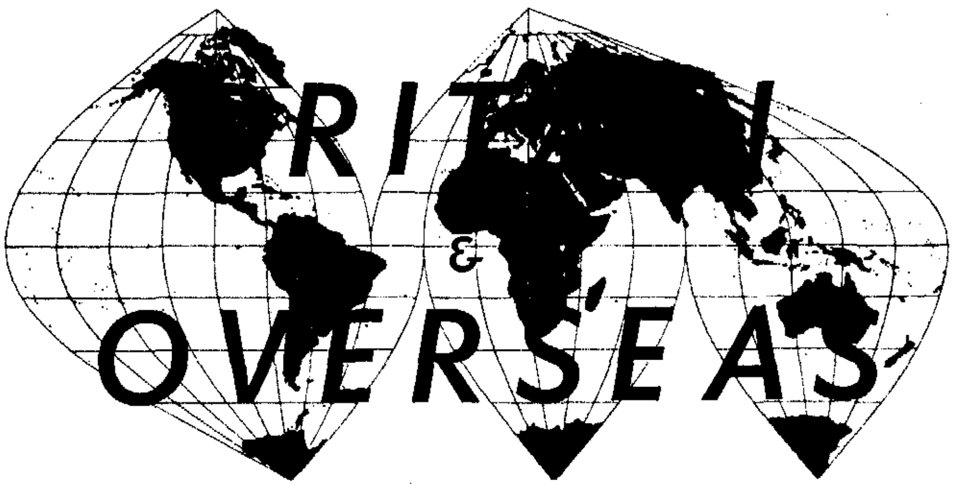

A DIGEST OF NEWS AND VIEWS ON BRITAIN'S ECONOMY
AND OUR ROLE IN OVERSEAS TRADE AND PAYMENTS

Vol. 9 No. 3 Summer 1979

CONTENTS

Published quarterly
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Published by Overseas Trade Research Fund
of the Economic Research Council

55 Park Lane, London W1

Subscription rates: U.K. £2 p.a. Australia $5 Canada $6 New Zealand $5 U.S.A. $6.

THE STATE OF THE NATION

With Parliament now in recess, this is a good moment to take stock of our economic situation. With the advent of a new Conservative administration there are many signs of changes which were promised in the election campaign and have been speedily carried out. In the three months which have elapsed since Mrs. Thatcher took over the reigns of government we have seen cuts in income tax and a shift from direct to indirect taxation. Public spending is being cut back and there are to be changes in the financing of the productive public sector.

These, and other measures promised by the Conservative Government have been met with a feeling of disillusionment, not only by the general public, but also in the City, where one would have thought they would be welcomed. The Gallup Poll, published in the *Daily Telegraph* on 19 July showed that Labour's lead over the Conservatives had increased to 5 per cent, compared with 1½ per cent in June. It was also shown that one in three (33 per cent) of the public considered that the Government is handling the economic situation properly, but 49 per cent says it is not.

On the Stock Exchange equities have fallen by nearly 18 per cent from the pre-election peak and Government stocks have not made much progress. The C.B.I. has expressed its alarm and has produced a gloomy forecast, while the TUC has, not unexpectedly, condemned government policies, in particular the plans to restrain the growth of public expenditure. An analysis produced by one firm of stockbrokers forecasts – "slow world growth, lack of export improvement, higher imports and deflationary fiscal policies will reduce average growth to less than 1.5 per cent in the period up to 1983. Unemployment will top two million in 1983, inflation will be at 13 per cent and the balance of payments weakening". All in all, not a very encouraging response to the measures so far undertaken.

Strong Medicine

"Can the patient take such strong medicine?" asked Ronald Gribben in an article published in the *Daily Telegraph* on 30 July. He writes – "The apprehension now is whether the correct medicine has been prescribed for a sickly industrial patient and whether transfusion may be needed later if recession begins to bite. The spectre of the "U" turn is never far away from ministerial minds."

