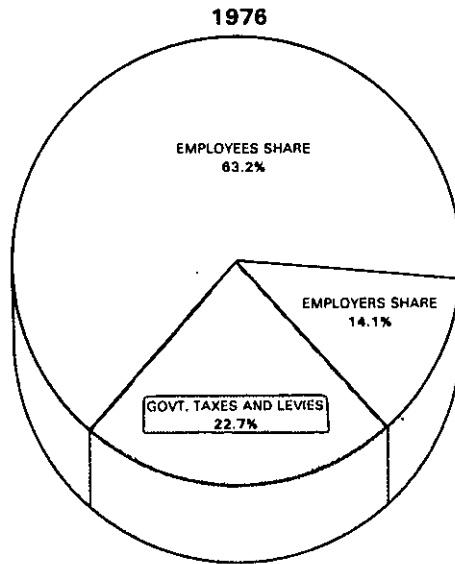


EXCESSIVE TAXES LEAD TO INFLATION AND UNEMPLOYMENT



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Exorbitant taxes, like extreme necessity, destroy industry by producing despair; and even before they reach this pitch, they raise the wages of the labourer and manufacturer, and heighten the price of all commodities. An attentive disinterested legislature will observe the point when the emolument ceases, and the prejudice begins. But as the contrary character is much more common, 'tis to be feared that taxes all over Europe are multiplying to such a degree as will entirely crush all art and industry; tho' perhaps, their first increase, together with other circumstances, might have contributed to the growth of these advantages.

David Hume in his essay 'Of Taxes' written in 1756

EXCESSIVE TAXES LEAD TO INFLATION AND UNEMPLOYMENT

INTRODUCTION

Although North Sea oil has at last begun to flow, the British economy is still floundering.

Ten years ago, when there was no thought of North Sea oil and inflation was running wild, the Economic Research Council (ERC) sponsored a series of papers entitled "A Programme for National Recovery", which examined the causes of inflation; the existing Balance-of-Payments difficulties; and the problems arising from growing public expenditure.

There was subsequently much talk in the Press about "cost-push-inflation", which attributed inflation to leap-frogging wage increases secured by Trades Unions able to hold the nation to ransom by bringing sections of the economy to a standstill.

The ERC questioned this thesis and in 1972 published a paper entitled "Excessive Taxes Lead to Stagflation", which tabulated the relevant statistics from official publications, from 1949 to 1970.

This statistical evidence challenged the widely held belief that wage-demands, by forcing up prices, had been responsible for inflation. Contrary to the general belief, it was shown that real wages (or take-home pay) during that period had unquestionably lagged behind the overall increase in prices.

The much publicised official remedy for inflation was to increase taxes in order to reduce Private Sector purchasing power.

We declared that this policy could not succeed because it would merely transfer demand from one portion of the Private Sector, via the Public Sector, to another portion of the Private Sector, leaving total demand unchanged.

From the evidence, it was clear that excessive Local and Central Government spending was the basic cause both of inflation and the growing stagnation.

The message was disregarded by those in authority. They continued to allege that the increasingly powerful Unions had been able to

seize an ever larger part of the national cake, thereby driving up prices and stimulating inflation.

We therefore decided to publish up-dated statistics to 1976. We are most grateful to Mr. M. C. MacDonald for carrying out this work and for his illuminating comments.

The official figures up to 1976 clearly show that the trends which we noted in the 1960's continued into the 1970's, and that the basic cause of our malaise has not been excessive wages but the excessive portion of the national cake grabbed by the State.

One current example lately mentioned in the Press is that the whole benefit which the Government will receive from North Sea Oil during 1978 (about £700m) has already been appropriated to meet the losses of British Steel and British Leyland.

These losses have not been brought about by excessive wages but by the gross inefficiency of over-manning and strikes. Almost 2½-times as many men are needed to produce one ton of steel or a motor car in Britain than in any other Western country.

The ERC is not a political body. It strives to be objective, but it would not be objective if it failed to draw attention to the evidence that taxation has always been upward under a Labour Government, but has to some extent declined under a Conservative Government.

However, neither Party has achieved that decisive reduction in direct taxation on incomes which is essential if the will to work and the spirit of enterprise are to be restored.

Surprisingly enough, the Unions—in spite of their undoubted power—have not even succeeded in maintaining the workers' share of the national cake. Their share remained constant between 1949 and 1970, and has since actually declined, whereas the share seized by the State has increased.

It is a tragedy for the whole working population—including those who belong to Unions—that Union Leaders have used their great power primarily to demand still more power by pressing for Closed Shops (which many people regard as a tyranny) and by encouraging local "industrial action" over inter-union disputes, as well as wanton over-manning.

The endless debilitating strikes in some of our major industries have undermined confidence in the British economy, and have contributed to the painful increase in unemployment.

If our Union Leaders were to emulate West German Leaders and resolve inter-union difficulties by negotiation; co-operate with industry so as to ensure that it would make a profit and could therefore afford to pay higher real wages (take-home pay); and if both sides then combined to insist on the Government reducing its expenditure and consequently

taxation, the resulting increase in prosperity would enable higher real wages to be paid, and would provide capital to finance expansion and work for the unemployed.

West Germany and Japan have excessively favourable Balances-of-Payment, which may damage the economy of the Western World if they continue. However, the reason these two countries have achieved such a remarkable favourable situation is that they have persistently kept Government expenditure within the income which the Government receives from taxation.

It is worth noting that taxation in West Germany increased in the 1970's in proportion to the national product, and has reached a level about equal to the UK; consequently, West German growth has slowed down and unemployment has appeared.

The important point is that real wages in those two countries have steadily risen, which has encouraged the workers to exert themselves to the full and investors to finance expansion.

Official statistics make it abundantly clear that it is excessive Government expenditure (commonly known as the "borrowing requirement") which has created inflation, both in Britain and the United States, and has caused our currencies to decline in value.

The situation is, of course, worse in Britain than in the U.S. because inflation in Britain has been greater and has continued for longer. Moreover, the much higher British taxes have discouraged investment at home, while encouraging more successful businesses to expand overseas, thereby adding still further to the despondency of the nation.

