BRITAIN & OVERSEAS

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

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A LETTER FROM THE CHAIRMAN

Dear Member,

As Chairman of the Economic Research Council I can but apologise for the missing numbers Vol. 16, No. 3 & No. 4, of Britain & Overseas. Since the death of Edward Holloway we have had difficulty in putting together the magazine.

After a good start, Andrew Street who took on the Editorship has, since the Autumn of '86, found it very difficult to bring the magazine out owing to pressure of work from a new job. The consequence has been that we have missed the Autumn and Winter editions.

The Spring edition will be edited by James Bourlet and we hope from there on to be on a regular basis.

I would ask however for your forbearance in the past and support in the future. Members are an important source of material and the Editor is always pleased to receive submissions from you.

The future programme includes Richard Wainwright MP on March 24th and Ian Wrigglesworth MP on May 20th. Your Committee would welcome suggestions for a programme beyond these dates.

Yours sincerely,

Damon de Laszlo,
Chairman.

LORDS CALL FOR AN INDUSTRIAL STRATEGY

By the Rt. Hon. Lord Aldington.

The future for the British economy depends upon the future of British Manufacturing, and, despite the present situation, I am by no means a pessimist. I am, however, a Jeremiah, calling for some substantial changes in National attitudes, in governmental attitudes, and in the attitudes of political parties. For the decline in the competitiveness of Britain's manufacturing industry has covered the whole of this century and a trend as long as that cannot easily be reversed.

In the past 15 years there have been a number of most important factors bringing changes in our economy including our entrance into the E.E.C.; the Oil price hikes of 74 and 79; North Sea oil and its consequences. They all affected British manufacturing industry. The first and the third provided us with splendid new opportunities; but have led to temporary difficulties as well. The second caused great problems at the start, but led, of course, to greater surpluses in trade balances later, as well as to higher revenues for the Chancellor of the Exchequer. The greatest of the problems was inflation at high levels which were not brought within lower bounds until 1983. The policies which successfully reduced inflation, at the same time accelerated the much longer term trends of decline in manufacturing industry; and so we saw a substantial reduction in our manufacturing output and capacity, as well as a deficit in the balance of trade in manufactured goods for

the first time in recorded history, which grew worse in the two following years. But the important point to note is that Britain's competitiveness as a manufacturing nation has been declining over the whole of this century; and that what has changed has been the exposure of an old disease, not the introduction of a new one. This generalisation does not, as you will all know, mean that there are not quite a number of British manufacturing companies which are highly competitive world-wide. It does mean that there were too many who were not globally competitive, and too few that were and are.

Britain's exports' share of world trade has been falling throughout the century, partly because of the emergence of other large trading nations, but mostly because of declining competitiveness in all its senses, price and non-price. Our share was 33% in 1900 and around 8% in 1985. In fact our exports were at record levels in 1985. Specialisation in industries leads, as you know, to greater levels of exports and imports between countries. Imports into developed countries have risen enormously in the past 20 years; but fastest of all in Britain, and particularly fast in the last few years. The ratio of export value of our manufactured goods to import value was 219 in 1963 and 89 in 1983; and worse since. I must give the figures for trade with E.E.C. countries, 164 in 1963, 88 in 1973 and 66 in 1983. Worse for trade with Japan: a ratio of 149 in 1963 and 18 in 1983.

I should add that the deficit in the balance of trade of the most modern products – high-tec. electronic etc is large and growing.

We have to understand the facts, if we are going to have confidence, which I have, that these bad trends can be, and will be, reversed. There are some simple figures that tell the story:

Between 1960 and 1983 in our manufacturing industry

output rose by 26%
exports rose by 130%
imports rose by 500%

and there are some other figures which teach a lesson of the importance of manufacturing to developing economies:-

In the same 23 years, whereas Britain has had an average growth of GDP of 2.2% p.a., manufacturing output has grown by 0.9% p.a.

In other countries manufacturing output has grown by more than GDP. Taking all OECD countries

GDP has grown by3.7% p.a.
manufacturing output has grown by 4.2% p.a.
In Japan GDP has grown by 7.2% p.a.
manufacturing output by 10.2% p.a.

Those figures seem to show that in our Economic Aims we have been attaching too little importance to manufacturing, despite a huge growth in demand for its products. As in most other countries, service activities of a wide variety have grown for some years much faster than manufacturing. But service activities cannot be a substitute for manufactured products in the balance of trade. Many of them are in fact reliant on manufactures; and their value added in exports is only one third of the value added on manufactures. Furthermore our invisible exports, splendid though they are, have been losing their share of world trade in the last 20 years even more than our visible exports. And though out of the Oil Account-led current balance surpluses our overseas investments have grown hugely in the past 5 years, the income from them is not going to be a substitute for the earnings from a competitive manufacturing industry, either in our current balance with others or for our G.D.P..

