



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

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21ST CENTURY MOTOR INDUSTRY ECONOMICS

*Extracts from a talk given by Garel Rhys CBE, Emeritus Professor
and Director of the Centre for Automotive Research
at the Business School of Cardiff University*

The automotive sector is an area that economists have been very interested in since the 1920s. Following an early demand study there have been over 350 top-class econometric studies looking at the demand function for cars – though rather few for trucks and buses. Trucks and buses form a very large part of the industry but perhaps studying them is too difficult – or more likely not Freudian or sexy enough!

Data for micro-economic analysis

This is an industry where there is a lot of data produced every year. Car companies know exactly how much they produce and what their rivals produce and so on, which, of course, researchers like. Paradoxically, whilst in the world of theory ‘perfect knowledge’ is supposed to lead to ‘perfect competition’, in the real world, according to the European Commission, such a lot of knowledge helps companies to perhaps work out some oligopolist strategies or create a cartel.

But it is a highly rivalrous rather than a tight oligopoly. On occasions it behaves as if it were in perfect competition, and indeed at the moment we are in a phase of ultra-competition in the industry. The structure might be oligopolistic but the behaviour is highly competitive.

Also, we look into it in terms of the nature of the demand curve and the cost curves. We are very interested in economies of scale and in finding the optimum size of each firm. Again there is a contrast – the textbooks talk about U-shaped cost curves but in the real world it is either going down in steps for ever or it is L-shaped – presumably because companies with rising costs have gone bust. Since the optimum scale where unit costs are as low as they possibly can be, is large, there is only a limited number of firms which can exist in the available market. This leads to seemingly endless consolidation but luckily for you and I as consumers, as some firms fall off the table so to speak (they don’t go bankrupt, very rarely does that happen), new ones come on to it. So we will eventually have stand-alone Chinese companies, probably stand-alone Indian companies, perhaps a Russian one, the Japanese and at least one Korean company joining the

actors on the stage, which makes sure that it is a contestable market in which you and I as consumers can therefore get a very good deal.

But predictions are often wrong

There have been many instances of ‘cry wolf’. I read a paper in the 1970s looking at new centres of vehicle production. One was Spain, another was Brazil. Nobody mentioned Korea or Thailand and so on, but Brazil or South America was bound to become an area where 8 million cars per year were going to be produced within twenty years – by 1996. It never happened. The total number for all of South America in 1996 was under 2 million.

Ten years ago people were saying that the Japanese were going to crush the motor industries in Western Europe and North America, that there would be practically nothing left. But that has not happened so we should be careful when people now say that the Chinese are coming and we may as well shut up shop.

In Europe’s case because protection worked

Our car industry survived because we learned from the Japanese. About a third of world trade has been subject to ‘Voluntary Export Restraints’, theoretically conducted by industry whereby exporters are asked to exercise restraint. The industry in one country says to the industry in another ‘you are not dumping, you are doing nothing wrong, but for goodness’ sake take your hands away from the throat of this industry of ours’. This is all outside of the WTO or GATT. The Italians had something that pre-dated VERs called the ‘Mussolini Quotas’ (which shows how old the idea was) allowing just 10,000 Japanese cars into Italy up until the 1990s. The French had a similar quota and if the Japanese showed signs of going above that, the one Customs Officer in France that could do the documentation mysteriously had flu and the vehicles were held up at the docks.

Britain also had a restraint. The figure was never discussed, but it was always around 11% of the market. There was an implicit threat that if they didn’t stick to that we would stop their cars coming in totally. Arguably, this led to the investments by Toyota, Honda and Nissan in the UK because then they were able to get around that restraint. Those plants are now the most productive in Europe. If you look at output per man (output per man is a very soviet measure – you should really be looking at value added – but that is the way they do it), Nissan is always over 100 cars per man

per year, Toyota is in the 90s and Honda in the 80s. There is nothing in Western Europe that can touch that, so they showed that you could make this product very well in the UK.

The ‘Not a British car industry’

However, what we have in Britain is ‘a motor industry in Britain’ rather than a ‘British motor industry’. It is a very different thing. There is a German motor industry, it is owned by them. But there are virtually no vehicle firms owned by British, only tiny ones, and not all of those. And most of the very big component firms are also foreign-owned. But in some ways we have got the strongest motor industry we have ever had. The export proportion from Britain is over 80% – over one million units. We have never achieved anything like that before. At the same time however, a similar number of cars are imported. So we make cars for the rest of the world and the rest of the world sell their cars here – that’s international trade with differentiated products. Cars made in Britain are wanted around the world. There is no problem with quality. There is no problem with dealers as there was in the 1970s when, for example, Swiss dealers went into revolt and said ‘if you try to push Escorts into Switzerland that are made in Britain, we won’t sell them because we have had enough of trying to rebuild them’.

So we do have a motor industry in Britain. But it is slipping down the league table. In terms of production of cars it is now 11th in the world and in terms of commercial vehicles, 15th. In the last two years India and Brazil have passed the USA. Nonetheless, 20% of the value of manufactured exports from the UK are products of the motor industry and the industry has an enormous impact on the economy.

Demand growth, the triad and beyond

Up until now four out of five cars have been sold in what we call the triad – Western Europe, North America and Japan. In terms of commercial vehicles the proportion is much lower because commercial vehicles are an ‘investment good’ needed everywhere.

The growth in the number of cars purchased depends on two factors – income elasticity of demand and increasing economies of scale. It was a failure to take these two factors into account which led the Society of Motor Manufacturers and Traders, to publish a report in the 1920s, saying

that the total number of cars on the roads in Britain would only reach just under 4 million. It is now 31 million. In short, as vehicles became affordable, there was a take-off in demand.

That is clearly the way that the demand for this product increases around the world. The rich economies have dominated the market – the triad. But now it is beginning to change elsewhere. In America, the number of people per car (combining cars and so-called trucks or SUVs etc. – in Western Europe the Land Rover is a car, in North America it is a truck) is 1.8, in Western Europe 2 whilst in Japan, because of congestion, it is about 2.2.