PATRICK DE LASZLO *Chairman*

JULY 1978

EDWARD HOLLOWAY *Hon. Secretary*

SUMMARY

1. The share of the national product taken by taxes rose from 33½% in 1946 to about 44½% in 1970. It fell to about 38% by 1973, but again increased to 41% by 1975-76.
2. Rising taxes were associated with a Labour Government; falling taxes with a Conservative Government.
3. The portion of total taxes levied on Earnings was roughly stable at about 50-53% over the period 1955 to 1972; it rose to 61% by 1975-76. The proportion of taxes on Expenditure fell from 41% in 1973 to less than 37% in 1975-76.
4. Inflation was exploited as an excuse to increase taxes on Earnings since it was alleged that this would reduce demand and help to restrain inflation. In addition, the Labour Government felt constrained to keep down taxes on expenditure so as to give the appearance of restraining inflation. The Labour point of view tends to be:
 - (a) It is morally right to tax Earnings rather than Expenditure since most taxes on Expenditure affect people with low incomes more than those with high incomes.
 - (b) In any event, taxes on Expenditure put up prices and consequently emphasise any increase in inflation.
5. The high overall level of taxation, and in particular high taxes on Earnings, has meant that working people have in fact borne an increasing share of the total burden of taxation, while at the same time employers have been discouraged from taking on more employees because employment is so highly taxed.

It can clearly be seen that the rise in the level of total taxation has been associated throughout the period with a rise in the general level of unemployment; and the sharp rise in the share of taxes paid on earnings has been associated, in 1975-76, with a further substantial rise in unemployment.
6. Taxes on Capital have in general declined. Taxes on *changes* in the holding of assets have not been large but they have impaired flexibility when the owners of assets wish to change them to a better use (probably one giving more employment). This applies to Stamp Duties and Capital Gains tax, both of which should be abandoned in order to improve the flexibility of the movement of assets—and, incidentally, to reduce the number of Civil Servants. The loss to the Treasury would be trivial, and could if necessary be recovered by increasing tax on Capital Transfers between individuals—in contrast to changes in assets held by the same individual.

7. Increased taxes on Earnings are demanded in order to support payments for social security and unemployment, but if all taxes on earnings were slashed the will to work would be increased and at the same time more work would soon become available.

1. TOTAL TAXES

The share taken by taxes from the gross domestic product of the United Kingdom increased from a low of 32.7% in 1956 to a high of 44.3% in 1970. After a fall to 38.1% by 1973, under a Conservative Government, there was a swing back to 41.0% by 1976 under the Labour Government.

The rise, from 33.5% in 1964 to 43.4% in 1969, under the Labour Government was the main feature identified in our paper in 1972.

The full story is shown in Table 1 (page 6) (basic tables for the individual taxes making up each group are included in the appendix).

In an official review comparing international taxes (Economic Trends, December 1977, page 111) it was pointed out that the United Kingdom fell from fifth place in a list of industrial countries in 1970 to tenth place by 1975—in terms of the percentage of tax paid in relation to gross national product. But the review stated that 'The UK figure reached a peak of 43.4% in 1970 and then declined until 1973 but has since started to rise again' (page 108).

TABLE 1
Total taxes in relation to Gross Domestic Product

Government	Total taxes paid on:			Capital ³ £ mn	Total £ mn	Gross domestic product £ mn	Total taxes as % of GDP			
	Income ¹ £ mn	Expenditure ² £ mn	% ⁴							
Government	Conservative	1955	2,913	50.7	2,568	44.7	259	5,740	16,894	34.0
		1956	3,006	50.2	2,754	46.0	229	5,989	18,289	32.7
		1957	3,249	50.9	2,887	45.3	244	6,380	19,390	32.9
		1958	3,584	52.8	2,967	43.7	243	6,794	20,204	33.6
		1959	3,655	51.8	3,094	43.9	305	7,054	21,236	33.2
		1960	3,638	50.2	3,284	45.3	330	7,252	22,615	32.1
		1961	4,150	51.6	3,530	43.9	356	8,036	24,198	33.2
		1962	4,652	52.9	3,784	43.0	361	8,797	25,252	34.8
		1963	4,688	52.0	3,935	43.6	400	9,023	26,863	33.6
		1964	5,034	51.5	4,354	44.5	391	9,779	29,182	33.5
		1965	5,765	52.3	4,883	44.3	366	11,014	31,212	35.3
		1966	6,370	52.6	5,343	44.1	393	12,106	33,083	36.6
		1967	7,171	53.1	5,905	43.7	431	13,507	34,877	38.7
	1968	7,920	52.2	6,691	44.1	555	15,166	37,390	40.6	
	1969	8,680	50.8	7,659	44.8	748	17,087	39,338	43.4	
	1970	10,107	52.7	8,291	43.2	797	19,195	43,368	44.3	
	1971	10,719	53.1	8,646	42.9	804	20,169	49,151	41.0	
	1972	11,416	53.3	9,040	42.2	980	21,436	54,958	39.0	
	1973	13,232	54.7	9,917	41.0	1,028	24,177	63,492	38.1	
	1974	17,548	58.8	11,256	37.7	1,039	29,843	73,652	40.5	
	1975	23,372	60.9	13,880	36.2	1,095	38,347	93,078	41.2	
	1976	27,150	60.7	16,384	36.7	1,161	44,695	109,080	41.0	

Source: 1966-76 Blue Book, Tables 1.1, 7.1, 7.2 and 9.7; also earlier Blue Books.

¹ Includes national insurance contributions (c.i. Meade Report. The compulsory national insurance contributions are more nearly akin to a tax than to an actuarially balanced insurance premium—pages 369). See Supplement A for details.

² Includes local authority rates (expenditure related to housing) and

selective employment tax when in operation (expenditure related to services). See Supplement B for details.

³ Includes stamp duties (which are a tax on charging assets by a holder of assets). See Supplement C for details.

⁴ % share of total taxes.

2. EMPLOYEES AND EMPLOYERS SHARES OF THE NATIONAL INCOME

SHARES BEFORE TAX

The share-out of the national income between Employees and Employers would seem to be the main pretext for industrial strife. However, as shown in Table 2 (page 9), the gross share—before tax—has remained about 22% for Employers and 78% for Employees over the past 20 years.

This feature was described as follows in our earlier paper (page 10). "It is a remarkable phenomenon that the working of Britain's free labour market over more than 20 years maintained the 'primary' division of income from production between the Employers and Wage-and-Salary-earners at a ratio so close to constant that it can be described as stable.

"Of course the simple numeric abstraction is only the summit of a whole mountain of inter-related bargains. Most of the bargaining is done collectively by Trade Unions and is often rumbustious and a source of social friction. However it is significant that the operation of this market has little to do with the supply of labour. If it had, the present large increases in the number of unemployed would be accompanied by a fall in wages.