The loss of British manufacturers share of their home market is not given the attention that it ought to have. It puts the spotlight on the key to our situation; and is something that should be easiest to reverse. The lack of competitiveness over a wide range of products, made worse at times by the overvaluation of the £ pound, has resulted in the abandonment of some things altogether, and the failure to meet the growing demand in others. But there is also a British propensity to import, which is not a new thing for us. But what is newly perceived is an apparent bias in some minds towards the foreign made product. That bias is being countered quite widely; most notably by Marks and Spencer and the C.E.G.B., as well as by the Think British Campaign, or Better Made in Britain. I am not advocating protectionism. Far from it. Britain will not cure her lack of competitiveness by closing her market and encouraging others to follow. I am advocating that we practise an unbiassed approach to our own manufactures, and ask others to do so too.

The fair openness of markets is very important to Britain whilst she tackles the deeper causes of the longterm decline in competitiveness, which will take some years to accomplish. So are other points with immediate effects like the rate of exchange, interest rates and government support policy. There is nothing new there. But important, as they are in giving opportunities, as does the higher yen, and the higher Deutschmark, they do not by themselves cure the real disease. A glaring symptom of the disease is our inability to keep our labour costs per unit of output within what is competitive for the product. Monetarism has not cured that. We have to find a cure; and soon. People just don't seem to understand the vital importance to themselves and their children of the global competitiveness of each factory.

The big change needed has to be in the national attitude in Britain towards its manufacturing and its manufacturers. This change affects everyone, inside industry and outside, in government, politics, the media and schools and universities. The change has begun. In industry itself progress has been made for quite some time in greater professionalism and in reducing the adversarial climate. There are signs that individual workers understand that pay increases can wreck competitiveness; and that failure to make full use of modern technology is as wrecking. In financial circles, and in industry there is, in places but not everywhere, a greater realisation of the dangers of short-termitis in delaying investment or rejecting Research and Development expenditure. Outside, the national debate is stirring; and there is a change in Educational approaches and attitudes, which distinguished commissions and wise men have been urging for more than 100 years. We are still short of high quality people in industry at all levels. What is being called for is quite simple: that the whole nation has to give manufacturing a higher priority in its life, and in esteem. The Germans do; the French do; the Japanese do. Why don't we? I think we will because we must.

I have chosen so far to concentrate upon the black parts of the situation of our manufacturing. It should not however be overlooked that the smaller manufacturing base that remains, after the shake-out, is more efficient and more market conscious. There is a wider acceptance of business vigour and the entrepreneurial spirit in small

firms and large. Managers are more professional; and are being enabled to manage, by the righting of the balance between trade union power and managerial responsibility. A number of foreign investors manufacturers can testify to the quality of some manpower available. And our aggressiveness in overseas markets is growing and winning more success where the doors are open to them. And the Exchange rate of the pound has been moving to more realistic levels. And inside industry there really are great improvements; but so there are amongst our competitors.

There is much more that needs doing. Backed by leaders of industry, a recent House of Lords Select Committee called for a national industrial strategy. That is quite different from a Marxist Plan. Nearly all our competitors have one. It enables industry to know what Government aims to achieve and what it will support. It must be worked out in consultation with industry. And it should, as it appears to do in France, Germany and Japan have the general support of all main political parties. And most importantly it enables Government to set its priorities in general policies to avoid damaging industrial success. For there is no doubt in my mind that sooner or later any government has to give the resurgence of manufacturing industry a top priority, which manifestly it has not had in the past 12 years. Notice 12, not just 7. The problem of the end 1970s was the pre-eminence of trade union and social interests; the problem of the 1980s has been the pre-eminence of money over the production of goods and the investment for the future, and the support of Universities.

I used the word "strategy" deliberately. It connotes longer term-thinking. That is needed within governments. That is why I called for a consensus in the country and between political parties about industrial policies. The life of a Parliament is very short in the time scale required for investment and planning by manufacturers. Can we ever get such a consensus? Of course we CAN; but it is likely to take time. Other countries have that consensus. Germany, par excellence, and Japan too. France also, despite arguments about ownership. And the U.S.A. most definitely.