But if the demand for cars is proportional to incomes, wealth and low costs, it is to a very, very small degree, inversely proportional to population density. Population density is a proxy for many things. If you have a very dense population it means that the roads are clogged. It means that you have extensive public transport systems. My daughter lives in London; she doesn't own a car. London is about the one place in Britain where you can get away with it. You can't do that in any of the other conurbations. The more dense the population, the larger will be the number of people at the margin who decide not to have a car. Elsewhere, in Australia for example, where the nearest neighbour might be 30 miles away, the car is essential and people there will buy a car out of a lower income and at a higher price, than they will elsewhere.

In India at the moment the number of people per car is 90 and in China it is 72. Let's not get too excited about that, but as incomes grow you can hopefully unlock the difference between 2 and 90, and there's that yummy-yum 88 to be aspired to. By 2030 there is likely to be 85 million cars in China – that is more than the total stock in Germany and Britain combined, more than the 55 million in Japan and almost the same number as in the USA. But wise industry chiefs, whilst looking to the growth markets, will also focus on the triad. You want them both.

Winners and losers

Japan is no longer a Japanese threat – it is a Toyota threat. Most of the other Japanese companies are pretty insignificant. Nissan and Honda have 14% each of the Japanese market, Suzuki has 11%, but Toyota has more than the three combined – 42%. It is the General Motors of the 1930s to the 1960s when GM had 50% of the American market. It is interesting to see how this dominant firm oligopoly operates. Four years ago, Honda had

the effrontery to take the leadership in sales per model. Toyota didn't have the best selling car and this was an absolute affront to Toyota. Instructions went out to their various dealer channels (they don't have one set of dealer networks, they have five channels. Some people sell the Corolla but not all of them, some of them sell the Corolla and another model – so they have five bites at the cherry. Although they have got 42% of the market no dealer can access 42%. It is very, very Asian.) The message went out 'teach Honda a lesson', and Honda's market share the following year went down from the 19% they had got to 14% – five percentage points. It was a blood-letting, and nobody has tried since to take on that first place. So in Japan the motor industry is competitive but with a dominant firm holding a great deal of market power.

In the USA, General Motors has been No. 1 since 1931 and still is, but it is a weak No. 1. GM's market share has been nibbled away at and three years ago something quite dramatic happened. For the first time since the industry emerged as an industry in the first decade of the 20th century, the American manufacturers (the Americans still include Chrysler since they can't get their head around the idea that it is actually German-owned by Mercedes Benz) had less than 50% of their home market. The Japanese companies in America have taken a huge jump and at the moment Toyota is No. 3 in car sales in America and closing in on Ford, and could if present trends continue be the No. 1 car seller in the United States of America in five years' time.

What keeps the Americans afloat are leisure purpose trucks – the pick-ups, the SUVs and the people carriers (which they call minivans). In a way these are very risky products. Is a 4X4 ideal for going in to New York or a pick-up truck ideal for downtown Los Angeles? This all came about largely because the Americans imposed penalties on car makers if their average consumption went above a limit. But this didn't apply to trucks so people piled into trucks. And the American car makers pushed them in the market when they found that for every \$1 profit they made in cars they made \$10 in trucks. Fine – but they took their eyes off the car ball. Well, you would. That's not where you made the money. That's what the signal was telling you. But it is short-term because eventually the Americans may wake up and say 'this is ridiculous, driving into downtown New York in a 4X4 with a 7-litre engine is absurd'. It is beginning to happen; there is a turning against that sort of product. Now the American manufacturers have nowhere to go. They have lost their car market, and market share in Europe and some of their purchases look questionable. Land Rover is for sale, and

probably Volvo also. They are highly vulnerable and it could well be that as independent entities they won't last more than five or six years.

Phoenix car companies

Companies do come back in this industry. Nissan and Fiat are cited as examples. But how far do they come back? Yes Fiat is improving its position but it is nowhere near where it was in 1990. In 1990 Fiat was vying with Volkswagen for first place in Europe but last year the Fiat group had only 6.6% of the market having come back by 2 or 3 percentage points. But is that a 'dead cats bounce'? Fiat themselves realise they can't stay independent and if you remember a couple of years ago they wanted General Motors to buy them. General Motors, in order to get out of that deal, paid Fiat £1 billion saying 'we don't want to buy you because we are in a state and you are in a state, and two drowning men don't make a swimmer'.

The future for China and India

In the early part of the 20th century, as the encyclopaedias record, there was a very large number of car companies. In America there were well over a thousand. Britain had over 600 and the French had 300 – astonishing numbers. But within twenty years the battle of blood letting was such that the numbers came down, in each case, to a handful. It is amazing how quickly the industry became mature. From 1900 up to 1910, companies were able to come in, thousands of them but by 1920 to 1930 the modern shape, today's shape of the industry, was in place. In the West, very few companies have entered the motor industry and succeeded in the post-war period. The only one actually is a special case – Volkswagen.

The process has a long way to go in the 'new' manufacturing nations. In India there are 13 companies, in South Africa 12, in Thailand 11: a lot, far too many for the size of the market. In China there are 123 firms but I prefer to call them contractors and it is a complicated picture. Contracts are spread around many suppliers both foreign such as Volkswagen and General Motors, and Chinese where the biggest two are Shanghai Automotive and First Automotive Works – which come from different provinces and different units of the People's Liberation Army. Volkswagen in turn produces 723,000 vehicles divided on contract between the two. It is highly fragmented and there will be a degree of blood letting.

Anyway, last year 83% of production in China was with joint ventures

and only 17% was from Chinese companies, so when people say that the Chinese are going to come over the horizon, what do they mean? The British motor industry is coming over the horizon to America – with British built Toyotas, Nissans and Hondas. That is what we shall get from China over the next 15 years – Chinese-made Hondas (already arriving), Toyotas and the rest, and it will take longer for the Chinese to build up their own industry.

And the future power for all these cars

New power sources and engines take a long time to develop and so we should look perhaps 20 years ahead. To make fuel cells viable they will have to be lighter and they will have to be smaller and of course they will have to be a lot cheaper.