The difficulties facing the government are formidable, many of them are the inheritance from the last Labour Government with its unrealistic wages and public spending plans. Added to this are the energy crisis and the threat of world recession. **The prime object of the Government must be to conquer inflation, and this must, after such a long period of decline in the purchasing power of the £, be a painful process. Unless this is achieved however, there is no hope of economic recovery in the long term.**

Halting Inflation

Inflation is basically caused by the creation of too much money in relation to the volume of the goods and services available. There are two main ways of halting inflation, one is to decrease the supply of money. The other, which is the more important but is less often realised, is to increase the supply of the goods and services. That it is well within our capacity to increase the flow of real wealth is not in doubt.

The under-use of resources, the over-manning in industry and the public services, the failure to use new techniques, are all signs that the importance of the contribution which could be made by the working population to the solving of our problems is not yet fully appreciated.

Increase Production

The Budget and other measures must therefore be judged by their impact on the capacity of the nation to improve the output of goods and services of all kinds. While it is essential to regulate in a realistic fashion the rate of monetary expansion, this is the negative approach. Far more important is to increase production. Two measures taken by the Chancellor, the increase in the rate of VAT to 15 per cent, and the raising of the MLR to 14 per cent are unlikely to assist in achieving this.

In the Gallup Poll already referred to, people were asked whether the Budget would bring down inflation; 66 per cent thought not. Almost one in two (48 per cent) said it would not encourage people to work harder. It would seem then, that the Government has so far failed to get over the message to the public that the best way to cure inflation is by increasing production and making full use of our resources.

Will They Never Learn?

It should be asked when will the trade union leaders recognise the truth of this and begin to actively encourage their members to pay their part in getting the nation back on its feet? Instead, they seem to be immersed in the problems of the 1930's which have little relevance to our present position. Present policies which result in retarding production must give way to positive policies of increasing wealth creation. Only thus can the higher standard of living to which they aspire be achieved. The Government itself could and should do much more to inform public opinion on this vital topic.

Cost of Borrowing

One area of economic policy which needs urgent examination is the high rate of interest which the Government itself has imposed by increasing the MLR (Minimum Lending Rate) to 14 per cent. This has the result of automatically raising interest rates throughout the financial system. Interest charged by the banks and other financial institutions is automatically raised with harmful effects to the productive element of the economy and to the Government's own costs of borrowing. It should be recalled that when war broke out in 1939, the Bank Rate (which preceded MLR) was automatically doubled from 2 per cent to 4 per cent, in line with orthodox policy. A small but determined group of M.P's of all parties together with economists associated with the Economic Reform Club brought pressure to bear on both the Bank of England and the Treasury to reduce Bank Rate to 2 per cent. As a result of their success in this campaign, the nation as a whole was saved a vast amount in interest charges on the huge sums which had to be borrowed to finance the war.

One reason for the present increase in MLR is to act as a brake on the banking system in creating too much money. Surely some more efficient method of regulating money supply is vitally necessary under present conditions. Fortunately, there are reports that the Government has itself launched an enquiry into the controls over the rate of monetary expansion through controls on the monetary base, probably consisting of bankers' balances at the Bank of England and notes and coins held by the banks. This, we suggest, is of prime importance and we hope that M.P's of all parties will emulate their predecessors by bringing pressure on the authorities to reduce the cost of borrowing from its present high levels.

A BOOM IN OLD AGE
by Ken Ted

Let's face it; we are a pretty dismal lot. We moan when it rains and we moan when it does not. We beat our breasts when the pound falls and we wring our hands when it rises. We get fussed about the birth rate rising and now we are getting fussed because it is falling.

Our inventors and technicians have provided ample leisure for all but instead of rejoicing we call it unemployment and get steamed about that too. However if we insist on regarding leisure as an unmitigated scourge, help is at hand. A falling birthrate means that there will be fewer men of working age and more pensioners. General Motors calculates that by the 1990s there will be one worker to support each pensioner compared with four at present. Even in the third world life expectancy (and therefore the number of pensioners) is increasing dramatically.

So no more dole queues, no more deliberate overmanning or under-investment to keep more men doing work which machines could do for them, no more strikes against introduction of more efficient machinery to replace workers and plenty of pensioners to consume the output without adding their own bit. So the principle worry of all politicans is solved for them. The machinery is there with its potential now vastly increased by silicon chips. All that is needed is a financial system to take account of this change.

But you can bet we will find something to agnoize over. What will it be this time?

