BRITAIN & OVERSEAS

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

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ENERGY SECURITY

A talk given by Dr Liam Fox MP, Shadow Secretary for Defence, to members of the Economic Research Council on Tuesday 18th December 2007

As we consider the issue of energy security there are three questions that have to be uppermost in our minds: *why* do we need an energy security strategy, *what* are the essential elements, and *who* needs to be involved.

We should begin by admitting to ourselves that we have finite resources of fossil fuels and we are getting towards the end of the availability of those rather faster than we might have thought.

There are three *reasons* to have an energy security strategy. The first is that we are clearly in a world where the growth of global economy means that demand is outstripping the speed of increase of the supply and if we have no change to our current trajectory, we could end up at what I describe as an energy security critical point where we find ourselves so short of fuels in a growing global economy that, like great cats on the savannah at a time of real shortage, conflict is almost inevitable. We still have time to head this off but I am afraid that too many people are showing no signs of understanding the urgency of the position in which we find ourselves.

The second reason why we need to have a strategy is the rise of resource nationalism. The willingness of countries to use fossil fuel as a tool of foreign policy has been increasing in recent times. And when we think that 90% now of oil reserves are state-controlled we can easily see the limitations of a traditional free market in regulating the process.

The third reason why we need a strategy is the rise in the asymmetric threats to the stability of the global economy and, in particular, the potential disruption of fuel supplies.

When we look to build such a strategy, I think there are three *elements*.

The first is that we must have diversity of the fuels we use in our domestic economy. It is simply about spreading risk and that means that we need to use oil and gas and coal and renewables and nuclear, all as part of this. People are always looking for the silver bullet – what it is that will be the single answer to our energy security problem – but there is no *single* answer.

The second element is about assessing the predictability of supplies where we are forced to import – and the UK is increasingly going to be an importer in terms of our energy needs. From having been a great exporter of both oil and gas, by 2020 we will be importing about 80% of all our fuel needs and that will necessitate a much better assessment of the geo-political realities around us than we have had in recent times.

When we think in all of this that 62% of all currently known oil reserves are in the Middle East – the most unstable region on the planet – and when we think of the political instability that could afflict the region, you recognise the risks that we might face.

The third of the three distinct elements I think we need is to understand the importance of security of transport for fuels. On Capitol Hill, as they approach the elections this year, I hear American politicians say things like 'We are going to make America energy-independent'. I say 'Really? – It will be very interesting when Al Qaeda take down a super-tanker in the Malacca Strait and you get economic shocks in Japan and China and a rise in the price of oil to astronomical levels, to see how independent you are.'

If *we* understand that there are only a limited number of choke points, particularly in maritime transport for fuels, so do Al Qaeda. So, as they seek to disrupt the stability of the global economy, which they will try to do, I think the general point I would make is this: we live in a world where we have a genuinely globalised economy where we have an increasing interdependence, an inter-linking that we never had before and while that brings the upside of trade and prosperity, it also brings the downside of shared and imported risk from places that we didn't expect it before. It seems to me that the global economy is actually outstripping the politicians' ability to deal with it.

We have got the political structures designed for the post-Second World War environment (the European Union and so on) and the military structures designed for the bipolarity of the Cold War. We don't have the requisite structures put in place to be able to deal with new threats that actually affect our contemporary global interests.

It is certainly true that any chain is only as strong as the weakest link and when we think about the oil journey, from getting it out of the ground from a rig, to getting it to port, to a refinery, to transporting it by sea or by road to retailers, there are many points of vulnerability in that chain and we are going to have to think about this an awful lot more in the future than we have in the past.

So these are the elements that I think we need to have in terms of building a proper energy security strategy, and I don't think we have got any of those three at all in place at the present time in place in the United

Kingdom, so there's a long, long way to go for us in terms of policy development.

Now, *who* are the players that can help us, and who are the players that might hinder us in this particular policy formation?

Well, first of all we've got the European Union – and I'm not normally one of those who defends *any* new role for the European Union. However, there is a very clear role for the European Union when it comes to energy, and the Commission ought to begin by forcing countries such as France and Spain to start liberalising their own internal energy markets. Until we get proper liberalisation inside the European Union we are almost always going to be at a disadvantage and unable to use what market power we have to make a difference in this wider game.

Europeans also need to look at the diversity of supply. We should be giving impetus to things like the Baku pipeline enabling us to get gas from other sources than Russia. Take Germany as just one example. When countries such as Germany increase their dependency on Russia for gas it is not Germany alone that is importing risk. Germany is an important trading partner for the UK; it is a member of the European Union and a member of NATO. Increased supply risk to Germany has an indirect effect on us and we should be very much more aware of this than we have been in recent times. European counties also need to act in a more coherent fashion when it comes to dealing with supplies, because there is nothing that Moscow is better and more adept at than divide and rule. And that's what is happening at the present time in the European energy market. There is room for increased cooperation here, but it cannot simply be confined to the European Union because any European policy – and I mean continental European – that does not include Norway as a major producer and Turkey as a major transit country, will not be worth anything. Therefore, the natural place to have these discussions is not in the European Union which would exclude them, but in NATO which actually includes both of them as members.

And I think that it's that second group we really need to be looking at. At the Riga summit last November, NATO decided it is going to have a role in energy security. However at that particular summit, which in my view was a massively wasted opportunity, there was very little detail put on as to how NATO could actually help.

Now I would suggest that there are two ways in which NATO could become involved: first in looking at maritime security. I think that Operation Active Endeavour which has been patrolling the Mediterranean since

2001 is an example of how you can get NATO cooperation in terms of maritime security. Considerable experience and expertise has been gained in interdiction of arms, drugs and people smuggling and so on. It *could* be extended but it can't be done, frankly, unless our European allies are willing to spend some money. Now I was not going to discuss this in depth tonight, but let me put it in perspective. I am regularly critical of our current Government because this year we are spending 2.3% of our GDP on defence – the lowest figure we have spent on defence since 1930, notwithstanding the fact that our threats are increasing outside. Our army is now as small as in 1851; our navy is smaller than the French navy, and we've got more of our aircraft in the RAF Museum in Hendon than we currently have in the RAF. Not, I would suggest to you, a very advantageous position for us. But while we are spending 2.3% of GDP on defence, the Germans are spending 1.4%, the Dutch 1.2%, and the Spanish 1.1%.

The bottom line is that you cannot have collective security without collective spending and collective effort. If we are going to look at NATO's role being increased to take on this added role of energy security NATO needs to ask some very hard questions about itself. And you cannot have maritime security without putting ships on the water, and that is something else that NATO will have to face up to.