"The strange fact is that the multitude of bargains in the Labour market over the last two decades has stabilised the 'primary' division of total income from production between Employers and Wage-earners at a rate of 22.5/77.5 per cent so it is reasonable to assume that Employers have found it essential to secure their 22.5 per cent in order to remain in business. Indeed the long term stability of the ratio implies that if the Employers' share falls much below 22.5 per cent, the autonomous working of the market will move to restore the normal ratio by restricting the collective income of Wage-earners."

Fortunately we have detailed figures which show how the nation's total income from the production of goods and services in 1976 was divided between Employers and Wage-earners *before* the Government took away a part of each share in taxes and levied insurance contributions—and we can also show the division between Employers and Wage-earners *after* the Government took away a part of each share.

SHARES—AFTER TAX

The net—after tax—income which finally remains at the disposal of Employers and Employees is not determined by the working of the labour market alone. Government takes a large part of each "primary" share by

1976	£ million
<i>Primary income of employers:</i>	
Gross trading profits as in Blue Book, Table 1.1:	
Companies.....	12,445
Public corporations and other public enterprises.....	4,580
	<hr/>
	17,025
<i>add back</i>	
Employers' contributions to National insurance etc.....	5,085
	<hr/>
Total primary income of employers.....	22,110
<i>Primary income of employees (table 4.1):</i>	
Wages and salaries.....	67,185
Pay of H.M. Forces.....	1,473
Superannuation funds etc.....	4,896
Earned from self-employment.....	10,208
	<hr/>
Total primary income of employees.....	83,762
TOTAL NATIONAL INCOME FROM PRODUCTION.....	105,872
	<hr/>

Figures for 1955-76 are in Table 2

way of taxes and levies. But from what has been said above about the stabilising effect of the labour market on the ratio of "primary" shares it follows that if the Employers' disposable share in aggregate is reduced by taxation to less than about 22% of the total income from production, the autonomous working of the market will induce a corresponding reduction of the amount that Employers, collectively, can spend on wages and salaries. This has the effect of restricting the total "primary" share of Employees.

Table 1 (page 6) shows that from 1964 to 1970 and from 1974 to 1976 the Labour Government increased an already heavy burden of taxes and levies.

In this paper we are primarily concerned with taxes on the Income from the Production of goods and services (income tax on wages, salaries and earnings from self-employment; levied contributions to national insurance; the former S.E.T.; and Corporation Tax which replaced the earlier profits tax).

The effect of these taxes on the "primary" shares of Employers and

TABLE 2
Employees and Employers 'primary' share—before tax—of the national income

	Total income ¹	Employees' share ² £ mn	% of total	Employers' share £ mn	% of total
1955.....	16,221	12,625	77.8	3,596	22.2
1956.....	17,380	13,676	78.7	3,704	21.3
1957.....	18,269	14,427	79.0	3,842	21.0
1958.....	18,737	14,855	79.3	3,882	20.7
1959.....	19,869	15,574	78.4	4,295	21.6
1960.....	21,635	16,757	77.5	4,878	22.5
1961.....	22,904	18,015	78.7	4,889	21.3
1962.....	23,878	18,897	79.1	4,981	20.9
1963.....	25,437	19,791	77.8	5,646	22.2
1964.....	27,610	21,356	77.3	6,254	22.7
1965.....	29,643	22,971	77.5	6,672	22.5
1966.....	31,366	24,579	78.4	6,787	21.6
1967.....	32,923	25,620	77.8	7,303	22.2
1968.....	35,798	27,419	76.6	8,379	23.4
1969.....	38,575	29,396	76.2	9,179	23.8
1970.....	42,567	32,833	77.1	9,734	22.9
1971.....	47,100	36,583	77.7	10,517	22.3
1972.....	53,070	41,621	78.4	11,449	21.6
1973.....	61,841	48,224	78.0	13,617	22.0
1974.....	73,078	57,637	78.9	15,441	21.1
1975.....	90,477	73,515	81.3	16,962	18.7
1976.....	105,872	83,762	79.1	22,110	20.9

Source: 1966-76 Blue Book, Tables 1.1 and 4.1; also earlier Blue Books.

¹ Equals total domestic income plus SET, less rent and imputed charge for consumption of non-trading capital.

² Includes employers pension contributions etc.

Employees in the total Income from Production from 1955 to 1976 is detailed in the following Table 3 (page 11) and Chart (page 13). It shows the share taken by Government; the after-tax, or disposable, Profit left in the hands of Employers; and the "take-home-pay" of Employees.

It will be seen that Employers' share (after tax)—that is to say, their disposable profits—expressed as a percentage share of the total Income from Production did not change much between 1955 and 1966 (the details of the employers share before and after tax is amplified in Table 4 (page 12)).

Over those years the mean annual share of Employers was 18.2%. The share ranged between a low of 17.1 and a high of 19.4—only about 1% on either side of the average. But from 1967 onwards the Employers'

share (after tax) was sharply reduced by the introduction of Corporation Tax in 1966 which had the effect of increasing tax on employers, while reducing it to some extent on "rentiers" receiving dividends. After 1973 there was also a slight effect due to the change to the imputation system of Corporation Tax.

The financial affairs of Employees and Employers were made more difficult by continual (and mainly unnecessary) changes in the tax system and tax rates.

The percentage share of the gross Income from Production which went to Employees in the form of "take-home-pay" was more stable. From 1955 to 1962 there was little change. The level was around 70-72%. But after 1963 the Employees share declined significantly. The figure for 1970 was 64.0% and by 1976 was down to 63.2%.

In contrast the share of Income from Production taken by Government Taxes followed a very different course. From 1955 to 1960 it increased slowly from about 10% to just over 11%. From 1961 to 1964, Government's share increased further to about 13% but it increased sharply after 1965 following the election of a Labour Government in 1964. The figure for 1970 was 22.2%.

The Conservative Government elected in 1970 then reduced the Government share to 19.2% in 1973. Further increases by the Labour Government elected at the beginning of 1974 brought the share back up to about 23% for 1975 and 1976.