RHODESIA: PRESSURE AND PARADOX
by John Biggs-Davison, M.P.

Mr. Biggs-Davison is Vice-Chairman of the Conservative Parliamentary Foreign and Commonwealth Affairs Committee. This is a personal view.

The purpose of the Patriotic Front, its Soviet suppliers and a number of black African governments is to destroy the internal settlement of the white-black partnership presided over by Bishop Abel Muzorewa. One of the several paradoxes is that the democratic credentials of Zimbabwe-Rhodesia have been most bitterly assailed by a Commonwealth member which is at the moment of writing a military dictatorship. The explanation of the paradox is that such governments as the Nigerian are actuated by black racism in the sense of spurning any form of multi-racial power sharing – to use a phrase from Northern Ireland – and therefore rejecting any substantial safeguard for European and Asian minorities.

Africa is not a continent of compromise, and Nigeria rejects moderation and blackmails Britain because, like Nkrumah's Ghana before her, she aspires to continental leadership. Behind the Patriotic Front and its "front line" patrons stands Soviet imperialism. I say "Soviet imperialism" rather than "international Communism" because it is doubtful if Moscow contemplates annexing Southern Africa to the Socialist Commonwealth. A key figure is the Soviet Ambassador in Lusaka, Solodovnikov, who when he was head of the Africa Institute in Moscow counted the opportunities for establishing Communism on the continent as "extremely limited". But tribal bloodshed, disruption and anarchy serve the Soviet imperialist strategy of economic denial – denial, that is, to the West of the indispensible resources of Southern Africa.

A Delicate Balance

The internal settlement in Rhodesia was a delicate balance designed to meet both black hopes and white fears. If that balance is upset, one may expect an exodus from Zimbabwe-Rhodesia of whites upon whom Bishop Muzorewa relies for the safety of the state and the progress of the economy.

These lines have been written at the outset of the Commonwealth Conference in Lusaka. Any British demand for constitutional changes in Salisbury in deference to Commonwealth and other international opinion should take that delicate balance into account. Both Lord Boyd of Merton and Lord Home, with African experience that exceeds that of Ministers now engaged in the Rhodesia problem, have given warning of the danger of tampering with the constitution of Zimbabwe-Rhodesia.

Despite what is publicly said, there are leaders in both Commonwealth and French-speaking Africa who, but for the fears of denunciation from Lagos and other centres of militancy, would accept Zimbabwe-Rhodesia for what it is – not a perfect state, but a state that, according to Lord Boyd and other distinguished observers from overseas, is based upon a free, fair and democratic vote. The turnout of 63.9% in the elections was a remarkable achievement in a country torn by guerrilla war.

Separate Representation

After all, the Commonwealth is familiar with separate representation for a white minority. When Kenya and Tanzania were granted independence, 30% of the seats in the legislature were reserved for whites. In the Zambia Independence Order of 1964, provision was made for a National Assembly of 75 elected members and up to five minority members. Of the elected members, ten were whites returned by whites on a special white voters' roll. The Fiji Independence Order of 1970 provided separate rolls for Indians, Fijians and other races; Indians, Fijians and "others" were each given a quota of seats in the House of Representatives.

So far, Rhodesia has made many concessions since Mr. Ian Smith made with Dr. Kissinger what he believed to be a package deal leading to recognised independence and the lifting of sanctions. The Patriotic Front have made none. Appeasement has run true to form.

The Federation of Rhodesia and Nyasaland, which Britain abandoned, might have been, and Zimbabwe-Rhodesia could be, a multi-racial alternative to South African and black African systems. Should Britain and the Western powers withhold recognition, they will strengthen the sense of common purpose in Africa south of the Zambesi and further the establishment of a Southern African economic and defence community, embracing South Africa, Namibia, Transkei and Bophuthatswana. Not that speedy recognition would separate Salisbury from Pretoria. Whether opposed or supported, the Republic of South Africa will work for a Southern African constellation of states. Its Prime Minister, Mr. P.W. Botha, told the House of Assembly in Cape Town last April:

> "We cannot sit idly and allow people who are our responsibility to be threatened . . ."

by terrorists operating from and harboured by states adjoining the Republic, South West Africa and Rhodesia.