The other element that NATO needs to look at is the NATO Treaty itself and how it will deal with the emerging threats in space and cyberspace. I don't really see much difference in a country launching an attack on you in terms of the physical welfare of your country and launching an attack on your energy supplies which effectively leaves you incapable of keeping the lights on and running the country in the way that we normally understand in terms of its basic economic function. We cannot allow economic blackmail any more than we can allow military blackmail, and I think that energy security, economic security and national security are becoming already increasingly synonymous and I think we need to change our thinking if we are going to be able to deal with some of the threats that are emerging.

We need to be very clear about what is happening in Russia, about the internal politics of Russia, the medium-term outlook for its political stability and its economic health – and we need to be very hard-headed. Russia is, of course, at the moment the second largest exporter of oil in the world; it is only just behind Saudi Arabia and will be a major player from now on. There are questions we need to ask about Russia's political stability in the longer term. Russia has about $480 billion now of reserves in terms of both currency and gold, but what is it doing with it? Is it diversifying? Is it now trying to create a more solid economic base? Actually it's not. The lack of diversification in the Russian economy I think is something we need to worry about, and the lack of investment in economic production is a long-term threat not only to Russia but also to wider political stability. And if you look at what they are spending their money on, with $480 billion in reserves, they have just earmarked $189 billion of that for a massive defence expansion between this year and 2015, and by the time we get to 2015 at the GDP spend we have at the moment, and by the time we get our new nuclear deterrent by 2020 at a lower warhead level than we have at the moment, Russia will have added, with its $189 billion investment, 400 missiles to its total land-based missile system, and 200 to its submarine-launched systems. They will have added 1000 extra helicopters and fixed wing aircraft to their air force. They will have added 4000 tanks and armoured personnel carriers and a whole new submarine system – that's what this massive investment is going into.

It amazes me that people don't know about this. Certainly our newspapers, with a few honourable exceptions, don't write about it. Newsnight doesn't run special programmes on it. It seems we are caught in an era when news is regarded by many as being about entertainment rather than information. We are in danger of becoming trivia-obsessed and not genuinely understanding the real risks that we face beyond our borders, and I think the challenge of politicians nowadays is to start telling the public what they need to hear and not what they want to hear.

We face, with Russia, two potential downsides. One is that Russia would through malign intent disrupt in some way the oil supply. If the Baltic pipeline goes ahead it gives Russia a new option of being able to continue supplies to Western Europe while disrupting supplies to what they regard as their near-abroad and what they quite wrongly see as the sphere of influence of the former satellite states of the Soviet Union.

But the greater risk I believe is this: that the lack of investment in Russia's up-stream gas potential actually means that there may be a shortage of gas and that by 2015, or even before, Russia might not be able to satisfy both its internal customers and external contracts.

We have, further beyond that, the seemingly inexorable rise of growth in demand, in China, in India, and with the United States still being a major consumer and we see no drop-off in expected demand. All of these things cannot be easily reconciled. Perhaps the one bright spot is that we have seen the rise of some new energy giants and if you look in particular at Canada and what they have in terms of oil sands, what Canada has in terms of hydro-electrics, what Canada has in terms of uranium supplies – just about any energy form that you are looking for – Canada has got a whole lot. So get in well with your Canadian friends because the Premier of Alberta is the new sheik!

I think we need in this country to wake up. We have got to understand the urgency of the problem that we actually face. We are behaving as though it is something that is going to be way in the future and we don't need to be doing anything about it just now. We are for example going to see a reduction in the contribution that nuclear power makes to our electricity generation in the next decade because of the obvious stupidity and cowardice of the current Government and they still seem genetically incapable of making decisions on more difficult subjects. I don't foresee any change in that under the current Prime Minister.

The United Kingdom in my view is now beginning to actually go backwards in the energy security process. A few years ago, we were almost getting up to the debate and almost accepting where we needed to be. It now seems that we are drifting. We have not made decisions on nuclear, we are not getting into the security of gas supply, we are not getting into the maritime security element and we are not even, inside the process of governing Whitehall, looking at creating an energy security directorate which is one of the things we must have if we are going to have 'joined-up' governing.

So my message tonight is not an optimistic one. I think that it is increasingly clear what we have to do but we are actually getting farther and farther away from actually doing it. I think the Government's political timescales are now so narrow it is rather like a saying from Yes Prime Minister, that for most Ministers the long-term is tomorrow lunchtime. Well, the long-term needs to be stretched out because during the fuel dispute in the year 2000, in 21 days there was a 13% swing between the two main parties.

There is one thing above all else that the public will never forgive any government for and that is if the lights go out. I am afraid our policy builders at the present time make that rather unpleasant and perhaps previously unthinkable scenario, rather too close for comfort.

THE ORIGIN OF WEALTH

*Extracts from a talk given by Eric Beinhocker, senior fellow at McKinsey Global Institute, to members of the Economic Research Council on Wednesday 10th October 2007**

What I am going to talk about tonight is how we are experiencing a scientific revolution in almost slow motion in economics. This is not a big bang revolution, an Einstein coming on the scene and shaking things up, but rather the accumulation of a series of insights and innovations by hundreds of researchers around the world who are in the process of remaking the field of economics.

Traditional economics has had a difficult time explaining how wealth in the world has grown explosively – long term. After the first stone tools were developed 2.5 million years ago, not much happened in the economic history of the world for a very, very long time – and then all hell broke loose. The same pattern on a shorter time scale, say 15,000 years ago can be seen and if we zoom in to the recent past – 250 years ago to today we see a similarly explosive upward bend. At the same time there has been a huge growth in complexity from hunter-gatherer economies with something of the order of 10^2 types of products (baskets, spears, tools etc) to a place like London today with something of the order of 10^{10} such products and services. 10^{10} is a pretty big number which, bearing in mind that there are about 10^6 different types of species on this planet, means that the human economy has now surpassed the complexity of the biological world! And no-one's in charge – the economy has grown organically over time and individuals may shape or influence their particular patch of it, but nobody has been the creative composer and there is no conductor of the performance.

Modern neo-classical economics, based on equilibrium systems where innovation is treated as endogenous, is far too limited a framework to explain these facts. The more recent notion is that the economy is a complex adaptive system complex because it is made up of many interacting agents or parts or particles, adaptive because those agents change their behaviour over time and a system because these interactions lead to some emergent or macro patterns of behaviour such as business cycles and booms and busts in the stock markets.

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* Based on Eric Beinhocker, *The Origin of Wealth: Evolution, complexity and the Radical Remaking of Economics*, (Random House; 2006). For review see *Britain and Overseas*, Vol 37, No 2.