It might be hydrogen – might be – there are colleagues of mine in the University Physics Department – who say it might be. But they also say don't forget zinc – God knows why, but evidently it is a possibility that that could be the Alchemist's Stone. These may happen but what will we use in the meantime?

Suddenly we have to measure the CO₂ footprint 'from the weld to the tank' and 'from the tank to the wheel'. Many of the bio-fuels take a lot of CO₂ in their manufacture. The best ethanol – ethanol is ethanol but you can make it in various ways – is from sugar cane because you can use nearly all the sugar cane and all the waste. With corn and wheat it is very marginal in terms of what it does to the CO₂ if you look at the entire spread of what is happening.

Hybrid vehicles? Yes. Toyota has got a very good hybrid vehicle on the road, the Prius. It has just gone through its millionth sale, but it has taken seven years to get there. It is a hybrid which is expensive to run, to service, it has not got a very good record in repairs, and it is on the margin basically. But hybrid is probably a very, very good route for the industry to go down technically, and hopefully the economics might start to stack up.

So technical solutions exist but we don't know how plausible many of them are. There are many solutions but at present not one of them stands out against the others. Rather than push any through taxes and subsidies Governments prefer to wait for the market to come up with the way forward.

Look at what happened a century ago when it was by no means certain that the internal combustion engine powered by petrol would win out. At

the time the learned journals expected the battery (which had been around since the 1840s) to be it – but it wasn't. Then there were fantastic steam cars and tremendous steam lorries. I remember a Sentinel steam lorry crashing into a Barclays Bank in the village near where I lived in the early 1950s. The last ones on the road lasted until just after the Suez crisis – because coal was not rationed. We could have had those technologies but no, it was petrol that won out, and then diesel came to join them.

This time it might be different. It might be that buses will be powered by gas in one form, CNG or LPG. Heavy lorries will probably have clean diesel. Cars could use a variety of fuels. Already you can buy a Volvo which will run on ethanol, bio-fuel, but turn a lever and another tank with petrol opens. This helps solve the problems of diffusion – it is going to be some time before ethanol is available at sufficient pumps.

It is going to take time but the CO₂ issue will not go away. The industry will most likely come up with solutions as it has done in the past. Let's hope that it does because so much of the British economy, of the European economy and of the world economy depends in one way or another on the motor industry.

THE COSTS OF UK MEMBERSHIP OF THE EU

*Extracts from a Speech Given in the House of Lords on 8th June 2007
by the Lord Vinson LVO DL*

Day after day and week after week, changes are happening to the governance of this country and to our unwritten constitution of which today the British public are not generally aware. At Westminster, there is almost a conspiracy of silence regarding this intensely important issue. I realise that many on the opposite benches welcome the surreptitious transfer of sovereignty to the EU. Presumably, when they see how inept the present Government are, they welcome any other form of administration. After 10 years of a Labour Government, I am not surprised that they have more confidence in the ability of others to manage our affairs. However, one has to ask why, and at what cost?

To many of us, the dream of Europe has turned sour. Here in the

UK, our infrastructure is a shambles. We look like a third world country in contrast to the ports, roads and airports that one sees when one visits Spain, Portugal and Ireland; many of them have been generously paid for with the help of our money. The noble Lord, Lord Pearson, referred to the billions of pounds that we pay relative to the rebate that we get back. Just think what could be done to our infrastructure – our railways or roads – if we had kept that money and administered it ourselves.

Even more serious than the direct cost is the hidden cost of the never-ending cascade of EU regulations. The noble Baroness, Lady Noakes, made that point well. Some of those regulations may be helpful but the vast majority are unnecessary. The cumulative effect of those regulations – last year alone, there were more than 2,000 – is very damaging, as is reflected in the UK's declining productivity.

It is all very well to talk about the grand design of Europe but every now and again one has to see how in reality it affects other people's lives. One needs to remember that the macro-economy is the micro-economy writ large. Take, for example, the way in which the working time directive is beginning to affect the management of old people's homes. Sleeping in is now being classified as being on call and that counts as work. Consequently, the housekeeper who worked during the day is now no longer allowed to work overnight. Thus it is deemed that she need no longer be supplied with a flat. So she now has to pay tax on the estimated rental value of that flat and an extra employee has to be taken on to cover nights. That is a huge and wholly unnecessary addition to costs. This type of nonsense has been repeated thousands of times throughout the British economy. Increasingly, we see the damaging effect on drivers' hours, junior doctors' hours and even recruitment to the TA; all are choking on red tape.*

That illustrates how our opt-outs, with regard to the working time directive, are being continually eroded. Rather than helping the British economy, we are now restricting our freedom to create the free and flexible economy that we need to succeed in the 21st century. The harmonisation of working hours is upon us; tax harmonisation will be next, to be followed by overtime restrictions. Overtime is the essential mechanism in a market economy that helps to bring supply and demand together. Limitations on voluntary overtime would be deeply resisted by the working man, as it is one of the few routes that he has to self-betterment.

* 'The total administrative burden on business, charities and the voluntary sector in England derived from EU legislation is approximately £6.3 billion per annum' Official Report, 15/5/07, col. WA23.

It is through the window of such regulations that the British see the EU, and they do not like it. Not surprisingly, they are disenchanted. The reality is very different from the noble vision that is held by so many in Westminster. I am sorry that the noble Lord, Lord Watson of Richmond, is not in his place. All those ex-Eurocrats who are enjoying the comfort of their pensions should descend from their ivory towers and see the world as it is. The British people hate the impact of this bossy, regulatory approach by which new laws and interdictions endlessly necessitate the employment of new taxpayer-funded officials to enforce them.

I wonder how many people are aware that you can be fined £5,000 for burning a window envelope, as it is now illegal to burn plastic on an open hearth. You can bury a pet dog but you cannot bury a pet lamb. On the wider national scene, one cannot even deport convicted criminals who came to our country as illegal immigrants. Excessive regulation leaves no room for natural morality and common sense. Those sorts of nonsenses undermine the average citizen's regard for the law, greatly to our national detriment. The more laws there are, the more they get broken.