The general picture which emerges from this analysis of the three-way division of the Income from Production over 22 years reveals a pronounced difference between the periods before and after 1965. During the decade from 1955-1965 the average percentage shares were:

Employers	18%
Employees	70%
Government	12%

But during the following decade from 1966-1976 there was a rapid increase in Government's share which reduced the other two, so that by 1976 the percentage shares had changed to:

Employers	14%
Employees	63%
Government	23%

TABLE 3
The Government, Employees, and Employers after tax shares of national direct income

	Total income	Government taxes ¹ £ mn	% of total	Employees' remaining share ² £ mn	% of total	Employers' remaining share £ mn	% of total
1955	16,221	1,599*	9.9*	11,528*	71.1*	3,094	19.1
1956	17,380	1,732*	10.0*	12,447*	71.6*	3,201	18.4
1957	18,269	1,918*	10.5*	13,061*	71.5*	3,290	18.0
1958	18,737	2,236*	11.9*	13,296*	71.0*	3,205	17.1
1959	19,869	2,292*	11.5*	13,961*	70.3*	3,616	18.2
1960	21,635	2,452*	11.3*	14,992*	69.3*	4,191	19.4
1961	22,904	2,837*	12.4*	15,998*	69.8*	4,069	17.8
1962	23,878	3,193*	13.4*	16,640*	69.7*	4,045	16.9
1963	25,437	3,284*	12.9*	17,506*	68.8*	4,647	18.3
1964	27,610	3,632*	13.2*	18,814*	68.1*	5,164	18.7
1965	29,643	4,308*	14.5*	19,960*	67.3*	5,375	18.1
1966	31,366	4,621	14.7	21,125	67.3	5,620	17.9
1967	32,923	6,329	19.2	21,874	66.4	4,720	14.3
1968	35,798	7,095	19.8	23,216	64.9	5,487	15.3
1969	38,575	7,950	20.6	24,683	64.0	5,942	15.4
1970	42,567	9,447	22.2	27,226	64.0	5,894	13.8
1971	47,100	9,690	20.6	30,526	64.8	6,884	14.6
1972	53,070	10,126	19.1	35,080	66.1	7,864	14.8
1973	61,841	11,867	19.2	40,389	65.3	9,585	15.5
1974	73,078	15,880	21.7	47,388	64.8	9,810	13.4
1975	90,477	20,929	23.1	58,920	65.1	10,628	11.7
1976	105,872	24,032	22.7	66,870	63.2	14,970	14.1

Source: 1966-76 Blue Book, Tables 1.1, 4.1 and 9.7; also earlier Blue Books.

* See footnote to Supplement A.

¹ Excludes "rentier" taxes (on rent, dividends, interest, etc).

² Includes employers pension contributions etc.

TABLE 4

Employers share of income before and after tax

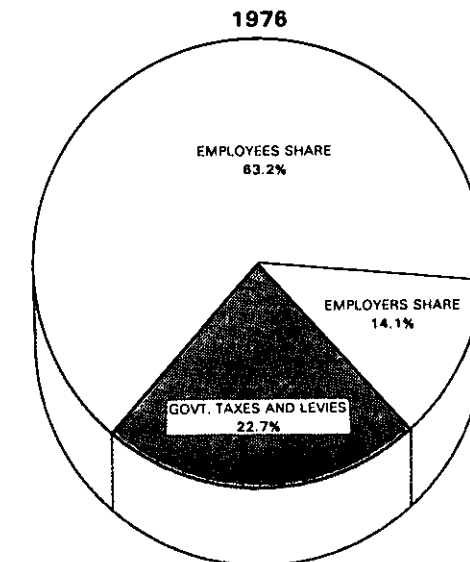
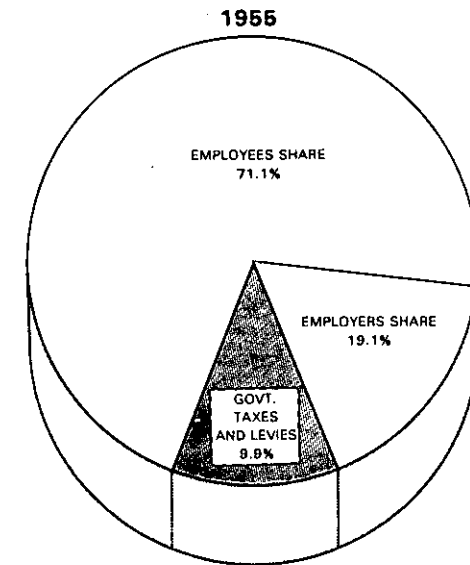
	<i>Total income production¹</i>	<i>Employers' share of total income before paying taxes and levies</i>	<i>Taxes and levies paid on employers' share²</i>		<i>Employers' share of total income after paying taxes and levies</i>		
			<i>£ mn</i>	<i>% of total income</i>	<i>£ mn</i>	<i>% taken by taxes</i>	<i>£ mn</i>
1955.....	16,221	3,596	22.2	502	14.0	3,094	19.1
1956.....	17,380	3,704	21.3	503	13.6	3,201	18.4
1957.....	18,269	3,842	21.0	552	14.4	3,290	18.0
1958.....	18,737	3,882	20.7	677	17.4	3,205	17.1
1959.....	19,869	4,295	21.6	679	15.8	3,616	18.2
1960.....	21,635	4,878	22.5	687	14.1	4,191	19.4
1961.....	22,904	4,889	21.3	820	16.8	4,069	17.8
1962.....	23,878	4,981	20.9	936	18.8	4,045	16.9
1963.....	25,437	5,646	22.2	999	17.7	4,647	18.3
1964.....	27,610	6,254	22.7	1,090	17.4	5,164	18.7
1965.....	29,643	6,672	22.5	1,297	19.4	5,375	18.1
1966.....	31,366	6,787	21.6	1,167	17.2	5,620	17.9
1967.....	32,923	7,303	22.2	2,583	35.4	4,720	14.3
1968.....	35,798	8,379	23.4	2,892	34.5	5,487	15.3
1969.....	38,575	9,179	23.8	3,237	35.3	5,942	15.4
1970.....	42,567	9,734	22.9	3,840	39.4	5,894	13.8
1971.....	47,100	10,517	22.3	3,633	34.5	6,884	14.6
1972.....	53,070	11,449	21.6	3,585	31.3	7,864	14.8
1973.....	61,841	13,617	22.0	4,032	29.6	9,585	15.5
1974.....	73,078	15,441	21.1	5,631	36.5	9,810	13.4
1975.....	90,477	16,962	18.7	6,334	37.3	10,628	11.7
1976.....	105,872	22,110	20.9	7,140	32.3	14,970	14.1

Source: See Tables 2 and 3.

¹ As Table 2

² See Supplement D for details.