This has a number of implications. The first is that we must regard the economy as a huge and dynamic system never settling down to a static equilibrium. The second is that economic agents – you and me – make decisions based on incomplete information and experience rather than on perfect information and deductive logic. The third is that there are all sorts of interactions in the economy so that we use much more than just prices and markets in reaching decisions. The fourth is that patterns of activity emerge from the decisions of individuals, patterns which are beyond the perceptions and intentions of those individuals when making decisions. And lastly we must recognise that the economy is in fact an evolutionary system of innovation and change.

This notion of economic evolution is not a new idea. Since Malthus and Darwin quite a few researchers have tried to describe the economy as an evolutionary system. Analogies with biology were limited however and it was not until theorists began to think of evolution as an algorithm, as a mathematical formula not necessarily tied to biology, as a way of finding what might be regarded as 'fit' design, that greater progress was possible.

In the evolutionary algorithm You have some notion of variety; there is a variety of designs in an environment and some process for creating that variety. Some of those designs are more fit by some standard or definition than others, so there is a process of selecting the fit designs. And then lastly the fit designs are amplified, they are scaled up, multiplied in some way, and unfit designs are scaled down or removed from the system, and then the process repeats so that we have variation, selection, amplification, repeating over and over again. And despite its simplicity it is a hugely powerful algorithm and biologists have shown that it is responsible for the huge amount of complexity we see in the biological world, and what many economists are now beginning to argue is that it is also responsible for the complexity we see in the economic world. And in this stripped down version of evolution we can see how it actually creates complexity. As a basis you have some form of information storage. In biology it is DNA, in the economic world it is in language, books, spreadsheets, any number of things, and that information is used to render some design in the physical world and that design interacts with its world and then there's feedback and there is the selection process of the fitness and that changes things in the information book. Unfortunately my computer is not hooked to the sound system here otherwise I would show you some wonderful computer simulations showing how in the virtual world this process of evolution can create quite complex imaginary creatures and things like that, and there are video games that use simulated evolution to evolve whole zoos of creatures. And as this process runs along we see the order and complexity in the world rising and then the entropy or disorder in the world declining over time.

Now, how does this abstract concept of evolution play out in the economic world? If I asked you who designed the modern bicycle, the bicycle you might see on the street today, you might say, well a designer sat down and drafted it out and made a bicycle, But if we think about it over a longer period of time what we would see is actually a slightly different process. Yes, if we go back to the invention of the bicycle in Victorian times there were human designers who sat down and tried to figure out different ways of creating self-powered wheeled transportation. And what did they do? They came up with a variety of designs, there's not just one way you can build a bicycle, there's lots of ways, and they tried lots of those ways. Some of those ways worked better than others – those ones with the big front wheels were probably pretty hard to ride. So they took the designs that worked and made more of those and then they made variants on those designs, and this process of creating variety, selecting designs that are better or more fit than others and then scaling those up has continued over time and we see the modern carbon fibre bike of today.

Now this process is what I call in the book 'deductive tinkering' because it uses two halves of our brains. On the one hand humans use this deductive logical part to say well if I make the wheel smaller it is likely to do this, if I make the wheel bigger it is likely to do this, but many of these problems are so hard we can't just deductively come out with the answer. You can't just sit down and design the world's optimal bicycle. The only way you can get to it is to build it, try it and see if it works. If any of you here are engineers you will know that for all the physics and science you've got you've still got to try things, and that's the tinkering part and we get feedback from that tinkering and experimentation. So we see a pattern of evolution in many technologies through this process of deductive tinkering.

Now economic evolution also occurs by deductive tinkering, this process of variation, selection and amplification but at three different spaces which are linked together. First there's physical technologies which is what we normally think of as technology innovation. The second is what Professor Richard Nelson at Columbia called social technology. This is something that is often neglected but equally important. These are innovations in how we organise and interact with each other, so examples would include the rule of law, or money, or the divisionalised corporation or just-in-time inventory management. These are all innovations and you can look at the records and there was a period where they didn't exist, nobody knew how but there was a period when we didn't have money and then we did. These were inventions for enabling humans to interact with each other in economic ways. And these physical and social technologies are then linked in the economic world to what in the book I call business plans, and I want you to think of business plans literally as what the title describes as 'designs for a business', so when an entrepreneur sits down to start a company they will think, what's my design for the business, what's my business plan? I need a strategy, what I am going to do? There is probably some aspect of physical technology although in a service industry that might be less important, in a manufacturing business that might be more important, and there is also social technology, how am I going to organise, how am I going to sell, how am I going to market? And one may think of the job of management as improving the economic design over time, of evolving the business plan, of making the company perform better than it did in the past. And again that process works through this deductive tinkering process. It starts when an individual executive sits down and in their own mind says, I could do option A, I could do option B, I could do option C, although option B is not such a good idea, C doesn't look so great either, I think option A looks pretty good. And then what happens next is that a group of executives get together in a room and have a debate again, option A, option B etc. There is a discussion, decisions are made and then there is a process of amplification. An option is picked, it is given people, it is given money and other resources and it is scaled up.

The same process happens at the level of markets. Consumers decide. If I am buying books do I want to buy them from Waterstones, Amazon, Foyles or Books etc? I will make choices as to selection, as to which of those designs or 'how to sell books' is better than the others, and then those that are selected will be rewarded with money, resources, people, etc. So this process of variation, selection and amplification works at multiple levels in the economic world. Now if this description is correct, that the economy is a complex adaptive system, and moves through time by this process of deductive tinkering and evolution, what would be some predictions that you would make out of such a theory? One is that these types of systems inevitably proceed in bursts of innovation. In the biological world it is called 'punctuated equilibrium' where you have periods of relative quiet and then you have explosions of speciation, and then you also have collapses of extinction. And again working in the record of business history you see a similar pattern of periods of great tumult and innovation and other periods that are more quiet. The Industrial Revolution is in some ways the Cambrian explosion of the economic world.

You can also expect such a system to spontaneously self-organise, that these follow-up interactions lead to rising complexity and structure over time, and then lastly – to me this is an interesting prediction – is that in these systems, (this comes down to the second law of thermodynamics in physics) as entropy decreases, that is as order is created, you'd expect the system to export entropy or disorder back into the world, and in the economic sphere that takes the form of pollution, waste, global warming etc, and so it is no coincidence that the spike in CO_2 levels now in the atmosphere corresponds directly with the Industrial Revolution. It is exactly what one would predict from all the order creation that came out of the Industrial Revolution.

So what does this mean in more practical terms? In public policy debate which has been conducted in terms of left versus right, markets versus social planning, Adam Smith versus Karl Marx, where humans have been cast as either self-regarding or altruistic, we can now see people as 'conditional co-operators' and 'altruistic punishers'. We have a general instinct to co-operate and thus form organisations of all sorts and give support for welfare programmes. But where others fail to co-operate or cheat or engage in job-shirking, our attitudes change. So this has given some interesting insights as to why some policies are supported and others not.