There is another paradox: South Africa and Rhodesia trade with black Africa and aid black Africa. Southern Africa could be the motor of African progress. That Southern Africa should be a zone of peaceful inter-racial co-operation is an all-African interest. It is also a vital interest of Britain and her Commonwealth and European partners.

THE EUROPEAN SCENE

In spite of the large sums of money expended in publicising the Euro-elections, the British people showed, in the only way open to them, that they were just not interested. More than two out of three British voters decided to demonstrate their lack of interest and antipathy towards the Common Market by staying at home.

Following this derisive vote cast in Britain in the elections for the European Assembly, the first meeting of the newly elected MEP's took place in Strasbourg on 17th July. These MEP's, representing nine nations, assembled in the recently erected building situated in the suburbs of Strasbourg, a city which is no less than 600 miles from the real centres of power, the Council of Ministers and the European Commission which are situated in Brussels.

Andrew Alexander, writing in the *Daily Mail* on 18 July commented on the new building – "It needs not so much journalists to write about it, as Jacques Tati to film it, vast, aseptic and crazily expensive (there is another similar building already in the Community), it has the atmosphere somewhere between that of a hospital and an airport." Later in the same article he wrote "The British contribution to yesterday's rather chaotic proceedings was minimal, though the Rev. Ian Paisley, one of Ulster's three M.P's, caused a stir with his stentorian protest that the Union Jack outside the building was upside-down. This was swiftly rectified, despite the appropriateness, as some might think, of the U.K. marking its presence at this Tower of Babel with a distress signal."

Two Positive Achievements!

So much for the opening day of this expensive, and some would think, redundant contribution to European progress. In the first three days the MEP's achieved two positive things, they elected as President Mme Simone Veil, (the candidate of the French Centre-Right) although this took two ballots and the best part of six hours, and a decision in principle to pay the members a very substantial tax-free expense allowance of £20,000 a year. Moreover, this is on top of a daily allowance of £60 for each day they spend on the Assembly's business, and a travel allowance that adequately covers air travel. In addition they have their salaries – £12,000 in the case of the British. Comment seems superfluous!

Mme Veil, making her maiden Presidential speech, made it clear that, in her view, the fact that members had been directly elected, did not mean that they should assert any new rights. In her view, co-operation with the existing EEC institutions, rather than attempting to seek additional powers would be the function of the Assembly. Legislative decisions would remain firmly in the hands of the Council of Ministers.

Hours of Tedium

Commenting on the view that the Assembly would remain without any real powers, Ian Waller, in the *Sunday Telegraph* of 22 July wrote – "The question that occurred to me was, for just how long will busy and successful people in their own walks of life be willing to spend hours of tedium not just at the Parliament once a month but in between at endless committee meetings in Brussels and Luxembourg?" Perhaps the financial rewards to which reference has already been made may not be unimportant in this regard.

The long summer break for the Common Market institutions has now begun, but hanging over their heads are many problems and difficulties which will inevitably arise when they reassemble in the autumn. The British Government will be seeking a much lower net contribution to the EEC budget. The British Prime Minister, Mrs. Thatcher, when she went to Strasbourg on 22 June, succeeded in obtaining the promise of a study into the question of Britain's contribution which will ultimately be put for consideration by the EEC Finance Ministers. The question of reform of the Common Market Agricultural Policy will also arise as will the seeking of a solution to the fisheries dispute to protect British fishermen's interests. There is also the question of Britain's participation in the EMS (European Monetary System) which presents many difficulties.

So far the new Conservative Government has been much more conciliatory towards the Common Market than its Labour predecessor. For example, a leading article in the *Financial Times* on 22 June commented – "Britain's easy acceptance of yesterday's EEC farm price package in Luxembourg is, on the face of it, surprising. During his few weeks in office, Mr. Peter Walker, the Minister of Agriculture, has not gone as far as his predecessor, Mr. John Silkin, in opposing the Community's common prices."

Reform of the CAP

On the other hand it is interesting to note that the case for reform of the Common Agricultural Policy is gaining ground. Recently, Count Otto Lambsdorf, the West German Economics Minister, criticised surplus agricultural production and suggested ways of easing the problem. It is being increasingly recognised that if surplus production continues to mount at its present rate, finance for the CAP will run out before long, with the threat of collapse of the whole policy. "The most vocal defenders of the CAP are those who gain the most benefit from it, "writes John Cherrington in the *Financial Times*, he goes on "it is fair to question whether this price for European unity is really necessary or worth while."