Longer-term thinking is needed also within manufacturing managements, and in great parts of our financial sector. The latter, the investors and the bankers impinge upon the former, because a too obsessive regard for half year profits can threaten a management team and delay investment, or expenditure on Research and Development. It can also lead to take-over bids being mis-judged. I wonder how many investors gave their full attention to a comparison between the investment and R. and D. performance of the large Companies concerned in recent take-over bids? And who has worked out the effect on management of the take-overthreat? Of course there is an element of discipline, which can be good; but so long as share prices do not fully reflect investment and R. and D., but only profit growth 6 month by 6 month, there will be a danger of more damage from the discipline than good. But I note with admiration the warnings about short-termitis which the Governor of the Bank of England and his colleague Mr David Walker have been giving.

And there are plenty of signs that the Clearing banks have grasped the point and leading Institutions too. Pension Fund Managers and clever analysts, or some of them, still show signs of preferring the "quick buck" to the long cycle investment in plant or Research and Development. Amongst our main competitors there is a very different attitude, the fruits of which are all too obvious. Investment and technology are the essentials for a strong manufacturing future. That is why I grieve every time the financial pundits call for an increase in interest rates, against which there is a healthy revolt developing. High interest rates do not help competitiveness; and I wonder how they help stop pay increases that are not justified by the competitiveness of the product.

I have not so far mentioned unemployment. A more competitive manufacturing industry will employ fewer people for the same level of output. But clearly if there is a real increase in output, more people will be employed. There is indeed a shortage of skilled and trained workers in many fields today. But the main effect on employment from a resurgence in manufacturing will come from a faster growth in services of all kinds, because of the stronger national current balance.

Nor have I made more than a passing reference to inflation. I still believe that the main cause of inflation is unjustified pay increases. That is pay rates that make costs of production uncompetitive in the world at the chosen rate of exchange. If we try now to get a rate for the pound in the E.M.S. which is realistic for the competitiveness of industry, we must find a stable exchange system, such as the E.M.S. and not look for any further devaluation. Others, such as Germany and Japan can teach us how industry can improve its global competitiveness with a rising exchange rate.

All that is a long chapter of things that are wrong and have to be put right. How, then, can I be optimistic? Quite simply, because I believe that our countrymen are beginning to understand the problem. Complacency is being challenged. Short-term gimmicks will not work, and will be rejected. I do not expect everything to come right in a few years. Indeed the cycle of modern industry is more like fifteen years for new products, than five. And the improvements in schools and universities' attitudes to manufacturing will take a full generation to work through. A bit of pain in the balance of trade over the next few years, may give just the boost to the reversal of the trend of decline for which my colleagues and I have called, and were so rudely rebuked by the Treasury, with the happy result for us that our Report became the best-selling Select Committee Report for many years.

INDUSTRIAL INVESTMENT AND CREDIT CONTROL

By Bryan Gould M.P.

If we are to compete in the modern international economy over the next ten years, we must ensure that we match the levels of industrial investment which are being achieved by our more successful competitors. This is partly a matter of establishing those domestic macro-economic conditions – through fiscal, interest rate and exchange rate policy – which will make industrial investment in Britain the rational option for investment managers; but it also means looking again at the institutions and mechanisms by which we attempt to provide that investment to industry.

There is good deal of justifiable concern about the short-term attitudes of financial institutions in this country by comparison with their counterparts abroad. What I want to focus upon, however, is the peculiarity that the provision of industrial investment capital is almost exclusively the preserve of the private sector, with the public sector being rigorously excluded.

In this country, the public sector is strictly limited as to the sources of money at its disposal – in effect, tax revenues and a limited amount of borrowing for precisely defined purposes – and as to the areas in which it may spend that money. Such public money as is raised and spent is generally represented as a drain on the nation's wealth. The public sector as a whole is implicitly regarded as a semi-detached part of the economy, almost a foreign, if not enemy, country – a demander of tribute rather than a contributor to the nation's wealth. The notion that the public sector may have a role to play in generating investment capital -not only through tax-raising and borrowing but also through credit creation –and in making real and substantial industrial investment is regarded as anathema.

Instead, the huge task of providing and making the industrial investment we desperately need is entrusted almost exclusively to the private sector. Yet to do so means taking a gamble which has little chance of paying off, since the odds are so heavily stacked against its success. The private sector's creators of credit and managers of savings are left to make their decisions, first of all, in a climate which in entirely unconducive to domestic industrial investment – largely as a consequence of government action on matters such as interest and exchange rates.

Moreover, the private sector institutions are almost entirely impervious to any attempt by government to influence their decisions in a direction which might suit the national interest. By deliberate government decision, there is now no mechanism for influencing the nature and volume of industrial investment or the terms on which it is made. We no longer have any form of selective credit control. The institutions are not only free from domestic control; they make a virtue of being able to move unhindered on the international scene as well. We are assured that it is no longer possible even to monitor, let alone regulate, the outflow of capital from this country.