On markets the 'complexity view' is that they are evolutionary algorithms at work – a process of variation, selection and amplification creating innovation, but markets need an institutional structure such as the rule of law, sound money, a set of regulations to protect consumers etc within which to run. Otherwise, this process can collapse and die.

I have explored these and many other issues in my book so I will just leave you now with the thought that 'evolution is better than we are'. Evolution often produces surprising results that we would never have thought of in advance: clever ways of solving problems that would not have occurred to us, and so, rather than trying to outsmart economic evolution we should instead seek to harness it and to find ways to use the power of this process to drive innovation and progress.

FANTASY ISLAND (1)

A talk given by Mr Dan Atkinson, Economics Editor for The Mail on Sunday*, to members of the Economic Research Council on Wednesday 16th January 2008**

In our book, published last year, Larry and I may or may not have been right about everything, but one of the pillars of our argument was the unsustainability of Britain's debt position. Individuals and households have swung hugely into the red during the last ten years, yet this huge accumulation of liabilities has occasioned not the merest bleep out of our rulers. From an old-fashioned liberal perspective, which I share in many ways, that may be an excellent thing.

But we do not have an old-fashioned liberal government. It has views on everything we do – diet, drinking, smoking and exercise, not to mention 'work-life balance' and the desirability of fathers spending more time with their children. On the subject of heavy personal indebtedness, however, traditionally one of the most potentially destructive of all individual circumstances, we have heard nothing whatsoever.

We have been here before, of course. This is not the first time that a relentlessly self-mythologising prime minister has bored us to tears about their ultra-moral background only to preside over an explosion in personal indebtedness. But at least Margaret Thatcher had not spent ten years as Chancellor, overseeing such a vast escalation of debt, before she came to power talking about 'Victorian values'.

To our way of thinking, there were seven daydreams holding up Fantasy Island. Five of them rested on a belief that two opposites could be merged into a coherent position – that the labour market was before an ever-more internationally competitive place but that our own workers could be granted ever-more rights; that the public sector was being turned into a go-getting world-class pace-setter by the application of taxpayers' money and private consultancy; that we could fight a number of wars on a peacetime budget; that we could build a 'knowledge economy' on a culture of ignorance and that the price of everything would keep falling while our earnings would mysteriously keep rising.

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* A further talk, *Fantasy Island (2)* by Mr Larry Elliot, Economics Editor of *The Guardian* will be published in the Summer 2008 edition of *Britain and Overseas*.
Fantasy Island by Larry Elliot and Dan Atkinson. Published by Constable 2007. Paperback £7.99.

However we identified two master fantasies that, we believed, left no room for making a decision one way or the other. There was, in fact, only one way to go in each case.

One was the environment – we could not see that it was possible to marry limitless economic growth with measures against global warming and other dangers.

And another was debt. We found it inconceivable that Britain could continue to borrow at the same rate without its creditors eventually demanding repayment, or cutting off the supply of funds – or both. It is one debt that I should like to expand now, particularly given that the so-called credit crunch has brought the whole issue into such sharp focus. Here are some facts on consumer debt.

In January 2000, according to the Bank of England, there was net lending in that month on consumer credit (after repayments were taken into account) of £1,308,000, 000, in round terms £1.3 billion, and net lending secured on dwellings (effectively mortgages) of £3,375,000,000, in round terms £3.4 billion.

These movements took the total outstanding on consumer debt to £115,992,000,000 (or £116 billion in round terms) and the total outstanding on mortgages to £497,573,000,000 (or £498 billion in round terms).

Come December 2005, and net lending on consumer credit was a little more modest than it had been nearly six years earlier, with £0.8 billion advanced. Net mortgage lending, however, more than compensated, rising by £7.6 billion. The amounts outstanding had risen to £192.3 billion on consumer credit and £965.2 billion on mortgage lending. In other words, the outstanding amount of consumer credit had risen by 65.8 per cent in six years and outstanding mortgage debt had soared by 94 per cent. Earnings are, unsurprisingly, the key to the affordability of credit. So what happened to earnings between 2000 and 2005? According to the Office for National Statistics, average earnings for the whole economy, seasonally adjusted and excluding bonuses, rose by 22.4 per cent. That's right – just 22.4 per cent.

Here are the latest figures. In November 2007, £223 billion was outstanding on consumer credit, and £1,200 billion on mortgages. Unsurprisingly, bankruptcies and individual voluntary arrangements have soared. Personal insolvency will hit new peaks later this year with the introduction of new quickie procedures – debt relief orders and simplified individual voluntary arrangements. We are trying to liquidate debt using the legal system. You could say our nation’s curse is not very bright lawyers in government – Thatcher, Howe, Darling – with the occasional not very bright professional politician thrown in. Earnings have long been under downward pressure, but consumer borrowing had taken up the slack, borrowing often fuelled by rising house prices. Time was when the British talked about 'second mortgages', a disapproving term for what was thought to be the somewhat louche practice of raising a second home loan. Now even the Bank of England prefers to talk of 'housing equity withdrawal', a neutral term that manages to avoid any mention of 'borrowing' or 'debt'. According to the Bank, the sums thus raised reached the equivalent of six per cent of post-tax income in the last quarter of 2006, up from 5.3 per cent in the third quarter. To put that in perspective, the figure averaged 0.8 per cent in 1977, five per cent in 1987 and dropped by an average 0.3 per cent in 1997 as a result of net repayment of such loans. Back in the present, the total stayed at six per cent in the first quarter of 2007 before slumping to 4.5 per cent in the second quarter. Since then, there has been rather less 'equity' to 'withdraw'. House prices dropped 0.5 per cent in October, according to the Halifax; the Nationwide was marginally more cheerful, with a 1.1 per cent rise during the month.

This was ominous for consumer borrowing but it does go some way to explaining the Bank of England’s December rate decision. At this stage, those uninitiated in the double-speak (and, indeed, treble-speak) of Britain’s ‘miracle economy’ of the Nineties and the 2000s may have spotted that the ‘stability’ so prized by Prime Minister and former Chancellor Gordon Brown relied on a number of highly unstable factors all supporting each other.

Thus the economy depends to a large extent upon consumer spending, which in turns depends on consumer borrowing. This borrowing is underpinned by high house prices, which allow homeowners to raise finance against the part of their property’s value that is unencumbered by a mortgage. Obviously, this slice of the value grows with the growth of house prices generally, which in turn depends on high levels of mortgage borrowing.

So one type of borrowing (essential to economic growth) ultimately depends on another type of borrowing. The same people tend to be engaged in both sorts of borrowing, and the borrowing has to be officially encouraged because otherwise the economy will shudder to a halt. That is why the Bank cut borrowing costs in December 2007 in defiance of rising inflation. But, as with the tightrope walker, the indebted public must never be allowed to 'look down' – infusions of cheap money, as seen in December 2007, are intended to ensure that they do not.