A Strong Critic

The case against continued membership of the Common Market is put forward in a 30-page booklet+ recently published by C. Gordon Tether. For twenty years Mr. Tether contributed the widely read Lombard Column in the *Financial Times* for which he achieved international renown. He has given many stern warnings about the outcome for Britain from entry into the Common Market and in this new booklet he covers many aspects of this controversial question.

+"The Great Common Market Fraud" by C. Gordon Tether (45p inc. postage) obtainable from – S.B.C. 52 Fulham High Street, London SW6 3LQ.

1979/80
by Sir George Bolton, KCMG

Since my last note on international financial affairs there have been three important Elections. The Rhodesian election has ended white rule but has not provided a Government acceptable to the United Nations. The majority of the members of the United Nations have an implacable hostility towards those countries controlled by white races who have standards of living far superior to their own. Africans resent the wealth and energy of the whites – feelings exacerbated by the memories of slavery; and the Arabs are blinded by their hatred of Jewry and the success of Israel in establishing a foothold in Moslem territory. The threat of invasion of Rhodesia by the armies of Mugabe in Mozambique and Nkomo in Zambia helps to maintain the guerilla war but impedes any rational conclusions.

The general situation remains totally unstable – a condition likely to be made much worse by the probability of famine over the whole of Central and Southern Africa due to inadequate rains over the last three years and the absence of law and order. The Angolan Government under Agostinho Neto is propped up by a Cuban expeditionary force which is not intended to return to Cuba but has not been able to extend its authority south of the Benguelan railway where traffic operation is prevented by the forces under Savimbi. The South African Government will maintain communications in Rhodesia and to a limited extent will assist in the survival of President Kaunda. Apart from oil shortages which must hinder transport by air and road, South Africa has a survival capacity far greater than that of any African State south of the Sahara. The outnumbered white population has the natural resources, military strength and industrial capacity to enable it to survive international hostility provided that the black population can be persuaded to remain relatively quiet. If the new initiatives taken by the new Conservative Government help to restore stability to Rhodesia and end sanctions, the threat of economic chaos may be removed.

The Middle East

As many had feared, the Camp David Agreements have failed to produce even a semblance of peace in the Middle East, and from many points of view the political position is now worse than at any time during the last 30 years. The consequential political and economic frictions have been greatly exacerbated by the Iranian/Moslem revolution and widespread criticism that the United States had abandoned its only real ally in that area, namely the Shah. Only three countries have supported Egypt – Oman, Somalia and the Sudan – and the survival of the independence of Oman which will shortly be under attack by the Yemenis depends very much on continuous and substantial military aid from America and Britain.

The great hope that Sudan could become the bread basket of the Middle East has now been abandoned: the flow of Gulf funds and investment in development has ceased. The main danger which may emerge during the next few months is the possibility of a coup d'etat against President Sadat followed by internal disturbances which could develop into a Civil War. It is obvious that the Saudi Arabian Royal Family are well aware of the dangers confronting them and there is little doubt that senior members of the Family are busily engaged in trying to build up some kind of reconciliation with Russia. The King and other members of the Family while maintaining their American connections are undoubtedly taking avoiding action to put themselves in a safer position in the event of an internal breakdown of the economic and social structure, as doubts about the loyalty of the largely immigrant work force and Civil Service cannot be left out of account.

The Oil Situation

Oil production, availability and price is now becoming one of the most important factors in determining whether the world is to face either a temporary falling-off in world trade or a major depression. The oil situation will bring to a sudden end and economic developments in countries of the third world, and the industrialised countries cannot avoid difficult domestic situations as the price of oil and costs of production rise and markets shrink. At the present time fuel for road and air traffic appears to be the only matter of concern, but the real test will come as and when fuel oil and oil products become more expensive and less available. It is probable that there will be no international price for oil by the autumn of this year because producers will sell to the highest bidders. It is impossible in such circumstances to try to suggest a price but if one were to take into account oil product prices in Rotterdam the average price of crude may rise above $ 30 a barrel. The worst hit countries outside the third world will probably include all Eastern and Western Europe, Japan, nearly the whole of Africa except Nigeria and Libya, and certain Latin-American countries particularly down the West Coast. Countries with the means of surviving both energy and production problems include the United Kingdom, Norway, Canada, Mexico, Venezuela and probably Brazil and China.