As we adopt EU laws, we are, without recognising it, also changing the whole nature of our society. The tangible effects are obvious; the intangible effects are a cause for even greater concern. We take for granted our natural liberties without realising that these stem from common law. Under common law, everything is allowed except that which is not allowed. Roman law – EU law – works the other way round: nothing is allowed except that which is allowed. So, as we harmonise our laws with those of the EU, we are changing the whole relationship of the citizen to the state. The citizen becomes subservient, and civil servants are no longer servants to the public but masters. I give an example. Only last week, the Government announced that pregnant women 'must not' – not 'should not' – drink because they might overdo it and not drink in moderation. What does this do to the national psyche? It means that gradually our respect for government and the law changes into disrespect. A caring Government become an oppressive Government. We are destroying the Britain that we love and know.

That is compounded by the underlying weakness of the EU: its democratic deficit. It does not have a democratic structure, and the trappings that exist are largely a sham. There is no electorate to which the major EU institutions are generally responsible, and it is virtually impossible to unscramble bad regulation. The UK carries only 8 per cent of the voting powers, and most change needs unanimity. The undemocratic nature of the EU can clearly be shown by the fact that our own Westminster

scrutiny committee has passed 157 resolutions from the Lords and 180 resolutions from the Commons seeking change, and every one of them has been overridden. We thus have ‘regulation without rectification’ the direct descendant of that which caused the American War of Independence: ‘taxation without representation’.

It is the impotence of EU citizens, faced with no effective way of controlling what the EU does, that has done so much harm and led to the failing support for the EU. They see that micro-management does not work and they cannot do anything about it. I suggest that the chances of reforming it are almost negligible.

The EU is largely run by an unelected Commission buttressed by unelected judges at the Luxembourg Court. The European Parliament is a consultative assembly, not a Parliament which can decide who the Government should be and whom the electorate can dismiss when it has lost confidence, and the power wielded by the EU machinery of government steadily increases. One has to remember that, sadly, there are many Euro-philés who want to see the disintegration of the nation state.

It is the job of this House to make it clear that European integration by the back door amounts to a revolution of how our country is governed. If Members of this and the other place want to give our freedoms away in perpetuity, they should at least have the decency to ask the electorate first. I remind them that they got it wrong over the euro – we have done very well outside it – and they will get it even more wrong with further integration. If they say that we should be at the centre of Europe to command it and help it more, I also remind them that being at the heart of Europe when we had the presidency got us absolutely nowhere and proved rather an expensive operation. We should be bringing powers home, not surrendering them.

We are all concerned about the reform of this House. Far more serious is that there will be very little left for Westminster to do, whether it be the Commons or the House of Lords, unless we face up to the far bigger issue of the transfer of powers to a federalist Europe while we strut about enjoying a residual but fading glory. Indeed, this Government will have completed the job that Guy Fawkes failed to do many years ago.

The democratic deficit brings with it a crisis for democratic legitimacy when there is no workable framework for making and then unmaking the decisions that affect our daily lives. To quote Professor Siedentop, the recognised authority on these matters:

That is why the greatest danger lurking in the process of integration is that democratic political cultures may be weakened in the nation states without being replaced at any other level.

The ever-falling voter turnout at elections is a clear warning. It is all too easy to forget that democracy is an imperfect glue that holds society together. That glue is fracturing.

So how can we get out of this mess and put things right? The Government obviously fear a referendum on the EU constitution because they know they would lose. Such a referendum would give a signal that the British people have had enough of integration and we should start substantially repatriating powers. If this seems impossible – I think it will – then we should contemplate withdrawal.

What would be the consequences of withdrawal? Others in this debate will go into more detail, but I reiterate that Norway remains contentedly outside the common agricultural policy, the common fisheries policy – with its 800,000 tonnes of good fish annually thrown back into the sea – the common foreign and security policy, the common justice and home affairs policy, economic and monetary union and, critically, the EU customs union. We could do likewise and do better. The EU is not the UK's main market; it is not even Germany's main market. The world speaks English when it trades. The EU needs us more than we need it. Even the Institute of Economic and Social Research, in its report *Continent Cut Off?* says, of the macro-economic consequences of UK withdrawal that,

most, if not all, UK jobs involved in exports to the EU would carry on as before.

Every Gallup poll shows that a majority wish to change the UK's relationship with the EU. This is not an extremist view; it is a majority view. Britain's economy has outperformed those of other major countries, a point so well brought out by the noble Baroness, Lady Noakes. China and India are now the major players. Britain as a major trading nation must be free and flexible to take every advantage, and not to have its hands tied by so much wasteful and stultifying regulation, so damaging to our competitiveness. The repatriation of powers would enable our budget contributions to be employed domestically by cutting taxes and improving public services. Britain could have a wonderful future, but it must be freed from the EU's political and regulatory shackles.

The EU appears unreformable. We have little to lose and much to

gain by returning self-governance to this country, while working closely with our European colleagues and NATO, which has always provided our basic security. The consequences of withdrawal would be overwhelmingly positive. I hope that those who feel otherwise – and they are of course fully justified in airing their views – will support the setting-up of an appropriate committee to examine and report on the implications of withdrawal, as suggested by the noble Lord, Lord Pearson, to whom we are deeply indebted for this debate.

IT IS ALWAYS DANGEROUS TO MAKE PREDICTIONS

By Damon de Laszlo

As anticipated in August, some of the banking train wrecks have taken place as well as quite a few corporate accidents. There are still some to come.

The rating agencies review structured securities on a 90-day cycle. One can, therefore, anticipate considerable write-downs over the next three months and beyond. When an instrument is downgraded from, say, AA quality to BB it falls into the sub-prime category causing banks regulatory problems. It is worth noting that Basle II exacerbates these problems as the liquidity calculations are more and more defined by letter ratings.

So far the large financial institutions have not yet had to unload structured debt instruments and while write-offs have been announced, there has been very little testing of the real market for complex paper. The pressure and the problems will grow as we get to the 31st December, and as I mentioned last July, year-end reporting requirements will discourage bank chairmen etc. from having to explain why they are holding sub-prime paper. It is easier to take a loss and move on.