In these circumstances, and with the acknowledged importance to our industrial future of making the necessary investment, it is remarkable that we are so ready to entrust the whole task to institutions which offer so little assurance that they will carry it out. Yet that is precisely what we seem intent on doing. We allow private institutions to dispose of the greater part of the nation's savings; and we give to the private banking sector a virtual monopoly over credit creation.

The consequence of the huge explosion in bank lending to the private sector has been the very opposite of the desirable consequences for industrial investment which we ought to seek. Instead of using those huge sums to invest in our industrial future, we find that they produce two principal effects, neither of which is of the slightest use – indeed, one is positively harmful – to the national interest.

The first effect is to boost asset inflation, raising the price of existing assets – principally houses – to the advantage of those who own the assets, but doing nothing to improve our productive capacity and damagingly widening the gap between the haves and have-nots.

The second effect is to stimulate consumption which, in the absence of any real improvement in the ability of British industry to meet the increased demand, can only mean an immense advantage to foreign producers and a dramatic worsening of our balance of trade.

The paradox is that, at the same time as huge sums of private savings and credit are being wasted on non-productive and damaging purposes, the notion that even a part of the unmet responsibility for industrial investment might be taken up in the national interest by the public sector – almost by default – is fiercely resisted. Yet that is surely what is now required. If the private sector persists in ignoring its responsibilities, the wasteful dispositon of credit on asset inflation and consumption must be reined in; and on the other hand, the public sector should be encouraged to take up part of the burden of creating and providing the necessary industrial investment. By this I do not mean that the investment should be made exclusively in the public sector and for public sector purposes, but *that the virutal monopoly enjoyed by the banking sector over credit creation* should be shared with the government on whose authority it, in any case, ultimately depends.

If the government is willing to preside over and authorise a huge explosion of credit *which is doing damage to our national interest, why should it not ensure that at least part* of that potential investment is used in the national interests of securing the investment without which our industrial future is bleak indeed.

CONCERN ON THE CONSERVATIVE BACK BENCHES

During the debate on the White Paper on the Government's expenditure plans 1987-88 to 1989-90 on the 18th February, Mr John Maples (Conservative, Lewisham West) said:

"I have a theory, which gains some agreement from a great many people, but which seems to fall on deaf ears in the Treasury. I do not know whether my Right Hon. Friend will have time to deal with it when he winds up the debate. Interest rates are not high because other countries' interest rates are high not because of attempts to prop up the pound, but because credit is growing fast. The banks and financial institutions have become the engines of credit growth. By the liberalisation of financial markets, they have actively and aggressively gone out and sold loans to people. They have sold credit – that is their product –and they have done so in a way that has caused it to grow at an artificially high rate. They have had to fund that by bidding up the interest rates on deposits. That is borne out by the fact that so much of the expansion of lending has gone to property development companies and to individuals and consumers rather than to industry. The figures for one of the major banks over the past five years show that its lending to manufacturing industry has risen by 33 per cent., to property companies by 170 per cent and to individual consumers by over 200 per cent. Those figures bear out my argument.

High interest rates have a serious and a deleterious effect on manufacturing industry's ability to invest and on its costs. They are one of the fundamental reasons, if not the main reason, why sterling is under pressure on foreign exchange markets. The markets are concerned about the huge overhang of liquidity and are worried that it might result in inflation. Financial factors feed off themselves – the pound is weak because credit is growing too fast, so we have to raise interest rates and keep interest rates high to protect the pound. It is a vicious circle that must be broken".

Unfortunately, no response was made during the concluding speech of the debate.

SPELLING OUT THE ACCOUNTS OF PRIVATISATION – HOW ASSET SALES ARE "NEGATIVE REVENUES" AND THE P.S.B.R. IS MYSTERIOUSLY CONTAINED

By Arnold J. Harper.

In the name of market economics and wider share ownership the Government is continuing its policy of privatising public assets. The disposals are described as "sales" despite the fact that the revenues are accounted as negative public expenditure (in order, presumably, to maintain the illusion that public expenditure is under more control than is actually the case). Thus, a cursory review of annual Government returns will not reveal any sales proceeds at all because they do not appear as revenues.

Alongside this trick is another phenomenon which has been successfully operated by governments for many years, namely, the maintenance of the appearance that the Administration honours all its debts and pays all its interest charges (and on time) to holders of its bonds. However, closer examination of the situation reveals that this is far from the case.