Nor must there be much by way of questioning the thinking behind this self-validating spiral of mortgage and consumer debt. Any answer is likely to run along the lines that consumer borrowing is 'secured on home equity withdrawal' and that home equity withdrawal is itself made possible by higher house prices. As, indeed, are high levels of mortgage borrowing; these, you will be told, are 'secured on the asset side', i.e. on the same inflated prices that the 'secured' mortgage borrowing made possible in the first place.

Debt has long been the dirty secret of Britain's 'economic miracle'. By freeing finance from its post-war controls, the authorities had opened the door to grand-scale asset stripping and deal making, elevating the City – or the 'financial intermediation sector', to use its prosaic official name – above all other economic actors.

As noted above, one may have expected this widespread destruction of productive assets would have caused widespread misery, as indeed it did for a while in the early Eighties. But liberalised finance could also package up the fact of subdued earnings and unfulfilled aspirations into a booming mortgage and consumer-finance industry. For some time, this giant extension of credit to the general public provides a substitute for real prosperity. Politicians, for whom a sense of history is, like reading, very much an optional extra these days, conclude that financial liberalisation has 'worked'. They metaphorically slap their thighs in merriment at the recollection of how things used to be, when governments tried to control capital. Everyone is better off now. The proof of the pudding, surely, is in the eating? The City does not disabuse them. But like any drug, liberalised finance wreaks more damage with every dose. Thus easy credit sucks in more cheap imports, weakening further Britain's manufacturing position with regard to the rest of the world. It inflates the value of property, thus bloating this 'asset class' at the expense of productive investment. It makes vast amounts of money available for 'private equity' operations (asset stripping), damaging further the productive sector of the economy. Above all, the financial sector insists that economic policy in general and monetary policy in particular remains geared to its own needs, with interest rates always supportive of inflated asset prices.

Politicians, convinced that all this 'prosperity' is the fruit of their own foresight in freeing the financial interest, have it drummed into them (not that it would seem to need much drumming) that the worst thing they could do would be to tamper with the City's New Olympians. But we believe the UK economy is about to have a very nasty reality check. Two or three years ago, we had few other people for company. Today, we have no shortage of companions. Jonathan Loynes, chief UK economist at Capital Economics – probably the country's most successful independent economic consultancy – made this comment on the figures released on December 20: 'This morning's flurry of UK data paints a worrying picture of a dangerously unbalanced economy. Although annual GDP growth in the third quarter was revised up again from 3.2 per cent to 3.3 per cent, this solid performance disguises a number of major stresses and strains. For a start, the household saving ratio fell again in the third quarter from four per cent to 3.4 per cent, suggesting that households are still overstretching themselves. Second, the balance of payments release revealed a huge current account deficit in the third quarter … The UK's external position now looks pretty much as bad as that in the US, suggesting that the pound needs to fall sharply like the US dollar. And finally, this morning's public finances data revealed another hefty budget … Overall, a pretty ugly picture, supporting our view that the coming economic slowdown will be a prolonged period of adjustment rather than a short pause for breath like that seen in 2005.' When an economist speaks of a 'prolonged period of adjustment' it is rather like a diplomat referring to 'a full and frank exchange of views'. The reality is rather bloodier than the calm phrasing may suggest.

On the fiscal side, the search for the much-vaunted 'stability' is an even tougher assignment. After Labour's 1997 election victory, Mr Brown had pledged in his so-called 'golden rule' to balance the budget for 'current' (i.e. day to day) expenditure over the length of the economic cycle. The exact length of this cycle was chopped and changed during the Brown years, and when he became Prime Minister in summer 2007, the latest official version stated that the cycle had begun in 1997 and had yet to end. There may have been a hint of playing for time in all this; if so, a glance at the public finances may have explained why.

Mr Darling announced that the borrowing on the current budget for 2007–2008 was £4 billion greater than had been expected in the Spring, taking the total to £8.3 billion. Adjusted for the economic cycle, the borrowing on the current budget as a percentage of gross domestic product had worsened from 0.3 per cent in the Spring to 0.7 per cent. That is quite impressive considering that the whole point of the golden rule is that the cyclically adjusted figure ought always to be zero at worst, and possibly in surplus.

Undaunted by all this, the Chancellor explained that everything was going swimmingly. Mr Darling even had the effrontery to claim that the present economic cycle had not yet ended and thus it was impossible to tell whether the golden rule had been met, but he was confident of meeting the rule in the next economic cycle, the one whose start date, let alone whose finishing date, is unknown. This was what the Treasury wrote:

> At this early stage, and based on cautious assumptions, the Government is therefore on course to meet the golden rule in the next economic cycle.

But then, the economy had become partially dependent on public spending to keep the motor turning.

Unfortunately, as the December 20 public-finance figures showed, the Government had failed to squirrel away money during the good years so would be unable to use public spending to any great extent to stabilise the economy during any downturn. Far from it – Mr Darling would be reining in his own spending just as the public would be reining in its own, a pro-cyclical move the result of which would be anything but stability. I am reminded of the summer of 1989 in reverse. Then, everyone thought belts should be tightened, but not their own. Now everyone thinks belts should not be tightened, for fear of recession, but tighten their own anyway.

The chain letter that is Britain's economic boom is running out of subscribers.

GO NUCLEAR AND KEEP FLYING!

Extracts from a speech given in the House of Lords on 27th November 2007, by Lord Vinson as part of the debate of the Bill on Climate Change

The Bill sets out complex, fanciful and unachievable limits on carbon reduction and unenforceable sanctions on any future Secretary of State for failing to meet targets, because no one Government can commit the next, as has been well said already in this debate. The truth of the matter is that the UK's carbon output will rise dramatically as our ageing nuclear plants are phased out, due to the inept handling by the Government of our energy requirements over the past 10 years. The degree to which the British public will accept additional economic penalties for failing to meet targets is doubtful. People will not want to wear hair shirts for long, particularly when they see the rest of the world's carbon footprint increasing dramatically. Knowing that the world's population is likely to grow by some 3 billion in the foreseeable future will also add to their disquiet. Unless I have missed it, the question of world population has not been raised in this debate today, but human beings breathe out and use an awful lot of CO_2 and population control should be one of the items at the top of our agenda if we want to control the world's climate.