Through August, September and October we have seen the market dip and then recover. As the faster moving hedge funds have rebalanced their books, we can now expect a good run up of stocks and shares as well as commodity prices as we go into the year end, the usual trend as interest rates trend down.

While the phenomenon of the connectivity of the new world creates short term gyrations, it does seem to make it easier to predict a trend. However, this global connectivity is making it exceedingly difficult for Central Banks to act with foresight, if they ever could.

Five years of deflationary pressures caused by the export of goods from the low cost economies of Asia to the West is coming to an end; the dollar balances and the Euro balances being built up by China, India and the Middle East are of themselves creating pressures that the banking system cannot control. The current financial crisis, a product of excessive liquidity, an inverted yield curve and the unintended consequence of regulation, is forcing US interest rates down which in turn will continue to depress the dollar. While European interest rates continue to remain steady or tend to rise, the full force of the financial crisis has not yet struck home. This is pushing up the Euro against the dollar.

China is raising its interest rates to damp down its now nearly out of control expansion. This will force the RMB and the dollar to decouple. Until now the Chinese authorities have been happy to make money by adding to their dollar surpluses to invest in US Government paper. A profitable transaction as the interest rate in the US has been higher than in China. It's doubtful that the Chinese authorities will be happy to continue this process for much longer as they are now losing money on the exchange rate and will start to lose money as the interest rate differential reverses.

While the present trends of declining Western interest rates and rising Asian interest rates are likely to continue for the next six months or so, as the financial markets work out their problems it is likely that stock market values and commodity prices will continue to rise. The Western economies are also benefiting from Asian and Middle Eastern growth which is softening what otherwise would be a more rapid economic slowdown.

The whole system could, however, unravel very rapidly when the RMB re-values. The impact of a revaluation will be a dramatic increase in prices in the Western economies as the supply of goods to the retail market is re-priced to the new exchange rates.

Today the Central Banks in the US and Europe are more concerned about the immediate problems of the financial crises but if inflation indices start to rise faster, interest rates will rise with them.

All in all it looks as though we have a built in run up in the equity markets, particularly for companies involved in global trade and supplying industry with raw materials and the rise in equity markets around the world,

which very much includes the Asian markets, is likely to continue until the link in the RMB/US\$ chain is broken, at a guess, next Autumn.

But it is always dangerous to make predictions – as Mark Twain said – ‘*particularly about the future*’.

But for the moment, the future seems particularly clear!

JAPAN THROUGH THE LOOKING GLASS

*By Alan Macfarlane, Profile Books, 2007 £20**

Japan Through the Looking Glass by Cambridge professor and anthropologist Alan Macfarlane is only the most recent and audacious of books purporting to have found the master key unlocking that baffling bundle of contradictions known as Japan. One wonders why a newcomer, with neither the language nor academic background nor any extended residence in the country, would want to set foot on turf long since trodden to ground by far more qualified observers.

A well-known theorist of modernity, the author decided that Japan’s very contradictions might reveal an alternative path to modernity, different yet equal to that of the West. The body of this book takes us through the material culture, economy, society, power structure, philosophy and religion of Japan, in each case setting up the key polarities – hi-tech industry with familiar worker loyalty; worldly materialism with residual shamanic belief; great kindness with great cruelty, etc., etc. The result is an exhaustive compendium of the battered binary bromides of a century and a half of Japan watching by foreign observers plus the *nihonjinron* theories of societal uniqueness touted by Japan’s cultural nationalists from the 1970s. Although most of this will be of little interest to those already familiar with the argument, the book nevertheless is engagingly written, eschewing

* The jacket cover suggests the content to come: Alice-in-Wonderland title on a bright red Rising Sun disk imposed on an elongated snowy cone of Mt. Fuji; earnest-looking Caucasian author, umbrella and guidebook in hand, strolling through a rice-growing foreground, obviously bent on some sort of field research. ‘Here we go again,’ you groan.

technical terminology and in places encapsulating old stuff in refreshing and suggestive new ways, as when likening the Shinto gods to ‘...a huge electrical force field whose temporary ‘homes’ are the *kami* shelves and shrines which dot Japan and to whom the Japanese pay wary attention, while loudly proclaiming their disbelief’. (p. 182).

The glue holding all these puzzling dichotomies together in a functioning civilization is Japan’s success in fashioning a ‘double-layer social structure’ – an outer layer that has incorporated Western material and institutional culture after stripping it of the cold, rational impersonality of Western social principles; and an inner Japanese layer still running on the old, emotionally close human relations. Not a particularly new idea. The former of course is the Looking Glass in which Westerners behold their own faces: the latter, the enchanted world on the other side. To explain how Japan alone amongst major civilizations was able to preserve that traditional warmth, the author piggy-backs on the ‘Axial Age’ concept of Karl Jaspers (1949) with respect to the great philosophical and religious shift from the 8th to 2nd centuries BC in the West, India, and China from animism to rational scientific and ethical concepts, thereby disentangling the natural world from the supernatural. As further developed by S.N. Eisenstadt (1996) and Robert Bellah (2003), that ‘pivotal’ change never made it across the open sea to non-Axial Japan.

Lacking genuine novelty even in the master key finally cut, the book will also disappoint the reasonably tutored on Japan with its long string of errors in fact, language, history, and cultural basics:

1. The ‘southern tip’ of the Japan-Ryukyu archipelago ‘is almost on the equator’. (52). Wrong. That would place it on the latitude of Singapore, like moving Miami to the mouth of the Amazon. In fact, it lies just north of the Tropic of Cancer.
2. “Apparently the Japanese language has no authentic word denoting ‘economy’. *Keizai* refers to ‘the politico-spiritual guidance of social life in general.’” (62) Wrong again. This two-character Sino-Japanese noun (*kei* for ‘manage’ and *zai* for ‘wealth’) means precisely ‘the economy’. The author seems to have confused it with *matsurigoto*, the ancient term for politico-religious government.
3. ‘The *ie* [multigenerational male-lineage household] system became dominant in the Late Middle Ages when the Edo Shogunate imported a Neo-Confucian ideology for the governing elite.’ (110) In the accepted periodization Japan’s Middle Ages ended in the 16th century, giving

way from the seventeenth to the ‘Early Modern’ age of the Edo, or Tokugawa, era.