Commodity Markets

As shortages develop and production costs rise, it seems probable that a paradoxical situation will develop in commodity markets. During the last 12 months metal prices have risen steadily and most tropical products have remained reasonably stable, but as the threat of recession draw nearer it seems improbable that current prices can be maintained. In such circumstances the third world countries would suffer most and irrespective of international organisations designed to maintain prices, such as the EEC, the balance of payments of the importing countries should become more favourable as the terms of trade improve. The tension between European food producers where prices are maintained well above world levels by Government intervention, and food surplus areas will grow and the threat of import restrictions may be converted into reality. On the other hand, raw material substitutes largely derived from oil – e.g. plastics, artificial rubber, man-made fibres, cosmetics, etc. – may become non-competitive with natural products.

America, which has enjoyed a fairly high level of economic activity, seems likely to suffer a series of misfortunes which will have political consequences. Attempts to introduce energy austerity have failed so far, as Presidential proposals have been frustrated by Congress, and the resultant confusion will have unfortunate economic and social consequences. Production, unemployment, budget deficits and balance of payments could become insoluble political problems as oil shortages develop erratically and unfairly. The longer the White House remains impotent to impose its will the greater the possibility of a violent public reaction against the Administration. Egypt has gained no real advantage from Camp David and is now isolated from the Moslem world and entirely dependent upon the U.S.A. for financial and military protection. It may prove difficult for President Carter to find the resources to provide Egypt with the flow of money needed to feed the country and enable it to resist social anarchy. It only needs Congress to reject Salt 2 to leave the Democratic administration naked at home and abroad.

Western Europe – A High Cost Area

Western Europe suffers from certain basic weaknesses such as a lack of energy resources and, in particular, the need to import oil whatever the cost and the exposure to the overwhelming forces of Russia. For 30 years America has provided the nuclear shield over Europe and has been a major contributor to NATO which represents combined defensive forces of the Western world. The European Economic Community organised under the Treaty of Rome has been successful in bringing about relative economic peace between the members of the Community but in the attempt to isolate themselves from the world market Western Europe has become a high cost area. The continuous rise in oil prices is bound to aggravate this situation and make it more difficult for Europe to export its manufactured products to the rest of the world. Despite the success of the Brussels Commission in co-ordinating the industrial areas of Europe it is difficult, even assuming that they can, in the long run, overcome their high costs and other production difficulties, to believe that Western Europe as a whole can remain prosperous. Unemployment is high in every country; production is declining and the older industries are dying under the impact of exports from Eastern countries which have recently become industrialised.

The political atmosphere in most countries reveals a great deal of anxiety about the future and efforts to move towards some kind of federal structure appear to be unrealistic if one examines the political position of the member countries; for example, Italy which suffers a continuous flow of Parliamentary convulsions similar to those which affected France during the 1920s and '30s, or Belgium, where domestic political instability is aggravated by unemployment, and a language problem tends to produce a situation which can only be dealt with by breaking the country into three small pieces. Holland, which has enjoyed a constant flow of energy from the gas fields of Groningen, is now beginning to show signs of disintegration in an atmosphere of rising costs, Trade Union militancy and rising unemployment. There is little doubt that Western Europe as a whole has sufficient fat, if it remains more or less unified, to be able, for say two or three years, to sustain something near its present standards. The U.K. is fortunate in having the prospect of some 5 years of stable Government and no real energy problem as we have an exportable surplus of both oil and coal. It would therefore seem likely that there will be a tendency for foreign funds to flow into the United Kingdom seeking relative security and ensuring that sterling remains a strong currency.