EMPLOYEES, EMPLOYERS AND THE GOVERNMENT SHARES OF TOTAL INCOME FROM PRODUCTION AND SERVICES IN 1955 AND 1976



4. THE OFFICIAL VIEW OF UNEMPLOYMENT

As noted in our 1972 paper, the usual official explanation is that "Unemployment and inflation are caused by excessive pay-increases" (page 24). However, there was certainly no benefit to working people from pay increases over the period 1960 to 1971, as is shown in the "estimated standard of living" changes in Table 6. Only in 1972 was there a substantial increase in the real standard of living—that is, in the amount of wage increase in relation to the price increase.

TABLE 6

Pay increases and the real standard of living

	Consumer price index ¹		Take-home pay per unit of output and per worker ²		"Standard of living" ³ change
	Index	Change over year before %	Index	Change over year before %	Change over year before %
1960.....	67.4	1.2	71.7	5.1	3.9
1961.....	69.3	2.8	74.9	4.5	1.7
1962.....	72.0	3.9	78.0	4.1	0.2
1963.....	73.3	1.8	78.9	1.2	-0.6
1964.....	75.9	3.5	81.2	2.9	-0.6
1965.....	79.6	4.9	84.8	4.4	-0.5
1966.....	82.9	4.1	88.8	4.7	0.6
1967.....	85.2	2.8	87.8	-1.1	-3.8
1968.....	89.4	4.9	89.3	1.7	-3.1
1969.....	94.4	5.6	93.4	4.6	-0.9
1970.....	100.0	5.9	100.0	7.1	1.1
1971.....	108.3	8.3	107.6	7.6	-0.6
1972.....	115.6	6.7	121.6	13.0	5.9
1973.....	125.3	8.4	134.7	10.8	2.2
1974.....	145.9	16.4	159.9	18.7	2.0
1975.....	180.3	23.6	201.3	25.9	1.9
1976.....	208.0	15.4	220.9	9.7	-4.9

Source: Table 3, and general statistics publications.

¹ Prices for consumer expenditure (Table 6)

² Employees' remainder after tax (Table 3), per unit of real output as measured by real gross domestic product, and per worker, as measured by "employees in employment".

³ Take-home-pay adjusted for change in consumer prices.

Another official view was that profits were squeezed by excessive pay settlements. The overall effect of settlements on employers' costs is shown in Table 7 (page 17) where the change in employers' costs is compared to the change in general level of prices. The gradual increase in net costs over the period from 1960 to 1970 can be seen from the increase in employers costs of 56% (from 64.3 to 100.0) compared with an increase of 44% (from 69.4 to 100.0) in prices.

The Conservative Government relaxed the pressure from 1970 to 1973, but a Labour Government has again pushed up employers' costs.

TABLE 7

Employers' Costs

	Employers cost of employment per unit of GDP ¹		General level of prices ²		Net relative change in employers' costs ³
	Index	Change over year before %	Index	Change over year before %	Change over year before %
1960.....	64.3	3.4	69.4	2.1	1.3
1961.....	67.3	4.7	71.7	3.3	1.4
1962.....	70.3	4.5	74.1	3.3	1.2
1963.....	71.1	1.1	75.8	2.3	-1.2
1964.....	72.8	2.4	77.8	2.6	-0.2
1965.....	76.7	5.4	81.1	4.2	1.2
1966.....	81.0	5.6	84.3	3.9	1.6
1967.....	83.4	3.0	86.6	2.7	0.3
1968.....	86.3	3.5	89.6	3.5	0.0
1969.....	91.5	6.0	92.8	3.6	2.3
1970.....	100.0	9.3	100.0	7.8	1.4
1971.....	106.9	6.9	110.4	10.4	-3.4
1972.....	117.5	9.9	121.6	10.1	-0.2
1973.....	125.8	7.1	131.8	8.4	-1.2
1974.....	152.7	21.4	153.7	16.6	4.1
1975.....	202.7	32.7	197.6	28.6	3.2
1976.....	225.8	11.4	225.4	14.1	-2.4

Source: Table 6, and 1966-76 Blue Book, Tables 2.1 and 2.5.

¹ Total as shown in Supplement E, adjusted for real gross domestic product change.

² Prices for total gross domestic product.

³ Compared to average level of prices as shown.

5. WHAT CAN BE DONE?

Above all there should be a reduction in the overall level of taxation.

This should be focussed on two main areas:

- Income taxes paid by people earning their money should be reduced and Indirect taxes increased;
- taxes on *changes* in capital assets by any individual or group should be completely abolished; these taxes—stamp duties and capital gains tax—though comparatively small (see Supplement C) impede the free flow of capital necessary for a flexible and growing society. If politically necessary, these taxes could be replaced by higher taxes on *total assets*—capital transfer tax.

The above measures would unquestionably lower the level of unemployment by stimulating private industry and directing it to growth areas.

Secondly the level of inflation must be reduced by reducing government expenditure and by changing the National Loans Act 1968, which enables the Treasury, whenever public expenditure exceeds current income, to cover the deficit by raising money "in such manner and on such terms and conditions as the Treasury thinks fit".

The public Income for the years 1970 to 1976 is detailed in Supplement F and public Expenditure on Current and Capital account in Supplement G. The annual balances between them are summarised in Table 8 (page 19).

Government borrowing has always been associated with high inflation—e.g. when government has a free reign as in time of war, or as in South America. In the table below, inflation for 1970-1976 (as Table 6—page 16) is adjusted net of the "borrowing requirement" or pressure to borrow:

	<i>Inflation (Consumer price index) % per year</i>	<i>Government borrowing pressure (requirement as % of GDP)</i>	<i>Net inflationary pressure (inflation net of government borrowing pressure) % per year</i>
1970.....	5.9	-0.4	6.3
1971.....	8.3	2.7	5.5
1972.....	6.7	3.8	2.8
1973.....	8.4	5.8	2.5
1974.....	16.4	7.6	8.2
1975.....	23.6	10.8	11.6
1976.....	15.4	7.3	7.5

¹ As shown in Table 8 with opposite sign (as deficit)

It can be seen that, over the period 1972 to 1976, government borrowing pressure appeared to be responsible for about one-half of the total amount of Inflation.

TABLE 8

General Government Finances

Balance of Receipts and Expenditure (£ million)

	1970	1971	1972	1973	1974	1975	1976
Total receipts ¹	20,859	21,889	24,144	26,831	33,572	41,381	50,585
Less:							
Current expenditure ²	16,105	17,911	20,781	23,764	30,727	40,732	48,265
<i>Equals</i>							
surplus of total receipts over current expenditure.....	4,754	3,978	3,363	3,067	2,845	649	2,320
Less:							
Capital expenditure ²	4,601	5,288	5,473	6,736	8,461	10,678	10,241
<i>Equals</i>							
general government "borrowing require- ment", or deficit (—) excess of Total expenditure over Total receipts.....	+153	-1,310	-2,110	-3,669	-5,616	-10,029	-7,921
As % of gross domestic product.....	+0.4	-2.7	-3.8	-5.8	-7.6	-10.8	-7.3

¹ See Supplement F for details.