4. Mixing up two great dyads familiar to every Japanese ten-year-old and the staple of all anthro pop-talk, the author writes of the ‘struggle within each individual’ between *tatema* (cosmetic excuses) and *honme* (true intent) – the game of concealment played in dealing with others. He mistranslates them, however, as ‘moral obligations’ and ‘true desire’, the definitions for another pair, that of *giri* (duty, obligation) versus *ninjo* (emotions, the private heart) – the mother’s milk of tragic-love drama.

More disturbing is the tilt in the author’s binary oppositions – a virtual Versailles of mirrors – where he tends to over-idealize Japanese positives, understate Japanese negatives, and slips too readily into an off-the-cuff, we-all-do-it-too, sort of West-bashing.

Can we really take seriously the claim that, ‘Even taxes today are treated as gifts. People “give” the government money, and then the government, supposedly out of a sense of reciprocity and benevolence provides services. The belief is that people are not being taxed, but asked to contribute of their own volition to the greater good.’ (65)? And then see today’s still-burning issue of the non-Japanese ‘comfort women’ who were forced into prostitution by the Japanese military during World War II fudged off with a cultural-relativist apologia? ‘This practice was clearly modeled on the sex industry in Japan and reflected attitudes about the body and sex totally at odds with those of the countries where it was exported.’ (42) Indeed, by leaving out less smoothly running sectors like political parties or universities, and by giving so little voice to Japan’s own dissidents, the balance sheet here ends up all too reminiscent of Japan’s own cultural nationalism.

Finally, for all his intensive reading and interviewing our author seems oddly distant from the pulsing reality of today’s Japan. By his own admission he has relied virtually to the point of co-authorship on the Japanese academic couple that facilitated most of his six visits to Japan between 1990 and 2006. Indeed, their central role as native informants is oddly reminiscent of field work on primitive societies where the anthropologist is not expected to learn the language or participate in the target society. Arguably, however, one needs language and direct personal exposure to start making sense of a highly modern yet non-Western society like Japan. The author assumed that, ‘If I had spent the many years it requires to speak and read Japanese, I would not have been able to make the comparative studies of other civilizations which inform this work’. (xi) Others, however,

have managed to do so including political scientist Chalmers Johnson on Japan and China and sociologist Ronald Dore on Italy and Japan.

It is also perhaps too much the author's own personal pilgrimage, with a ground base of self-referential rumination as to whether he is, or should be, 'attracted or repelled by Japan'. (229) One wonders whether a scholar seeking to fit India or Russia into the frame of world civilizational development would be so concerned with his or her personal responses to those countries. Ostensibly reluctant to cut free of the early 'enchantment' he felt for Japan, the author leans heavily on those foreign writers of the late 19th century and the 1950s who saw in Japan a balm for the dried-out Western soul. While giving the nasty side its due, he gushes (rather patronizingly) that Japan ... 'also seems so beautiful, meaningful, attractive, a return to paradise, Eden, childhood and security. It fulfils the romantic longing for a lost world.' (229) 'My visits to Japan seem like a dream,' he concludes back once again in his own English garden. (230) Perhaps, unlike Alice, he never left it.

Had this book been written with greater accuracy as to fact and a mind more skeptical toward Japanese self-explanations, it might have avoided three unfortunate effects typical of the master-key genre. First, in confirming Westerners in their feel-good exoticism. Second, in deflecting the Japanese from their long-overdue search for all that binds them to the rest of humanity. Third in abetting Tokyo's diplomatic stratagem of attributing honest economic and political disputes with other countries to cultural differences and misunderstandings, thereby justifying special treatment for Japan.

Review by Ivan P. Hall. (Professor Hall spoke on Japan to members of the Economic Research Council in October 1998. See Britain and Overseas, Vol. 29, No. 1.

THEY MEANT WELL Government Project Disasters

*By D. R. Myddelton. Published by the Institute of Economic Affairs 2007
Price £12.50*

This macabre, fascinating and highly readable book chronicles the development of five financially dire government sponsored projects. The 1922–30 R.101 Airship ended in fire and disaster; the 1946–54 Groundnut Scheme was a complete fiasco; the 1958–? Nuclear power industry has been characterised by unreality; the 1956–2003 Concorde looked lovely, crashed financially and hardly bought Britain entry to de Gaulle's EEC; the Channel Tunnel has yet to prove any sort of investment viability and about the Millennium Dome – well, one would almost prefer not to read about it.

Given nearly a century of experience to draw on some important conclusions can be suggested – perhaps the main one being that once a project has been started it is almost impossible to halt. Along the way Myddelton notes that four out of the five studied were started by Conservative Governments and most attempts – though they failed – to stop them were made by Labour Governments. An intriguing observation.

It follows that there needs to exist some kind of 'official devil's advocate' to legitimately ask the right questions at the earliest possible stages of planning such projects. Myddelton lists specific types of questions which should be asked, about costs, risks and markets – just as private enterprise would normally do when 'when investing their own money'.

But however specific the questions suggested, the author remains vague (perhaps he had little choice) about what might constitute 'official' in an 'official devil's advocate'. Typically, in these projects, there have been active, sincere and convincing *unofficial* devil's advocates – such as the 'Anti-Concorde Project' just as, in issues such as EEC membership or going to war in Iraq, concerned citizens and intelligent lobby groups who have put up truly heroic opposition. Such movements give real hope for the health of our political system even if they *are* crushed by the weight of the establishment's jack boot.

Though Myddelton points to the 19th century as a time when such foolishness as the five projects he lists did not (perhaps could not) take place on account of the prevailing doctrine of (for want of a better phrase) 'laissez faire', in the wider context there *is* a 19th century precedent – the

decision to go to war in the Crimea – the unstoppable bandwagon so well illustrated in *The Reason Why*.