Since 1945 virtually all UK governments have run budget deficits, with the situation being at its most chronic in the 1970's. Under these conditions actual repayments of debt capital become impossible. Instead, maturing debts have to be refinanced by new bonds at the then prevailing interest level appropriate to the term of the loan.

The second impact of chronic budget deficits is that, in effect, interest charges on outstanding debt are financed, at least in part, by new borrowings. This may not be acceptable under the term "good-housekeeping" but from an accounting standpoint the practice has the merit that the increase in the overall level of borrowings and interest charges is publicly recorded. However, the institutions who provide the finance for the new borrowings are not unhappy for they can continue to re-cycle their received interest payments back to the government (at least in part) as the purchase price of newly issued loans. In this way the capital value of their gilt investment portfolio rises as does their guaranteed future income.

With asset sales, however, the picture changes. By way of illustration suppose that at the beginning of a financial year the Government's revenue deficit (before asset sales) is projected at a figure, which, for simplicity's sake, also corresponds with the forecast for the amount of asset disposals.

In the first quarter the Government "sells" assets and collects money from the institutions which they received in the final quarter of the previous fiscal year as gilt interest payments. The Government uses the "sales" revenue to finance debt interest charges paid in the second quarter but accounts for those proceeds as negative expenditure. during the third quarter more assets are "sold" to the institutions, which are paid for with gilt interest receipts from the second quarter ...... and so on.

At the end of the year the institutions have drawn down their investment income balance by purchasing (formerly public) equity assets, all of which is clearly accounted, whereas the Government has merely "contained public expenditure" having apparently received no additional revenue from the privatisation programme. However, the Government is not unhappy for its outstanding debt liability has not increased and hence its interest charges remain unchanged (other things being equal) and since it does not publish a balance sheet, not too many people notice that it has raided the state vaults and given away a stack of "the family silver".

SIR IAN MACTAGGART

Sir Ian Mactaggart Bt. died on the 27th of January aged 63. Sir Ian has been a vice President and a great friend and supporter of the Economic Research Council for many years. His father, Sir John Mactaggart was a founder member.

The greatest tribute any man can have must come from his own family and the following is a transcipt of the tribute paid by Sir Ian's younger son Philip at the service in St. Andrew's Hampstead:

All four of his children wished to say something today. I drew the short straw.

Dad died a happy man. If you have shed a tear, I hope it is for the same reason I have. Not for him, for ourselves. We shall all miss the twinkle in his eye and his broad smile.

He neither feared nor welcomed death... he accepted it. Shortly before he died, certain that he was on borrowed time, he asked his secretary to open a new file entitled "My Funeral – ideas miscellaneous". He only had time to choose one piece of music: "The Impossible Dream".

He had just returned from a happy family Christmas holiday, was about to move into his new dream house, was breathlessly awaiting delivery of the Mark II Ian Mactaggart hot air balloon, equally excited about his 7 ft long car which he would be able to park in London sharing someone else's meter and his diary was full of lunches, evenings and plans to enjoy the New Year with you... his family and his friends.

Of all things this was his paramount concern. Family and friends –scrupulous integrity, furious loyalty, a rare compassion to anyone in trouble and a complete inability to say anything bad about anyone.

He believed man an imperfect creature and made few pretences of his own weaknesses or failures. He designed several thousand catamarans but never built one. He fought battles for freedom and causes he believed in often knowing he could not succeed. He tried hard to convince us he was mean but usually his generosity undermined the attempt. He supported marvellous fun inventions but he knew they were mostly dreams. He did one thing few of us can truly claim – he tried.... and forgave himself and others their human failings.

His happiness in almost anything he did was superb! To dance a reel with a pretty girl. To soar in a balloon in the sky. To drive five people to this church on a Sunday in his red bubble car. To sit on his shooting stick and look at the heather and the hills of Islay. To drive to Glyndebourne and picnic on a summer's eve. To ski downhill on cross country skis with his boots undone so his feet were more comfortable. To sing a good hymn.

To eat with a friend. Every time I feel low in my life, I remind myself how he took pleasure in the smallest thing and I feel better.

I know that he would not have wanted us to grieve for him. He believed in each of us making the most of life whatever our troubles... and besides... with luck, we will one day be with him again.