Canada remains an enigma as the Election has polarised the East/West question, and if anything, has made the language problem even more difficult to solve. The electorate appears to have in effect rejected bilingualism and this may reinforce the demands of the Quebec Separatists to exclude the use of English from the Province. The insistence of the use of French as the sole business language has already driven many firms across the Ottawa River with the result that Montreal is already described as a ghost city. New York is reluctant to underwrite any Quebec loans and many fears are expressed about the probability of defaults if the Province of Quebec were to lose the guarantee of membership of the Confederation of Canada. But whatever happens, Western Canada has the opportunity of demonstrating its enormous food and energy potential which, if the problem of communications can be overcome, would certainly make a major contribution to the prosperity of the country.

The accumulation of problems arising from oil and the malignant activities of the Arab oil producers is creating a growing imbalance of payments, foreign exchange instability, trade depression and rising unemployment, making the world a sad place. When the apparent impotence of the U.S.A. and the

aggressive policies of Russia are added to the growing economic disturbances then the world looks a thoroughly dangerous place to live in. Yet there are some compensating factors to be taken into account, such as the inventive genius of man that will find energy substitutes for oil and start a new cycle of investment and business activity.

Re-examine the Commonwealth

China is a rising power and probably immune from the oil crises and will act as a counter-balance to Russia's territorial ambitions. The United Kingdom, after a long decline, has a new Government that shows every intention of dealing with inflation and restoring the international standing of the country with the aid of the unique situation of being self-sufficient in energy. **An international position of this strength should encourage the British Government to re-examine the Commonwealth which has been allowed to collapse during recent years while we passed our responsibilities over to the totally incompetent hands of the United Nations and worshipped at the shrine of that will-o'-the-wisp "United Europe".** Constitutional Parliamentary Government is in danger of a process of erosion by a mixture of authoritarian faiths including Communism and corruption of the electorate due to politicans making promises that can only be met by printing paper money. Continuous inflation destroys any civilisation and the rise in the prices of objets d'art, gold and platinum is a measure of the damage that has already been done. As a social fabric breaks down the collapsing community will be left to the mercies of the modern equivalent of "robber barons" animated by visions of personal power and wealth or by a faith such as Communism. This is happening in Africa.

There is no hope of restoring the fabric of international trade through international organisations such as the International Monetary Fund and the European Monetary Scheme, as they have already failed. As America, in existing circumstances, is unable to give a lead to the Western World until 1981 at the earliest, then a modified Commonwealth, including the countries with a stable political system such as the U.K., Canada, Australia, New Zealand and India, might provide an example. They have between them the means and the capacity to organise a currency with a metallic convertibility that would help to restore some belief in money. **The efforts of the monetary gymnasts have successfully destroyed belief in paper money and the ordinary man will, at some point in time, refuse to work for money which retains its purchasing power only for a fleeting moment. The moment is much too close for comfort.**

June, 1979

ENERGY POLICY

Summary of a Speech by Professor Sir Hermann Bondi, KCB, FRS to members of the Economic Research Council.

Sir Hermann said that it was impossible to think of Britain alone. Problems were global, and to sit back and say *'I'm all right' because* of North Sea Oil was nonsense. The problem of the future was that of the developing countries which did not themselves produce oil. Most were very poor, and their sustained progress was essential for peace, though progress needed more energy, and growth would make energy scarce. Their economic muscle was less than that of industrialised countries, and we had to think about that.

The range of uncertainty was great, and new courses of energy took a long time to bring on stream. Some believed there were enormous stocks of natural gas at levels deeper than we had yet reached, but it would take many years to tap these, if in fact they were there. A new coal mine took ten years to get going; Alaska oil took more than ten years, a new power station ten years, uranium 15 years. The investment needed was enormous and already we spent on energy more than the total spent on defence plus education.

Energy Saving

How do we prepare for uncertainty? Conservation? Yes. The total now spent on home heating was the same as 50 years ago despite the increase in population and the great improvement in comfort. The energy per passenger mile now used by the British Railways was a fifth of what it was then. There was energy saving in industry but it was usually invisible and needed more attention.

The main uses for oil (packaged energy) should be transport and petrochemicals. In the USA all other uses took only a quarter of the total. Here, it was one half. Oil was an addictive comodity. It would be with us for many years, and the supply would decrease gently – but the appetite was growing. Every percentage point by which the world wide demand for oil was increased was more than several North Seas could produce. As for coal, three big countries – the Soviet Union, America and China – sat on 85% of the world's coal reserves. How could Western Europe fare in 30 years? Severe constraints would compel development of nuclear power. Fast breeder reactors could produce 70% more power from a given supply of uranium. There were no cheap alternative sources of energy.