The Bill is founded on, as much as anything, the concept of carbon trading, which the *Financial Times* called a scam. Carbon trading is a charter for international cheating through bogus assessments of allowances and fraudulent verification. I doubt whether in practice it will contribute anything worthwhile. In any case, the extent to which the UK purchases carbon emission allowances from abroad will obviously affect how other nations see the exemplary value of the UK, which, of course, is the main purpose of the Bill, as others have said. Trading our carbon outputs with the underdeveloped world is the modern equivalent of selling one's sins to gain redemption. If such trading accelerates the introduction of sensible measures that really will reduce carbon on a massive scale, then so much the better, but I am doubtful. The whole concept is full of holes.

However, that does not mean that one should not try to look at the whole question of global warming through more constructive eyes. If it is man-made and not a natural geological sequence, there are many sensible things that we can do about it. We should, of course, economise in every way, but economising will not save the planet. Energy use is the foundation of civilisation – ours in particular. Economic self-flagellation through enforced target setting would be deeply damaging to the economy and an expensive way of setting an example. In any case, it will, of course, be totally ignored by India, South America and China, whose carbon footprint is due to overtake that of the USA very shortly.

Wave power, the Severn barrage, carbon sequestration, biomass, wind power etc may all help, but they are as yet largely underdeveloped and mainly unproven technologies. Not least, the intermittency of wind power limits its application and makes it extremely expensive. We should try to develop all these economically and sensibly, as they are good alternatives, but not at the expense of failing to utilise the one existing proven technology that we pioneered in this country – nuclear generation. Nuclear is the only way to make meaningful savings on carbon worldwide and quickly; it is the one technology that can actually save the globe, it is good to hear our

World Nuclear Output – The UK's small and declining role

Country	*% contribution to overall electricity* *1996*	*2005*	*2006*	*Terrawatt hour production* *2005*	*2006*
Argentina	11.4	6.9	6.9	6.4	7.1
Armenia	36.7	42.7	42.0	2.5	2.4
Belgium	57.2	55.6	54.4	45.3	44.3
Brazil	0.7	2.5	3.3	9.8	13.8
Bulgaria	42.2	44.1	43.6	17.3	18.1
Canada	16.0	14.6	15.8	86.8	92.4
China	1.3	2.0	1.9	50.3	54.8
Czech Rep.	20.0	30.5	31.5	23.2	24.5
Finland	28.1	32.9	28.0	22.3	22.0
France	77.4	78.5	78.1	430.9	428.7
Germany	30.3	31.0	31.8	154.6	158.7
Hungary	40.8	37.2	37.7	13.0	12.5
India	2.2	2.8	2.6	15.7	15.6
Japan	33.4	29.3	30.0	280.7	291.5
Kazakhstan	0.2	n/a	n/a	n/a	n/a
Korea (South)	36.3	44.7	38.6	139.3	141.2
Lithuania	83.4	69.6	72.3	10.3	7.9
Mexico	5.1	5.0	4.9	10.8	10.4
Netherlands	4.8	3.9	3.5	3.8	3.3
Pakistan	0.6	2.8	2.7	2.4	2.5
Romania	1.8	8.6	9.0	5.1	5.2
Russia	13.1	15.8	15.9	137.3	144.3
Slovakia	44.5	56.1	57.2	16.3	16.6
Slovenia	37.9	42.4	40.3	5.6	5.3
South Africa	6.3	5.5	4.4	12.2	10.1
Spain	32.0	19.6	19.8	54.7	57.4
Sweden	52.4	46.7	48.0	70.0	65.0
Switzerland	44.5	32.1	37.4	22.1	26.4
Taiwan	29.0	-	19.5	-	38.3
UK	**26.0**	**19.9**	**18.4**	**75.2**	**69.2**
Ukraine	43.8	48.5	47.5	83.3	84.8
USA	21.9	19.3	19.4	780.5	787.2
Total	100.0	100.0	100.0	2,626	2,658

Source: WNA and IAEA.

Prime Minister at last start to talk about such real measures rather than trying to abolish plastic bags. It is high time all of us stopped listening to Greenpeace with its Luddite policies. The nation has been held to ransom long enough and Greenpeace has, in turn, held up the development of nuclear for another year.

We should aim, following the pattern of France, to reduce our dependency on oil and carbon fuels and go for an all-electric world as quickly as possible. We already have the technologies in hand to enable us to create an all-electric society within 50 years. New technologies may come along and have their place, but meanwhile we should get on with things. We should really set our sights not only on lighting our homes with electricity, but on heating our homes with electricity, running our trains on electricity and rapidly developing electric cars to run on electricity and be rechargeable from home – a development that is just round the corner. Above all, if we used carbon dioxide-free base-load nuclear power, our children and grandchildren would have a good future to look forward to.

That could mean Britain building one nuclear power station a year for the next 30 years, but that is perfectly achievable if we set our minds to it. What is more, if we switch from carbon-based sources to nuclear fission and then fusion, the carbon footprint savings in the world would be so massive that they would more than offset any increase in aviation growth currently 1.5 per cent to a projected 3 per cent worldwide. Aviation is the great transport emancipator of the 21st century and I cannot see the world doing without it. There are some 440 nuclear power stations in the world and 35 under construction including six under construction in India. Our going extensively nuclear really would set a meaningful and practical example to the rest of the world.

If global warming is as serious as many believe, it is made doubly so by our perilous energy position and our lack of energy security as oil runs out. The House should be deeply indebted to the noble Lord, Lord Howell, who has indefatigably tried to bring this to the attention of the nation. Energy security should be treated in the same way as defence of the realm and given economic priority in every way. Going nuclear electric would help to solve both problems. Meanwhile, we fiddle on the periphery the problem: the Government fiddles while the climate burns.

LIVING IN 'INTERESTING TIMES'

Damon de Laszlo

The biggest dangers to world stability this year will come from the political efforts to destabilise China, with the Olympic Games acting as the lightning conductor. While the Chinese government may not be 'nice', it is effective, and the Chinese economy is critical to the West's economic stability. If China were collapsed, the economic consequences would be very serious.

Visiting China two weeks ago, to see companies around Shanghai and Chonqing, one was constantly reminded of the incredible progress made in the last fifteen years, bringing an enormous increase in living standards to hundreds of millions of people. The consequences for some are awful, Tibet being much in the headlines, but the old moral dilemma remains – how to reconcile the benefits that the regime has brought to half a billion people with the downside for relatively few.

The consequence for the West, however, of the Chinese Government's strategy is worth constantly reiterating. We have benefited from ten years of Chinese industrialisation, which has produced huge amounts of innovative goods as well as reducing the cost of products that contribute to the West's high standard of living. Western Governments have taken credit for the low inflation that this has brought.