THE U.K. AND JAPAN – AN INCOMPLETE EXCHANGE OF LETTERS

The Times recently published as a 'lead' letter the following correspondence from Mr James Bourlet, Hon Secretary of the Economic Research Council written whilst he was undertaking research in Tokyo, and a reply from Mr Laurens Jan Brinkhorst, Head of the Delegation of the Commission of the E.E.C. in Japan. Mr Bourlet's response to Mr Brinkhorst, reprinted below, was not accepted for publication by The Times but will be of interest to E.R.C. members who may have been surprised by the ending of correspondence on this
important issue.

EEC damage to trade with Japan

From Mr James Bourlet

Sir, three years ago the EEC information office here in Tokyo made arrangements with Japan to limit shipments of video-cassette recorders to EEC member states and since then supplies have indeed been reduced and prices raised.

As a recent Trade Policy Research Centre study has shown, the result for Britain has been an important consumer loss without any corresponding employment gain. The balance of advantage for other member countries has also been, to say the least, questionable.

But though hardly noticed at the time, the arrangement had an effect of far greater significance in that it was a "breakthrough" in wresting decision-making on trade policy from EEC member governments to the EEC executive itself. Since this political effect was in fact the main aim, serious discussion of the economic effects of the arrangement were – and are – irrelevant.

In addition to restrictions on the sales of VCRs the arrangement provided for EEC "monitoring" of selected Japanese items sold in the EEC and this in turn has led to numerous actions against selected products such as electronic typewriters. Thus the EEC has now effectively consolidated trade policy aspects of sovereignty in its own hands.

Here officials, journalists and foreign correspondents now dutifully attend EEC information office press conferences. There is virtually no trace left of a British voice or perspective on such important matters as Commonwealth interests, free or multilateral trade, the UK's invisibles trade position and much else – merged in the EEC's protectionist clamour on behalf of continental manufacturing interests.

The damage however, is by no means limited to Britain. The vast EEC generated publicity, both in Japan and in Europe, complaining of the difficulties of selling in Japan, which was supposedly intended to influence the Japanese authorities, has in fact backfired by frightening many European businesses away from the Japanese market or away from making the necessarily high marketing investment and commitment here. Thus the bilateral visible trade imbalance between Japan and the EEC is now in part a product of EEC ham-fistedness!

Meanwhile, those companies who have ignored such propaganda and have quietly investigated and invested here on their own initiative, such as BMW and Wedgwood, are doing well. Similarly, adverse EEC publicity here on whisky import taxes is unlikely to lead to lower imported whisky prices but has "informed" the Japanese consumer that such products "cost" little and thus can no longer serve as worthy gifts. Everyone has lost – but EEC politics grind on.

But these are mere details compared to the main effect on Japan, where the overwhelming need is to enable consumers and voters to feel that it is in Japan's national interests to accept imports and enjoy the consequent retail price reductions. The real tragedy of the EEC's only too effective publicity campaign is that it has identified such an import policy firmly with foreign rather than Japanese gains and has thus greatly strengthened the hands of Japanese domestic producer interests.

Sadly one must conclude that a most useful economy for the EEC to make would be to ask their 40-odd staff here in Tokyo to pack their duty-free bags and return home forthwith, leaving the normal diplomatic and consular staffs of EEC member states to handle matters in their traditionally experienced and effective way.

Yours faithfully,

JAMES BOURLET,
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Japan.

EEC-Japan trade

From Mr L. Jan Brinkhorst

Sir, Mr Bourlet's remarkable conclusions on EC trade policy with Japan should not remain unanswered. They contain a plea for abandonment of the common EC commercial policy, leaving trade policy matters to the member states' embassies "in their traditionally experienced and effective way".

It may have escaped the attention of Mr Bourlet that the UK has joined the European Community, one of whose main purposes for nearly 30 years has been the creation of a common market with, as its external corollary, a common commercial policy *vis a vis* third countries.

Unfortunately, the common trade policy *vis a vis* Japan was marked by many national exceptions. I consider it a compliment that, in Mr Bourlet's words, the EC has achieved "a breakthrough in wresting decision-making on trade policy" *vis a vis* Japan from EC member governments to the EC itself. In fact, it is nothing more than the normal application of treaty rules.

The non-application towards Japan was the exception rather than the rule to which Mr Bourlet apparently would like to return. All member governments (including the UK) now consider it in their interests to display more unity in their trade policy towards Japan. Japan respects strength, not weakness. A sound relationship can only flourish on sound foundations.

The European Commission's task is not to further protectionism, but rather to ensure that EC industry can progress under reasonable conditions of fair competition. The choice is therefore not between free, unimpeded trade or EC protectionism but between 12 national, individual, restrictive trade policies or a common EC line, bringing some order to an otherwise chaotic situation.