In summary, it would seem that Britain has adequate resources for a reasonable period of time, although it is not known what would happen if Europe were to be cut off from other world supplies. The situation is deteriorating because of political as well as supply factors. Unless nations can agree that interdependence is to their mutual benefit, a crisis will undoubtedly arise, possibly leading to unacceptable pressures.

FINDING THE RIGHT ROAD OUT OF THE '70s

Nations, like individuals, do finally learn from experience. That is why the industrial nations eventually will solve the double bind that now constricts their economic growth.

The causes of slow growth today are different than in the 1930s. Yet they are transparent to sound analysis. And this generation of leaders is no less capable than their fathers of grasping the essentials of an economic problem.

As always, the problem must be approached from both the supply side and the demand side. On the supply side, the aim is to introduce into policymaking a concern for official intervention's adverse effects on business confidence and productivity. Currently, this vital reform runs up against two powerful ideological tendencies.

Two Myths

One holds that the private economy is inherently unstable and inefficient, given to spontaneous inflation and deflation, enchained by monopolies, and prone to "structural imbalances" and the like – unless steered and controlled by government. The other myth is that a private economy must of necessity yield a grossly inequitable distribution of income. This ancient leftist view remains apparently unshaken by such long-standing measures as social security, unemployment insurance and progressive income taxation.

According to this second view, the process of redistribution ought to continue until it eliminates differences of wealth and income. In Western Europe, the older liberal ideal of equality of opportunity is giving ground to the neosocialist ideal of "equality of results" – a concept that challenges the legitimacy of private enterprise and the market economy.

A Common Blindspot

These two contemporary tendencies have a common blindspot. They presuppose that the market economy – to the extent that it's allowed to survive – can be controlled in a manner that would deny its most basic requirements.

But as the causes of the growth slowdown come gradually into view, new forces that reject this type of thinking are beginning to gather strength. They have understood that most government intervention in the market economy costs something in terms of efficiency or productivity – a cost that may outweigh such social good as the intervention might accomplish.

Judging by recent political trends abroad and in the United States, it seems possible that before too long the scope of policymaking will be widened to include a more careful consideration of such costs – so that they can be weighed against the benefits of intervention, and a better balance struck.

External Discipline

On the demand side, the objective is to restore the markets' confidence in the authorities' commitment to moderate money growth and a stable rate of low inflation in all leading countries, most crucially in the United States. This is hardly conceivable so long as each country is free to follow whatever monetary policy plays most comfortably into the pursuit of its domestic economic goals. Some kind of external discipline may be necessary.

One way to impose such discipline would be for major nations, or such of them as could do so, to undertake a joint commitment to stabilize their currencies against each other. Implicit in this commitment is an agreement to allow changes in central banks' foreign assets – changes caused by official intervention to stabilize exchange rates – to be fully reflected in the countries' respective monetary bases and money supplies.

This agreement would be the key to effective discipline. A country whose price level rose faster than those of the others would soon have to intervene in the exchange markets to support its currency. The loss of reserves due to this intervention would put downward pressure on its rate of money growth – and would bring its inflation back into line with the international average. The result would be a harmonization of monetary conditions in the participating countries.

Harmonization

This is, in fact, the essence of the newly created European Monetary System. To make such harmonization effective, the United States, Japan and Canada might someday join the European nations in a similar arrangement. But in that case, the United States would have to bring its domestic inflation down to a rate that Europe and Japan could accept as a norm for the industrial countries as a group.

The events of last November showed that the Federal Reserve no longer was able to determine the growth of the U.S. money supply and the rate of U.S. inflation without taking into account the impact of its monetary policy on the dollar's exchange rate. Problematic as it may be for the United States, this change is hopeful for the community of industrial nations. It provides a powerful incentive – formerly missing – for the United States to play again a constructive international monetary role, this time as partner rather than hegemon.

From – The June 1979 Monthly Economic Letter issued by Citibank of New York.

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