² See Supplement G for details.

The above table is a useful indication of the immediate relationship between "The Government borrowing requirement" and "Inflation", as portrayed by the Consumer Price Index. However, we think it may be helpful to amplify our view of the source of Inflation.

We believe that Inflation can only be caused by an excessive increase in the money supply: in other words, by a failure of the Government to keep the increase in the money supply closely in line with the true increase in the Gross National Product, and not just its monetary value.

We further hold that the only way in which the money supply can be increased in Britain is by the action of Government Agencies.

Thus, when the Government spends more than its income from taxation in any year, the difference is described as the "borrowing requirement". If the Government borrows the whole sum internally from British citizens, in such a manner that the purchasing power is transferred from the Civilian Sector to the Government, there will be no increase in the money supply. It will not be Inflationary.

However, if the Government borrows from the Banks, it will generally result in an increase in the money supply because the method used by the Government to borrow from Banks is against Treasury Bills which, by convention, are treated by the Banks as equivalent to the cash in their tills. Consequently, the Banks do not transfer purchasing power from the Civilian Sector to the Government—indeed, the Banks can at any time present Treasury Bills to the Bank of England and demand cash in exchange, which must be printed by the Bank of England.

Another way in which the money supply can be increased is by the Government or civilians borrowing foreign currency.

If foreign currency is borrowed in order to buy foreign goods (e.g. if dollars are borrowed to purchase American aircraft) there is no increase in our money supply, but if foreign currency is borrowed to pay for internal expenditure (e.g. to build a Municipal Swimming Pool) there is likely to be an increase in the money supply because the foreign currency must, by law, be sold to the Exchange Equalisation Fund for sterling. The Fund is obliged to purchase any foreign currency offered to it.

The total borrowing of foreign currency often exceeds the sterling at the disposal of the Fund. In that event, the Fund draws upon the Treasury for the necessary sterling, which adds to the borrowing requirement of the Government, which, as we have shown, is likely to increase the money supply.

A further factor is that the Consumer Price Index is not an immediate measure of an increase in the money supply. Experience shows that it may take anything from 9 months to 2 years before an increase in the money supply produces its full effect in the form of additional demand for goods and services, which leads to that general increase in consumer prices, as shown by the Consumer Price Index, which is the ultimate evidence of Inflation.

It should always be borne in mind that the price of particular commodities may be pushed up by special factors —e.g. the price of coffee may rise due to a world shortage resulting from a bad crop; or oil prices may increase because the producers decide to exercise their monopoly power; or again the price of private houses in S.E. England may increase still further because the Planning Authorities may continue to prevent

new building in S.E. England, in spite of increasing demand. Such price increases are not caused by Inflation.

In brief, consumer prices can be increased by factors other than Inflation in the true sense of that word. It is only when consumer prices as a whole, as recorded in the Consumer Price Index, are forced up that we have proof that the money supply has been increased.

The only remedy for Inflation is to cut Government expenditure and so eliminate the excessive borrowing requirement.

APPENDIX

SUPPLEMENT A

	Taxes on income (£ million)				Total employee, capital and grants	Employee national insurance contributions	Employers total tax on income ²	Total taxes on income ³
	Tax on government grants by	Tax on income from employees	Tax on capital ¹	Tax on earnings				
1955	28*	1,286*	782*	2,096	315	502	2,913	
1956	28*	1,246*	891*	2,165	338	503	3,006	
1957	30*	1,301*	1,018*	2,349	348	552	3,249	
1958	30*	1,318*	1,098*	2,449	461	677	3,584	
1959	32*	1,331*	1,134*	2,497	479	679	3,655	
1960	35	1,151*	1,277*	2,463	488	687	3,638	
1961	37	1,276*	1,448*	2,761	569	820	4,150	
1962	39	1,420*	1,617*	3,076	640	936	4,652	
1963	48	1,356*	1,593*	2,997	692	999	4,688	
1964	54	1,348*	1,780*	3,182	762	1,090	5,034	
1965	61	1,396*	2,157*	3,614	854	1,297	5,765	
1966	65	1,825	2,556	4,446	898	1,026	6,370	
1967	72	1,240	2,803	4,115	943	2,113	7,171	
1968	115	1,241	3,137	4,493	1,066	2,361	7,920	
1969	130	1,366	3,610	5,106	1,103	2,471	8,680	
1970	140	1,370	4,309	5,819	1,298	2,990	10,107	
1971	163	1,532	4,681	6,376	1,376	2,967	10,719	
1972	151	1,588	4,918	6,657	1,623	3,136	11,416	
1973	150	1,347	5,952	7,449	1,883	3,900	13,232	
1974	247	1,421	8,040	9,708	2,209	5,631	17,548	
1975	331	2,112	11,835	14,278	2,760	6,334	23,373	
1976	482	2,636	13,551	16,669	3,341	7,140	27,150	

Source: 1966-76 Blue Book, Tables 7.1 and 9.7; also earlier Blue Books.

* An adjustment has been made to official published figures to allow for subsequent alterations made to official figures; this is made necessary by the policy of the Central Statistical Office of revising many figures back for many years, without publishing all altered figures (many countries find it possible to settle on figures for national income accounts after a few years—and do not thereafter alter them). The adjustment made necessary here amounted to only 0.4%.

¹ "Rentier" incomes, including rent, dividends and interest, etc.

² Includes insurance payments. See Supplement D for details.

³ Including all surtax.