We will not be so happy with the next phase. Chinese wages are rising; amazingly there is a shortage of labour. The Chinese people are benefiting from the products that used to go only to the West. They are also enjoying more and better food and the other material benefits that come with rising prosperity. The RMB is also rising inexorably as the Chinese Government increase interest rates to dampen down the economic expansion and is encouraging industry to look inward as the US and other western countries bring pressure on China to reduce its trade surpluses. China's increase in consumption of food and raw materials for the enormous infrastructure building programme is putting huge upward pressure on commodities. The combined pressure of increases in the cost of Chinese products and the continuing increase in commodities is going to bring in a new inflationary era.

The good news from the China story, which also applies to India, is that there will be a movement of industrial production back to the West. This, however, is only of small comfort as the US, in particular, has got to digest an enormous pile of debt. The impact of this on US GDP is likely to be several percentage points over the next few years.

Looking at Europe, Britain is in the same position. While UK private borrowing is probably not as extreme as in the US, the Government borrowing requirement is far, far worse. The UK position is further exacerbated by an apparent lack of understanding of what has been the successful part of the UK economy, i.e. international financial services and the specialised manufacturing and chemicals industry. By creating tax rises and more importantly tax uncertainty and confusion, these parts of the economy are being destabilised by political mismanagement.

In February, it looked as though there were still some downdraughts in the world's financial sectors. We are now fairly certainly at the bottom of the cycle. The world and his dog now knows there is a financial crisis and the unanimity of downward pointing forecasts indicates the turn is not too far away. We still have to get through the publication of the history of 2007 in the form of year-end accounts. Every Chief Financial Officer and auditor will be throwing the kitchen sink into the last few months of the year so as to have some hidden reserves to go into 2008. Clearly there is always a risk of systemic failure but it is now less likely than it was a month or two ago.

The US Government, in an unusual and highly impressive flash of unanimity, has created a financial stimulus to the US economy that will add a good 1% to the GDP of America in the second half of the year. The Fed has acted dramatically and impressively to address the situation. The Sovereign Funds of the Middle East and China are moving in an impressive fashion to take advantage of the confusion in the West, buying discounted assets, so putting liquidity back into the system.

The not-so-bad news is that markets will continue to be volatile and could continue to go down for a while, but the really bad news is that inflation rather than deflation is going to be the order of the day going forward. Europe, which as a whole was growing more slowly, will also gradually turn round, but the future there does not look exciting.

A FAREWELL TO ALMS

Gregory Clark. Published by Princeton. Hardback £17.00

Many economic histories of the world start by giving Adam Smith centre stage. The world was full of restrictions of all kinds but after the end of the 18th century mercantalism and corporatism gave way to freedom in business transactions and the modern world of prosperity had begun.

In contrast 'A Farewell to Alms' is an economic history which begins by giving centre stage to Thomas Malthus. The Malthusian world was one in which any increase in total wealth was simply matched by increased population thus ensuring mere subsistence income levels for all except those whose political clout ensured an elite status. Gregory Clark sets out to analyse that Malthusian world showing just how convincing and profound this interpretation was, and then to analyse the process of escape which we call the 'industrial revolution' and the extent to which only some areas of the world are safely into a new paradigm.

Good sense, clear analysis and an all encompassing canvas enables Clark to survey and make an understanding of economies pre-industrial, industrial revolutionary and of today. Much reads like a 'who dunnit?' – just why did the economic stasis of millennia change via the industrialisation of northern England to a world of incredible and rising plenty? And why is the gap between rich and poor countries today so very large and so mysteriously persistent?

So why did the 'industrial revolution' happen where it did and when it did? Typically, economic historians have attributed it to various inventions (but other countries had, at times been more inventive), to an economic circumstance which rewarded invention (but the famous inventors typically didn't make a fortune), to population growth and thus larger markets enabling specialisation (but other, much larger population aggregations had failed to spark such developments) or to Britain's political stability (but again, Britain was hardly unique). Clark sees the key in terms of the evolution of society in Britain at that time. *Downward* social mobility (arising from the relatively large families of the wealthier classes) led to middle class ambitiousness, and the slow Darwinian emergence of a working class prepared to undertake reliable disciplined employment created the preconditions needed to take advantage of new economic opportunities.

And now, why are incomes per head persistently so much lower in less wealthy countries – the so-called Great Divergence? He gives three reasons. The first is that much of the world has simply not escaped from the Malthusian Trap. Increased wealth is simply matched by increased population. The second is that modern medicine ‘has substantially reduced the subsistence wage in such areas as tropical Africa, allowing populations to continue growing at incomes which are substantially below the average of the preindustrial world’. The third reason is that the new production techniques introduced since the Industrial Revolution have raised the wage premium for high-quality labour. Reliability, dexterity and discipline count for much more when a complex multi-faceted machine with just a small fault introduced through one worker’s lapse renders it worthless. A low-cost labour force is not necessarily cost-effective.

And why, apparently, are we no happier than we were before the generation of all this vast wealth? Clark reaches a doleful conclusion – ‘the contended may simply have died out in the Malthusian era’ (p.376). ‘The envious have inherited the earth’.

I enjoyed this book. The intellectual level made reading it time well spent and the narrative speed made it the economist’s answer to a Dan Brown novel. Finally, if one asks ‘well, where do we go from here?’, this book is a very deep breath and a pointer towards some exciting though perhaps uncomfortable answers.

J.B.

INFLUENCE: THE PSYCHOLOGY OF PERSUASION

Dr Robert B. Cialdini. Collins, revised edition 2007 £15.00 paperback

Hyped up by claims to contain real secrets, and much enjoyed by marketing students, this book explores the salesman’s opportunities of exploiting human weaknesses. And this is not just the product of the author’s fertile imagination – it summarises and lists the many pieces of university research principally done in the USA during the past few decades into the trivia of our susceptibilities. All quite innocent ways to justify research grants and academic publications! The book is therefore an honourable up-date to Vance Packard’s 1960's text *The Hidden Persuaders* except that rather than talking about 'persuasion techniques' Cialdini talks of 'compliance methods' and 'weapons of influence'. Exciting stuff.

The text certainly contains important home truths. Many, perhaps most of the decisions we have to make involve facts beyond our patience to collect and perhaps beyond our capacity to understand and so we 'short cut' by deciding on some convenient single criteria as a quick guide. We maybe just buy the most expensive one or the same one as our friends or the one from the salesman who we like the most. Certainly, these simplifications can be exploited and are exploited by the marketing practitioners. This is not a surprise but it is quite fun to read about.

Have you ever thought about 'rejection and retreat' compliance techniques? You probably haven't but the idea is that the salesman (or persuader) makes an outrageous suggestion or request which you reject. He then 'retreats' thus making a 'concession' to a small and reasonable request which you then accept because in this social interaction you wish to reciprocate with a 'concession' of your own. We like to run our lives in this 'tit for tat' way but actually, the small sale or favour was all that the salesman really wanted in the first place. The crafty fellow.

