive dividends, but how much would these be reduced (at least initially) by profit sharing, which is an essential part of these proposals?

What would be the reactions of trade unions to changes which would transform their role (and sharply reduce their power) from antagonism and blind focus of money wages to cooperation and concern, shared with employers, about productivity and real wages? Readers of this article will have plenty of other points to raise, especially when they have read the book, and appreciated the importance it derives from its authorship, one author a millionaire, with wide practical experience of business in the Western world, and other an ex Marxist professor, who had plenty of time (five years solitary confinement by Marxists) to re-think his Marxism.

A MATTER OF GRAVE CONCERN

The relative decline of this country, is now widely seen as a matter of grave concern. If allowed to continue, it would seem only too likely to lead to growing impoverishment and unemployment in the years to come. To get the economy back to a healthier state to re-establish stability and regain the conditions for resumed expansion – will require, not only continued firmness in monetary policy, but changes in attitude in the country generally. The more fully this is recognised the earlier economic recovery is likely to be.

Extract from the Bank of England Quarterly Bulletin, September 1979