THE NATION TODAY

The World of Money

P. J. SIDEY

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NEWS & VIEWS
GOVERNMENT & POLITICS
BRITAIN IN THE WORLD
THE WORLD OF MONEY
THE WELFARE STATE (publication 1967)

Suitable for the upper forms in Secondary schools and further education establishments this series is designed to make students think about the issues which affect us today, and the people and machinery which make and carry out decisions. The author has accomplished a rare feat in combining an abundance of facts with a highly readable style. But this is not all, for he goes on to make the reader think about the social and world problems connected with the subject under discussion. The books are therefore both well-informed and stimulating.

The gathering and dissemination of news, government and politics, and Britain's place in the world are the subjects covered in the first three volumes. The fourth book deals with financial affairs as they affect the man in the street, and describes the part that money plays in the life of the country and the world. The fifth discusses the advantages and disadvantages of having a welfare state.

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P. J. SIDEY

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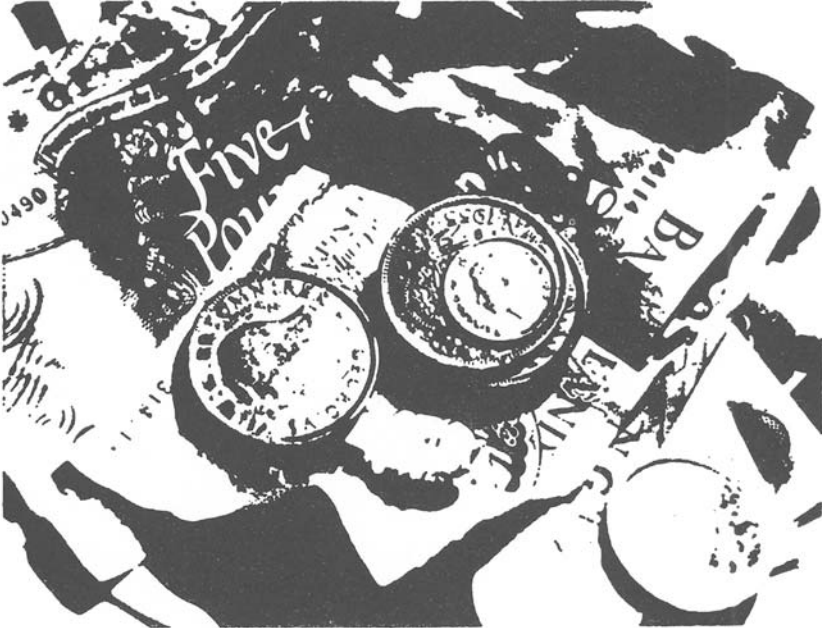
1 The root of all evil



On every pound note issued by the Bank of England the Chief Cashier, Mr J. S. Fforde, solemnly asserts: 'I Promise to pay the Bearer on Demand the sum of One Pound.'

Wretched Bearer! Let the Bearer take the note to the Bank of England and demand his One Pound and he will be given — another note (real value a fraction of a penny) or, if he insists, a pound's worth of silver, which is really a few shillings' worth of cupro-nickel.

The only money regularly issued to British citizens which is worth having for its own value is Maundy money and to get it you have to be very old, very worthy, and be chosen to have it presented to you by the Queen at Easter. The face value of a presentation set of Maundy money is 35*s*. for women and 50*s*. for men, but it is all in 1*d*., 2*d*., 3*d*., and 4*d*. pieces made of real silver. So rare is it to find such 'genuine' currency that collectors will pay £60 for a set of Maundy money.

The current fad for collecting has pushed up the value of certain non-

precious coins because they are wanted by collectors to complete 'sets'. Occasionally quite large sums of money are offered for pennies bearing the dates 1923, 1924, 1925, 1933, 1941, 1942, 1952, and 1954–60. Sometimes such pennies are produced, but they are all forgeries for no pennies were minted in those years. During the Rhodesian crisis pennies did go up in real value, because of the shortage of copper, and technically they became worth considerably more than a penny each; at one time it would have been worth while collecting pennies and melting them down to sell the copper. (It would only have been worth while in *theory*, for in practice anyone doing so would have fallen foul of the law for despoiling the coinage.)

Paper money

The paper money which we use pours from the printing presses by the million. It is almost worthless, yet we take it in exchange for our labour, our goods, our houses. Why? Is it because we know that everyone else, in their turn, will accept these valueless tokens and give *their* labour, goods, and houses?

These bits of paper, then, are symbols of trust — trust that we will 'get our money's-worth' when we come to exchange them.