Similarly one can look at our natural wish to be consistent in presenting our own self-image. If I think of myself as rather important I might want a rather swish car and send my friends rather expensive Christmas cards. So if a salesman can 'suggest' a self-image to a client, the information can be used to make a sale. The book even explores the abilities of Chinese captors to manipulate the self-images of American prisoners of war so that they 'voluntarily' helped the enemy. Clearly this is fiendishly clever.

And then again, we are told that friendship can be exploited. The salesman who manages to make us 'like' him is much more likely to make a sale. If we are hoodwinked into 'trusting' him as well and then he appears to be 'on our side' in negotiating a lower price with his manager we are left helpless with credit card extended. It really is good to be warned. Add to this, our instinct to respond to rivalry so that if the second hand car salesman arranges for another buyer to turn up at the same time as ourselves the heat is really on and we will close a deal we never seriously intended to make. Help! Similarly a deliberately held up queue outside a night club can be used to kid potential clients into thinking it is full and so well worth paying to enter; and 'canned' laughter during a TV sit-com can be used to make us think that the show contains lots of great gags.

Often the book tells one something as if no-one had ever thought of it before. For example the purchaser who i) has to sign a paper to confirm the deal ii) makes the commitment with others seeing what he has done and iii) undertakes the completion in an appropriate place or building, is more likely to stick with the deal and not try to back out on second thoughts. But this is hardly a revelation. What else, for centuries, has the marriage ceremony been all about? Thus, such information amounts to little more than 'putting old wine in new bottles'.

It should be said that there *are* some useful tips amongst all this over-egged trivia. I hope that I will not forget the passage about what to do if one is in difficulties (perhaps one has had a heart attack or been mugged) lying by the roadside whilst passers-by take no notice because they are all following each other in assuming that your plight is not their business. The advice is for you to take control. Choose one person in the crowd and allocate him or her the responsibility to help you. Shout to him 'You sir, in the blue coat. I need help. Please call an ambulance'. Others will then respond by assisting that person. This may be obvious enough but it is well worth remembering.

The real criticism of this book of insights into how we are tricked is that it is itself based on a sleight of hand. The entire text is based on ignoring the actions of competing influencers and on ignoring the point that we are 'once bitten twice shy'. It does not greatly matter if advertisers or political parties or salesmen use any technique of lawful persuasion they like as long as the same opportunities are available to their competitors. On the other hand, if a monopolist or the State or the prison guards use such methods, this ain't advertising – it is propaganda and that is *very* different. And anyway, we *do* learn and become wiser. Night clubbers know not to be fooled by that long queue next time. Hayek wrote that 'competition is a discovery process' and so is life as we learn from our mistakes or even perhaps enjoy repeating them – I suppose there are people (not me) who still watch sit-coms with canned laughter.

J.B.

THE LAST COURSE

An American ERC member anxiously e-mailed me 'What is the absolutely best thing to drink with Stilton?' If anyone has the answer please let me know. It seems that it may not be entirely straightforward however. Of course, everyone would say port – preferably tawney and my copy of Margaret Costa's cookery book talks about mashing Stilton with butter and brandy to make something to put on crusty bread or celery. But our American wants something to drink, not something to sip. The question requires a wine for an answer.

The best-selling annual wine guide – Hugh Johnson's – says that Tokaj Aszu 'works well' with Stilton, and Vincent Gasnier's book 'How to choose wine' says that blue cheeses are best with 'full opulent whites' or 'ripe smooth reds' but he is talking about continental blue cheeses which are salty and soft. Stilton is different, but we are getting closer.

General advice holds that the wines of an area have been developed to suit the food there. So for a Burgundy cheese, look for a Burgundy wine etc. But since Stilton is English we still have a problem unless there are some famous Birmingham wines that have escaped my attention. This seems a dead-end, but why?

Perhaps we should consider the different traditional eating habits of the Continent and England. At least in France the order of courses is soup-fish-meat-cheese (all with wine) and then fruit, coffee and Gaulloise. In England it is different. We finish the wine with the soup-fish-meat and then proceed to something sickly, stodgy and sweet (with custard) and then turn to Stilton-port-brandy-coffee and cigars (possibly followed by a speech and jug of real ale to wash down the effects of over-eating before calling the carriages).

So finding the best wine for Stilton – now that we are adopting the French habit of having the cheese before the sweet – could be a bit of a new problem.

Ed.

NEW MEMBERS

The Council, as always, needs new members so that it can continue to serve the purposes for which it was formed; meet its obligations to existing members; and extend the benefits of members to others.

Members may propose persons for membership at any time. The only requirement is that applicants should be sympathetic with the objects of the Council.

OBJECTS

i) To promote education in the science of economics with particular reference to monetary practice.

ii) To devote sympathetic and detailed study to presentations on monetary and economic subjects submitted by members and others, reporting thereon in the light of knowledge and experience.

iii) To explore with other bodies the fields of monetary and economic thought in order progressively to secure a maximum of common ground for purposes of public enlightenment.

iv) To take all necessary steps to increase the interest of the general public in the objects of the Council, by making known the results of study and research.

v) To publish reports and other documents embodying the results of study and research.

vi) To encourage the establishment by other countries of bodies having aims similar to those of the Council, and to collaborate with such bodies to the public advantage.

vii) To do such other things as may be incidental or conducive to the attainment of the aforesaid objects.

BENEFITS

Members are entitled to attend, with guests, normally 6 to 8 talks and discussions a year in London, at no additional cost, with the option of dining beforehand (for which a charge is made). Members receive the journal ‘Britain and Overseas’ and Occasional Papers. Members may submit papers for consideration with a view to issue as Occasional Papers. The Council runs study-lectures and publishes pamphlets, for both of which a small charge is made. From time to time the Council carries out research projects.

SUBSCRIPTION RATES

Individual members .... £35 per year

Associate members .... £20 per year (Associate members do not receive Occasional Papers or the journal ‘Britain and Overseas’).

Student members .... £15 per year

APPLICATION

Prospective members should send application forms, supported by the proposing member or members to the Honorary Secretary. Applications are considered at each meeting of the Executive Committee.

APPLICATION FORM

To the Honorary Secretary
Economic Research Council
Baker Tilly
65 Kingsway
LONDON WC2B 6TD

Date......................................

APPLICATION FOR MEMBERSHIP

I am/We are in sympathy with the objects of the Economic Research Council and hereby apply for membership.

This application is for *(delete those non-applicable)*

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Student membership (£15 per year)

NAME..

ADDRESS..

....

.... TEL. ....

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PROFESSION OR BUSINESS ....

REMITTANCE HEREWITH ....

SIGNATURE OF APPLICANT ....

NAME OF PROPOSER (*in block letters*)...

SIGNATURE OF PROPOSER ....