So how can we arrange an *official* devil's advocate? Perhaps the Americans would see it as a matter for a Constitutional 'check' or 'balance' – a Congressional Committee perhaps or a 'Supreme Government Expenditure Court'. Such thoughts should remind us that in our system we do, after all, have a recognised institution responsible for questioning Government proposals, namely Her Majesty's Opposition. Could we not strengthen our system by giving the Leader of the Opposition greater rights? In the case of Concorde, to see the early working papers on costs and the market; in the case of the Iraq war, to see at the earliest stage all the papers relating to David Kelly and evidence of weapons of mass destruction; in the case of EEC entry, proper year-by-year audits of the costs of membership; or in the case of the Ground Nut Scheme, the right to visit, at public expense, the areas proposed in order to make an independent assessment.

One suspects that the history of the last 60 years will, in time, deliver these rights – that is the way our flexible unwritten constitution moves through changing constitutional conventions. We need, and we are all beginning to realise that we need, a stronger, better resourced opposition of whatever political party. Along the way one suspects that Myddelton's call for a change of political beliefs from state paternalism towards a greater respect for market mechanisms will be heeded, but be only a part of a larger development.

J. B.

OBITUARIES

LORD BIFFEN (1930–2007)

President of the Economic Research Council

John Biffen was both an active and an enthusiastic Economic Research Council President and is sorely missed.

The following obituary, which was published in The Independent (15/8/07), was written by the late Patrick Cosgrave, and is reproduced here by kind permission of Shirley Cosgrave.

Four times – when in opposition before 1970, when in government after 1970, and after the general election defeats of February and October 1974 – Edward Heath offered John Biffen positions on the Conservative front bench. (The 1974 offers were almost desperate in their urgency, for Heath’s power was now crumbling, and he was striving to neutralise his critics.) Each time Biffen refused; he differed sharply from Heath on certain major items of policy, notably the management of the economy and the matter of British entry into the EEC and he felt, therefore, that he could not honourably serve.

His attitude excited amazement among most of his fellow Tories, but it also excited a respect that grew steadily over the years.

Yet, unlike his close friend and mentor Enoch Powell, Biffen had nothing about him of the obvious characteristics of the rebel. His demeanour was quiet and his voice soft, never quite losing its native Somerset burr. When, during the five years he spent as Leader of the House of Commons his intelligence, articulacy and humour became familiar to a wide audience, it was noted that his jokes – almost invariably laced with irony – were gentle, never, in an increasingly savage political age, *ad hominem*.

William John Biffen was born in Somerset in 1930. His father, Victor, was a farmer at Comwich and his mother, Sarah, the daughter of a businessman prominent in Conservative politics. John, however, hated farming. Though he did his father’s farm accounts from early manhood until the latter’s death, when the farm was sold, he signalled his distaste for agriculture by selling off the substantial acreage attached to the property he bought in Shropshire when he became a Member of Parliament for Oswestry in 1961. His fundamental interests were economics and politics.

Young John was educated at grammar school, Dr Morgan’s School in Bridgwater, and proceeded to Jesus College, Cambridge, where he read History. He took a good degree, and demonstrated his political interests by becoming Vice-Chairman of the Federation of University Conservative and Unionist Associations.

Upon graduation Biffen went to work for Tube Investments, thus beginning an interesting – and highly typical – career of combined business and political work. He came to the conclusion that businessmen did not understand politics, and that politicians did not understand business and began to produce for Tube each quarter papers projecting both economic and political developments dealt with in tandem. These papers, written in the limpid prose of which he was master, were to be found invaluable by various companies for which he worked over the years.

Many Conservative politicians were criticised in the 1990s for supposedly improper involvement in the world of business, but Biffen's business concerns, it is interesting to note, were never made the subject of attacks on either side of the House of Commons. He never received payment in brown envelopes. His movement between the worlds of commerce and politics was always clear to the world; and his probity was above question.

But Biffen was ever the individualist. When politically ambitious young men of his generation were visiting the United States, or France, or Germany, or the Soviet Union, Biffen took a month off to go to Albania. I once asked him the reason for this bizarre choice. He gave his subdued chuckle, showing his slightly wolf-like teeth and said: 'Because nobody else was going there'. He then showed me a yellow cutting from the *Birmingham Post* (he was then based in Birmingham). 'This is the most gratifying headline I have ever had,' he said. It read 'Birmingham Tory Pierces Iron Curtain'. 'It seemed,' he added, 'that I'd gone to war all by myself.'

Conservative constituency parties do not normally care (and particularly did not when Biffen was a young man) for bachelor candidates. Nonetheless, in 1961 Biffen won the nomination for the safe seat of Oswestry (later to be transmuted into Shropshire North).

Conservative Central Office was a trifle bemused by this success on the part of a rather reclusive intellectual in a rural, no-nonsense, heartland. Years later, when I was in Shropshire to speak at Biffen's annual constituency dinner, I was given the reason for choosing him by the late Mrs Bridget O'Reilly. O'Reilly, at the time of Biffen's selection chairman of the constituency women's committee and a power in the land, was greatly taken by young Biffen. She pointed out to the other members of her committee how many unmarried young Tory ladies there were around, and suggested that at least one of them might find a husband if a bachelor was selected. The women's committee vote for Biffen was unanimous.

Alas for hopes: Biffen did not marry until 1979, and then he chose Sarah Drew, a Londoner, divorced, and with two children. Biffen was always capable of the unexpected.

He was not, however, to go places quickly, having turned Heath's offers of advancement down. It was not until 1975, following the two general election defeats of 1974, and the succession of Margaret Thatcher the following year, that he came to the front bench. Rebuked by Powell on assuming the post of Shadow Secretary of State for Energy for his failure to hold to the principle of opposition to membership of the EEC, Biffen replied that membership being now a fact, he saw no point in continuing

to campaign against it. Moreover, Thatcher's domestic policies were very much his own. He had voted for her in the leadership contest, and was happy to serve under her.