SUPPLEMENT B

Taxes on expenditure
(£ million)

	General ¹ Purchase tax	Value added tax	Total	Rates ⁴			Total taxes on expenditure
				Specific SET ²	Specific excise duties ³	Total	
1955	419	—	419	—	1,674	2,149	2,568
1956	458	—	458	—	1,740	2,296	2,754
1957	494	—	494	—	1,778	2,393	2,887
1958	497	—	497	—	1,820	2,470	2,967
1959	501	—	501	—	1,879	2,593	3,094
1960	510	—	510	—	2,003	2,774	3,284
1961	521	—	521	—	2,178	3,009	3,530
1962	571	—	571	—	2,297	3,213	3,784
1963	565	—	565	—	2,356	3,370	3,935
1964	633	—	633	—	2,625	3,721	4,354
1965	647	—	647	—	3,008	4,236	4,883
1966	686	—	686	141	3,142	4,657	5,343
1967	748	—	748	470	3,220	5,197	5,905
1968	971	—	971	531	3,641	5,720	6,691
1969	1,110	—	1,110	766	4,105	6,549	7,659
1970	1,304	—	1,304	850	4,310	6,987	8,291
1971	1,394	—	1,394	666	4,500	7,252	8,646
1972	1,389	—	1,389	449	4,823	7,651	9,040
1973	380	1,737	2,117	132	5,021	7,800	9,917
1974	—	2,721	2,721	—	5,478	8,535	11,256
1975	—	3,506	3,506	—	3,983	10,374	13,880
1976	—	3,982	3,982	—	4,540	12,402	16,384

Source: 1966-76 Blue Book, Tables 7.1 and 8.1; also earlier Blue Books.

¹ Rates, however, vary according to industry.

² Tax on service industries.

³ Petroleum, tobacco, alcohol, betting and gaming, motor vehicle duties etc., net.

⁴ Tax on housing.

SUPPLEMENT C
Taxes on Capital (£ million)

	On size of assets		On change of assets		Stamp duties	Total	Total taxes on capital
	Estate duty	Capital transfer tax	Capital gains tax	Betterment levy, etc ¹			
1955.....	184	—	—	—	75	75	259
1956.....	166	—	—	—	63	63	229
1957.....	176	—	—	—	68	68	244
1958.....	182	—	—	—	61	61	243
1959.....	212	—	—	—	93	93	305
1960.....	236	—	—	—	94	94	330
1961.....	259	—	—	—	97	97	356
1962.....	266	—	—	—	95	95	361
1963.....	308	—	—	—	92	92	400
1964.....	307	—	1	—	83	84	391
1965.....	287	—	3	—	76	79	366
1966.....	308	—	7	—	78	85	393
1967.....	317	—	22	—	91	114	431
1968.....	374	—	51	12	118	181	555
1969.....	372	—	156	97	123	376	748
1970.....	378	—	264	31	124	419	797
1971.....	403	—	245	15	141	401	804
1972.....	482	—	263	11	224	498	980
1973.....	420	—	397	6	205	608	1,028
1974.....	379	—	478	3	179	660	1,039
1975.....	307	—	520	2	266	788	1,095
1976.....	359	31	494	1	276	771	1,161

Source: 1966-76 Blue Book, Tables 7.1 and 9.7; also earlier Blue Books
¹ Includes special charge.

SUPPLEMENT D
Total tax on Income of Employers

	TAXES				Total taxes	Levied contributions to National Insurance	Total taxes and levies
	Profits tax	Corporation tax	Less over-spill relief	S.E.T.			
1955.....	223	—	—	—	223	279	502
1956.....	199	—	—	—	199	304	503
1957.....	243	—	—	—	243	309	552
1958.....	279	—	—	—	279	398	677
1959.....	261	—	—	—	261	418	679
1960.....	262	—	—	—	262	425	687
1961.....	317	—	—	—	317	503	820
1962.....	379	—	—	—	379	557	936
1963.....	388	—	—	—	388	611	999
1964.....	408	—	—	—	408	682	1,090
1965.....	466	—	—	—	466	831	1,297
1966.....	135	23	-38	141	261	906	1,167
1967.....	39	1,166	-58	470	1,617	966	2,583
1968.....	12	1,287	-37	531	1,793	1,099	2,892
1969.....	4	1,386	-60	766	2,096	1,141	3,237
1970.....	2	1,663	-31	850	2,484	1,356	3,840
1971.....	1	1,535	-28	666	2,174	1,459	3,633
1972.....	1	1,449	-24	449	1,875	1,710	3,585
1973.....	1	1,867	-22	132	1,978	2,054	4,032
1974.....	—	2,865	-25	—	2,840	2,791	5,631
1975.....	—	2,284	-25	—	2,259	4,075	6,334
1976.....	—	2,081	-26	—	2,055	5,085	7,140

Source: 1966-76 Blue Book, Tables 7.1 and 9.7; also earlier Blue Books.

SUPPLEMENT E

**Total cost to employers of giving employment
(£ million)**

	Wages and Salaries	Government taxes and levies			Total	Total employers' cost of giving employ- ment
		Employers' contribu- tions to super- annuation funds	S.E.T.	National Insurance		
1955.....	10,210	399	—	268	268	10,877
1956.....	11,125	442	—	293	293	11,860
1957.....	11,765	497	—	299	299	12,561
1958.....	12,135	542	—	386	386	13,063
1959.....	12,725	575	—	406	406	13,706
1960.....	13,735	621	—	414	414	14,770
1961.....	14,855	664	—	492	492	16,011
1962.....	15,640	708	—	547	547	16,895
1963.....	16,395	770	—	601	601	17,766
1964.....	17,765	822	—	671	671	19,258
1965.....	19,111	883	—	818	818	20,812
1966.....	20,389	996	141	892	1,033	22,418
1967.....	21,173	1,088	470	952	1,422	23,683
1968.....	22,566	1,201	531	1,082	1,613	25,380
1969.....	24,188	1,292	766	1,124	1,890	27,370
1970.....	26,984	1,417	850	1,336	2,186	30,587
1971.....	29,673	1,769	666	1,438	2,104	33,546
1972.....	33,141	2,203	449	1,682	2,131	37,475
1973.....	38,024	2,568	132	2,018	2,150	42,742
1974.....	45,856	3,020	—	2,747	2,747	51,623
1975.....	59,300	4,016	—	4,012	4,012	67,328
1976.....	67,185	4,896	—	5,005	5,005	77,086

Source: See Tables 2 and 3.

SUPPLEMENT F

**General Government Receipts¹
(£ million)**

	1970	1971	1972	1973	1974	1975	1976
Taxes and other levies:							
Taxes on income.....	7,453	7,884	8,083	9,295	12,548	16,537	18,724
Taxes on expenditure ²	6,588	6,701	6,885	7,475	8,378	10,163	12,120
Nat. Insurance levies	2,654	2,835	3,333	3,937	5,000	6,835	8,426
Local authority rates...	1,827	2,086	2,379	2,647	3,057	3,983	4,540
Taxes on capital ³	673	663	756	823	860	829	885
TOTAL taxes and levies	19,195	20,169	21,436	24,177	29,843	38,347	44,695
Gross trading surpluses	151	177	140	135	132	143	120
Rent	703	737	758	971	1,247	1,546	1,930
Interest and dividends etc	899	1,031	1,167	1,349	1,748	2,051	2,444
Net receipts from other transactions including financial	-89	-225	643	199	602	-706	1,396
TOTAL RECEIPTS.....	20,859	21,889	24,144	26,831	33,572	41,381	50,585

Source: 1966-76 Blue Book, Table 9.1.