The EC approach towards Japan has three objectives: to secure an effective market opening in Japan; to plead for export moderation in cases where Japanese exports are threatening to destroy sectors of industry which are clearly viable in the medium and longer term; and to induce European industry to become more active in the Japanese market.

No serious commentator would contend that the Commission is "frightening European business away", certainly not BMW or Wedgwood, two companies which have benefited from the European Executive Training Programme which allows young European businessmen to study for 18 months in Japan.

Constructive criticism of the EC approach towards Japan is always welcome. I would seriously hope that Mr Bourlet will find time to inform himself correctly of the nature of the rationale of our policies at the EC's diplomatic delegation in Tokyo. While awaiting his arrival, I trust he will understand that we have no intention of following his advice to pack our duty-free bags and close the office!

Yours faithfully,

LAURENS JAN BRINKHORST
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EEC – And Japan

From Mr James Bourlet

Sir, I am not surprised that Mr Laurens Jan Brinkhorst, Head of Delegation of the Commission of the EEC in Tokyo should decline my suggestion that his staff should pack their duty-free bags and close their office! However, his confirmation that the EEC has now acquired the power to deal with Japan on economic matters (the Common Commercial Policy) whilst general foreign policy matters remain in the hands of EEC member states raises issues beyond the unfortunate trade effects already discussed.

Firstly, where are the boundaries of commercial policy? For Japan, economic matters today are virtually inseparable from mainstream foreign affairs. 'Trade Friction', a secondary issue for Westerners, assumes the role in Japan of a gauge of Western attitudes towards a people who know that their visible trade surpluses are but one part of a complex picture which includes such factors as Japanese funding for the Channel tunnel, the effects of American monetarism, an 'invisibles' deficit and world recession.

The Japanese are highly sensitive to nuance in language and note with dismay that the EEC wants 'free' competition between member states, 'open' competition with America but only (to use Mr Brinkhorst's words) 'fair competition' with them. When Mr Brinkhorst comments that Japan 'respects strength' his thoughts reflect political confrontation rather than a balance of commercial profit.

Secondly, what are the acceptable limits of political activity in another country? Is a foreign power entitled to finance opposition to indigenous (often party) political activity? The EEC wants Japanese export regulation and import targeting (hardly the cause of Japanese free traders). Operating inside Japan, the EEC, in contrast to the quiet presence of traditional embassies, is conducting a Brussels financed public relations campaign modelled on its successful operation in Britain during 1962-75. To train writers money is available for research scholarships to study 'European integration'; libraries throughout Japan are being equipped free with EEC material; and academic journals, funded by the EEC publish articles by Japanese writers – in Japanese – on EEC topics. There is assistance available for Japanese 'opinion formers' to visit Brussels – on the assumption that they will take the EEC's 'managed trade' line.

In Japan the EEC purchases advertising space – and promotes special newspaper supplements with article after article noting EEC-Japan 'co-operation'. Journalists are spoon fed with information. Endless highly effective press handout material and regular press conferences and briefings are the daily face of this panoply of proselytising – and sooner or later it will be resented.

The purpose of all this of course is to use a foreign firing point to promote Brussels over EEC member national capitals but I really am unhappy to see relations with Japan soured for the cause of European unity. Constructive critisism should indeed include consideration of the very presence of a large EEC staff in Tokyo.

Yours faithfully,
JAMES BOURLET

"MONEY MATTERS"
A Modern Pilgrim's Economic Progress
Edward Holloway

Edward Holloway personified and demonstrated a very special characteristic in the English inheritance – the confidence and ability of a gentleman, irrespective of financial means but with kindly determination and a great deal of common sense to respond to the ills perceived around us and strive successfully to play an effective role in influencing public policies. Every page of this account of his work spanning some 60 years shows how, without having to be a great Company president, political party leader, press baron or archbishop, it is possible, still to stand as an individual supported by like minded associates and win respect and trust amongst those whose hands carry the responsibilities of policy making. It is the inspiration and motivation described in "Money Matters" which, more than anything else makes it a work to be commended to the rest of us who so often despair of the inadequacies of the public domain.

Over the years of course, a number of issues became his concern; Unemployment and wasted resources in the 1920s and 30s, finance for the costs of the war, international monetary arrangements after the war, the preservation of an open world trading system leading to opposition to Britain's EEC membership (though perhaps paradoxically he had much sympathy with the idea of protecting agriculture to ensure rural prosperity), the imposition of 'monetarist' policies in a way which has caused industrial decline, financial prosperity and record unemployment – but above all a concern with the control and profit in our economic system of the supply of money and credit.