Not long afterwards fate took a hand. Biffen had never been the most physically energetic of men. He had thus scarcely noticed an onset of periods of unusual lethargy. When, however, his work began to be affected by bouts of dizziness and an alarming inability to concentrate, and when his doctors confessed themselves puzzled about the cause of his condition, he felt obliged to resign from the front bench.

Very few people were allowed to know the reasons for this resignation, and stories circulated to the effect that he had lost confidence in the leader of the party. These stories were damaging to Margaret Thatcher at a time when her position seemed precarious. Knowing the reason for his departure, however, she loyally kept silence, out of respect for his desire for privacy.

By the time of his marriage in 1979, however, the hitherto puzzled doctors had found the answer – a minor blood disorder which affected his nervous system. The period following his resignation proved, therefore, to have been merely a hiccup in his career for, following the Conservative victory in June, the Prime Minister made him Chief Secretary to the Treasury.

The Chief Secretary sits in the Cabinet, but only as deputy to the Chancellor. He has the thankless task of scrutinising and reducing the budgetary claims of his spending colleagues. The early years of the first Thatcher government were grim, and Biffen was judged not to have performed particularly well in this post for, though a man of strong and deeply felt opinions, he was over-prone to see all sides of a difficult question. Thus, in January 1981 he was made Secretary of State for Trade and was immediately plunged into controversy when he ruled that the transfer of *The Times* to Rupert Murdoch's ownership would not be referred to the Monopolies Commission.

Here, though he performed competently enough, he was unhappy, and sometimes ineffective, at running a large and complex department.

But the golden period was yet to come. In 1982, Biffen was moved from Trade to become Lord President of the Council and Leader of the House of Commons. It was the perfect job for him. The Commons Leader occupies a somewhat anomalous place in politics. A party politician, he is responsible, nonetheless, to the whole House, and obliged to negotiate the

details of its business, and its timetable, with the opposition. Each Thursday he takes questions from MPs, and responds as he thinks fit to requests for the allocation of parliamentary time. Biffen was – to put it quite simply – the finest Commons Leader in the 20th century. (The competition in making such an assessment was strong, for William Whitelaw had been a very successful Leader.)

In a period of rancorous debate in British politics Biffen won support and admiration from all quarters of the House of Commons – even Dennis Skinner was heard to voice praise of him. His total mastery of Commons affairs (later to be expressed in his invaluable book *Inside the House of Commons*, 1989, which should be required reading for every student of British politics and, indeed, every aspiring politician), his dry wit every Thursday afternoon, the regard in which he was held by ministerial colleagues, which enabled him to exercise a powerful influence on the organisation of parliamentary business, and his close relationship with the Prime Minister – all these factors made it possible to think of him as a future Prime Minister.

Then, all suddenly turned to dust. In a television interview shortly before the 1987 general election Biffen said that the Government should foreclose on its radicalism, enter a period of consolidating its gains, and consider its leadership to be collective, rather than residing solely in one formidable personality. ‘I owe her everything,’ he told me some time earlier, when I was talking to him about a book I was writing on Margaret Thatcher. ‘Without her I would never have held this wonderful job.’

The consequences of the interview, however, showed that she did not feel she owed him anything. Only a few days afterwards, Bernard Ingham, her press secretary, famously described Biffen as a ‘semi-detached’ member of the Government. After the Tory victory in the 1987 general election, he was dismissed to the back benches. A luminous mind was ousted from the inner circles of government; the workings of the House of Commons were thrown into something approaching disrepair; and even admirers of the Prime Minister concluded that she had demeaned herself. It was a sad business.

A moderate amount of consolation was, however, made available by John Major in 1997. Biffen, secure in the support of his Shropshire constituents, had, nevertheless, decided to leave the House of Commons, believing, as he put it, that ‘it’s better to go a minute early than to stay on an hour too late’. The then Prime Minister promptly put him forward for a peerage.

In many ways the House of Lords would have been a better – and

certainly more decorous – stage for the display of Biffen’s talents than the raucous modern House of Commons; but time did not allow for the full deployment of his gifts in the upper house.

John Biffen was unique among modern British politicians. His manner was invariably understated, but he was capable, when he chose, of powerful oratory. He was slow to anger, but his anger could be fierce. That ambiguous artefact, the unwritten British constitution, was his greatest love, and he would defend it against all comers. He understood it better than most, and we are fortunate to have, in his writing, the most elegant defences of its working.

DEREK STUCKEY (1916–2007)

Derek Stuckey was a member of the Economic Reform Club before joining the Economic Research Council in 1947. His last attendance at an Economic Research Council meeting was in 2006. In addition therefore to his many years of service on the Committee, over 70 years of active membership is surely a record.

Following War Service Derek was called to the Bar and was a member of Gray’s Inn from 1949. Although he was a hard working Barrister, he nevertheless found time to serve the Council assiduously, undertaking research and giving staunch help in providing ideas for projects and speakers. He was a colleague I shall remember with both great respect and warmth.

J. B.

LETTER

'WASTED TALENT – RESPONSE REQUIRED' *a question raised by Mr Brian Lewis*

Sir,

We all pay lip service to the idea of competition and the 'market system'. And yet I wonder! The central banks at this very moment are saving financial institutions from the results of their own errors – quite the antithesis of a free market system. Indeed, people of poor judgment are being saved and many who deserve to succeed are being prevented from doing so. I also note that human beings do not let a free market system intrude much upon the appointment of international functionaries, senior officials or top managers. Indeed why do people of poor judgment have so many friends in high places!

Anyone who offered to do these jobs at half the salary will never get appointed, irrespective of that person's qualifications or experience. One must wonder what happens to all the well-trained and experienced people who ALMOST became CEO or ambassador, but lost that particular battle! Were their talents ever used again? It is likewise noted that bureaucrats in the large international organisations are magnificently rewarded for NOT competing!

One must therefore take with a pinch of salt protestations from the good and the great that they subscribe to free competition in the global market. As I have said before, I do wonder sometimes why I have spent the last 23 years working only outside the UK at a time when messages arrive over the air that the UK is short of workers!

Brian Lewis
2 Beirut Street
Merville Subdivision
Parañaque MM
Philippines

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