¹ For central government and local authorities; excludes public corporations.

² Including stamp duties.

³ Excluding stamp duties.

SUPPLEMENT G

Total Government Expenditure (£ million)							
	1970	1971	1972	1973	1974	1975	1976
Current account:							
Current expenditure on goods and services	8,692	9,903	11,276	12,753	15,981	22,094	25,742
Subsidies	876	931	1,144	1,471	2,987	3,827	3,463
Current grants to persons	4,334	4,783	5,844	6,421	7,869	10,201	12,822
Current grants abroad	177	205	210	359	320	379	792
Debt interest.....	2,026	2,089	2,307	2,760	3,570	4,231	5,446
Total CURRENT expenditure	16,105	17,911	20,781	23,764	30,727	40,732	48,265
Capital account:							
Gross domestic fixed capital formation.....	2,431	2,562	2,731	3,660	4,410	5,030	5,382
Capital consumption (non-trading)	272	309	354	445	522	652	820
Increase in value of stocks	43	51	27	34	32	37	39
Capital grants to private sector.....	797	913	820	980	1,107	1,202	1,421
Net lending to public corporations, private sector and overseas....	1,058	1,453	1,541	1,617	2,390	3,757	2,579
Total CAPITAL expenditure	4,601	5,288	5,473	6,736	8,461	10,678	10,241
TOTAL EXPENDITURE	20,706	23,199	26,254	30,500	39,188	51,410	58,506

Source: 1966-76 Blue Book, Table 9.1.

SUPPLEMENT H

General Government and Public Corporation Capital Expenditure ¹ on Income-earning services (£ million)							
	1970	1971	1972	1973	1974	1975	1976
Public corporations:²							
Transport and communication	686	791	798	997	1,099	1,407	1,590
Fuel and power.....	742	744	666	704	911	1,299	1,555
Iron and steel.....	108	198	210	170	256	401	565
Housing	123	108	79	160	246	354	445
Other corporations....	20	21	21	30	303	488	575
TOTAL public corporations	1,679	1,862	1,774	2,061	2,815	3,949	4,730
Local authorities, housing							
Central government and local authorities:	744	670	655	975	1,717	2,064	2,222
Transport and communications	48	32	25	39	39	40	46
Other industry and trade	60	76	73	92	95	120	116
TOTAL central government and local authorities	852	778	753	1,106	1,851	2,224	2,384
TOTAL ON INCOME-EARNING SERVICES	2,531	2,640	2,527	3,167	4,666	6,173	7,114

Source: 1966-76 Blue Book, Table 6.5 and 9.4.

¹ On gross fixed capital formation.

² See also Supplement J.

SUPPLEMENT I

**General Government Capital Expenditure¹
on Non-trading services
(£ million)**

	1970	1971	1972	1973	1974	1975	1976
Social services:							
Education	295	354	424	532	525	553	598
National health services	151	181	223	277	296	366	425
Public health services....	2	3	4	5	6	5	7
Personal social services	31	38	39	82	84	82	93
Employment services....	1	3	5	6	6	8	33
Research.....	28	28	26	26	31	39	48
Libraries, museums and arts	8	12	14	22	33	27	32
TOTAL on social services	516	619	735	950	981	1,080	1,236
Infrastructure and environment:							
Services to agriculture, forestry, fishing and food	8	10	3	4	19	18	13
Roads and public lighting	521	520	544	663	695	837	819
Water, sewage and refuse disposal	244	285	335	417	187	96	110
Land drainage and coast protection.....	15	19	17	31	23	30	45
Parks, pleasure grounds etc.....	28	37	52	77	96	113	101
TOTAL on infrastructure	816	871	951	1,192	1,020	1,094	1,088
Security services:							
Defence, military and civil.....	25	25	38	46	63	71	65
Fire service	10	11	13	11	12	15	19
Parliament and law courts	—	1	1	9	13	12	18
Police.....	25	30	26	29	48	65	77
Prisons	10	12	13	22	24	31	35
TOTAL on security services	70	79	91	117	160	194	214

Other services:

Central government.....	57	67	64	85	94	128	154
Local authorities.....	120	148	137	210	304	310	306
TOTAL on other services	177	215	201	295	398	438	460
TOTAL ON NON-TRADING SERVICES	1,579	1,784	1,978	2,554	2,559	2,806	2,998

Source: 1966-76 Blue Book, Table 9.4.

¹ On gross fixed capital formation.

SUPPLEMENT J

Public Corporation Finances
(£ million)

	1970	1971	1972	1973	1974	1975	1976
Gross trading surplus.....	1,447	1,520	1,681	2,063	2,556	3,067	4,460
Rent	74	84	125	123	139	178	218
Other net receipts.....	104	102	107	222	293	313	461
TOTAL net surpluses....	1,625	1,706	1,913	2,408	2,988	3,558	5,139
<i>Less</i>							
Interest, dividends and taxes	794	896	983	1,212	1,641	1,962	2,390
<i>Equals</i>							
Total net surplus before depreciation	831	810	930	1,196	1,347	1,596	2,749
Capital expenditure							
Gross domestic fixed capital formation.....	1,679	1,862	1,774	2,061	2,815	3,949	4,730
Increase in value of stocks	65	153	82	137	344	916	821
TOTAL capital expenditure	1,744	2,015	1,856	2,198	3,159	4,865	5,551
Net surplus before depreciation							
<i>Less</i>							
Capital expenditure							
<i>Equals</i>							
Gross deficit (—).....	—913	—1,205	—926	—1,002	—1,812	—3,269	—2,802
<i>Plus</i>							
Capital transfers etc...	81	107	172	139	261	325	391
<i>Equals</i>							
Net deficit (—).....	—832	—1,098	—754	—863	—1,551	—2,944	—2,411
Of which,							
Financed by loans from central government (net).....	852	1,145	1,039	710	685	1,762	1,139
Other net transactions (including other borrowing)	—20	—47	—285	153	866	1,182	1,272

Source: 1966-76 Blue Book, Tables 6.2 and 6.3.

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