This short book review cannot, of course, explain convincingly in a few words the implications which Edward Holloway – and many others, have noted arising from the incredible transfer of state power to private banks which seignorage, the fact that only the creditworthiness of clients now limits credit supply, the built-in conflict of financial and industrial profitability, the enormous incentives financial institutions have to use their resources to ensure the survival of existing arrangements – and much else. That this whole subject has remained taboo to those economists whose profession should demand its understanding remained a mystery to Edward Holloway – and indeed to many others.

There is, in "Money Matters" a great deal of detail and insight on a historical basis on the question of credit control. That the banks, for example, just after World War 1 were embarrassed by their largesse to the point of deliberate over investment in exotic premises, or that pressure from concerned M.P.s and associates held down interest charges for war borrowing during World War 2 –without ill effects, is all most thought provoking. But anyone who expects to find, in this work, a scholarly treatise setting out beyond dispute a theoretical and mathematical treatment of the great credit conumdrum is in for a disappointment – Edward Holloway remains John the Baptist pointing the way for someone other to take the stage.

To those who might accept his challenge I commend this book whilst for those whose philisophy is only to sail downwind with the masters of the day this fascinating book should be compulsory reading.

J.B.

"MONEY MATTERS" –
ONE OF A NUMBER OF RESPONSES FROM MEMBERS

Dear Secretary,

Many thanks for the copy of "Money Matters".

I have just finished reading it and would like to express my thanks to all of you responsible for its publication. It is a very fine job and a worthy memorial to our friend. It is most impelling and readable book revealing the extraordinary extent of its author's efforts to spread the message about the necessary reform of our money system to make it comply with ordinary honesty and political integrity.

The seed sown so widely among the well educated young people over the years should, other things being equal, have resulted in a much better informed public opinion on this subject, but why has it not materialised?

Many well known business men and politicians have been connected with the movement, but there is no response. Only one M.P. contacted among many has been willing to show any interest to the writer.

The argument for reform, as Mr. Holloway has shown, is indisputable and most urgently necessary in the interest of social justice, and of law and order, but Parliament is dead so far as this is concerned.

What overriding power makes the representatives of the people act like puppets?

Yours sincerely

A. MAURICE WADE

BOUND TO FAIL –
AN ACCOUNT OF THE U.K. IN THE E.E.C.

An interesting collection of essays on the effects of British membership of the EEC was launched recently at the House of Lords by Viscount Massereene and Ferrard, strongly supported by Lord Bruce of Donnington.

An impressive list of experienced politicians, economists and journalists have contributed to this 62-page booklet, which is humorously peppered with many striking cartoons.

The purpose of the booklet is to show the extent to which the UK has lost its freedom of action and is bound economically, politically and constitutionally to the European Community.

Enoch Powell, MP, draws attention to the political power of the permanent Civil Service and the infuence of USA pressure to join the EEC.

Leolin Price, QC, dealing with the legal side, concludes his article: Dangerous Dreams and the Single European Act – "If everybody understood the reality underlying the situation the dreams would be recognised for what they are – a nightmare."

Lord Stoddart of Swindon, chairman of the British Anti-Common Market Campaign, opens his contribution, The Erosion of Sovereignty, with a powerful indictment: "In Common market terms...politics is the art of concealing from the electorate the real political aims and effects of policies pursued and agreements reached. Thus, we have a situation where solemn assurances given to Parliament and people are rendered worthless as Britain is dragged inexorable into a unitary European state."

Conservative MP Teddy Taylor deals with the adverse effects of The Economic Consequences of EEC Membership and Gordon Tether, former Lombard columnist of the Finanical Times, writes about the dangers of the The European Monetary System.

T.E. Utley, former assistant editor of The Daily Telegraph and now with The Times, also draws attention in his essay How the Pass Was Sold to the dishonest way the whole question of EEC membership has been presented to the people, first when joining the EEC and later during the referendum. "Both the economic and polictical merits of membership have been the subject of a fraudulent prospectus."

Sir Richard Body, MP, himself a farmer, exposes in detail the follies of the Common Agricultural Policy and the disastrous effects on the UK economy of Britain's membership of the EEC once explained by Richard Kitzinger in The UK Economy and the EEC.

Bryan Gould, MP, writes about A Loss of Self-Confidence. "The EEC is profoundly unpopular, but the British people is resigned to its fate ...we will not resolve the problem of our EEC membership until the British people have regained the confidence which will allow them to treat the Jeremiahs with the contempt they deserve".

J.O.

'Bound to Fail' is obtainable from Bloomfield Books, 26, Meadow Lane, Sudbury, Suffolk. Price £2.00.

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