But what is 'our money's-worth'? When we buy something we pay for two tangible things: the cost of the material and the cost of labour in manufacturing it (plus the profit that encouraged someone to produce the goods!). The materials may be trifling (your postage stamp is expensive at 4*d.*) or they may be substantial (ten tons of cattle food is fairly bulky); the cost of the labour may be quite the opposite; the postman needs paying for his long trudges round the streets but the cattle food may have been mixed in a fully-automated factory with hardly a worker in sight.

So some goods are very receptive to changes in the costs of raw materials and you can say confidently that when a bar of chocolate costs less here, then more children in West Africa are going hungry because cocoa prices paid to their fathers have fallen; other goods are more receptive to changes in wage rates — if bus workers get a rise, then the price of travelling on public transport will go up almost immediately.

What else puts prices up? What in fact decides the price of an article? Its use to us? Surely not, for if that were the case we would pay more for salt than we do for diamonds. Its scarcity? Not alone, for cars are easy to

come by — as long as you pay for them. The price it costs to produce? No, we sometimes pay a hundred times the cost of production for some trifling gimmick.

Many theories

The varying mechanism of supply and demand needs a large number of theories to explain it. Almost every rule can have an exception. Take scale of production. Is it true to say that the more you produce of anything the cheaper it becomes?

The theory works with cars, and other goods which can be 'mass-produced', but some industries work under apparently opposite 'laws'. The National Coal Board is busy closing down certain pits so that it will make more money, and British Rail is closing down railway lines so that it will have a better chance of running at a profit those that are left.

In olden days a man had a simple trade and earned a simple wage to keep himself in simple necessities. Nowadays, even the food on our breakfast table comes from half a world away and the livelihood of us all is interwoven with that of millions of other people.

The detergent by the sink may be a by-product of the petroleum industry that keeps an entire country in wealth; some of the gas heating our ovens may be 'natural gas', and this will keep our gas bill down for it could have come from an oilfield in the Sahara where it was a waste product in an enterprise which had already covered its expenses out of the oil produced, and so could sell natural gas cheaply.

When you change to nylon pullovers and leave the woollen ones unbought, what happens to the sheep farmer with a market for his mutton but none for his wool? Will you pay more for mutton because you refused the woollen pullover? Or less, because he will in future breed sheep better suited to meat? Or more, because mutton will become scarce because without the wool sales many farmers will give up keeping sheep?

And if that waste gas from the oil industry is 'dumped' (sold abroad at below market prices), will it mean that your uncle in nuclear energy research will be sacked, because the nuclear-power programme is pruned as it cannot compete with low gas prices? If butter is halved in price, what happens to the margarine industry?

All these intricate tugs of supply and demand even themselves out by

means of the infinite variation of the price structure. You, and millions of others, decide the priorities that the manufacturers must work to. You, and millions of others, by the way you spend your money 'vote' for nylon, or gas, or mutton, or detergent. Your money will show whether you can tell margarine from butter.

But sometimes this delicate price mechanism gets out of hand. Prices rise quickly; wages race after them. People spend their savings to try to get goods that will hold their value rather than money that has lost all meaning.

Runaway inflation

Not so long ago, German workers asked to be paid their wages every day, rather than once a week, because the money bought less and less every day. Inflation was running riot. What was once the wages of a month's work would buy only an egg. Old people starved, the able-bodied demanded wage rises every day. The bank-note printing presses churned out millions and millions and millions of notes. Sometimes the notes could not be produced fast enough and old notes simply had new figures, perhaps a thousand times higher, overprinted on them.

That was after the First World War, but inflation, of a distinctly milder kind, is with us all the time and sometimes it gets out of hand still. In 1966, for instance, Indonesia tried to dam a wild inflation. The government appealed for anyone with ideas for stopping it to volunteer to run the economic planning department; the only snag was that they would be executed if they failed to maintain the value of the currency. A little later the military took over and made a number of new decrees including knocking 10% off the money everyone held, increasing taxes to sop up the surplus bank-notes, and raising the price of a number of goods and services (even the overseas cable rates, used by correspondents to tell the news to the outside world, were increased to 28 times their former price). The new government also gave the business community a fit of the jitters by allocating men to firing-squads in readiness to shoot anyone found 'creating economic disorder'.

In a rather less dramatic way leaders of both parties at the British general election in 1966 emphasised that nothing was more important to the life of the country than the value of the pound sterling, and implied that anyone spreading rumours of its impending devaluation was a traitor.

What is it all about, this devotion to the 'value' of a piece of paper that has no value?

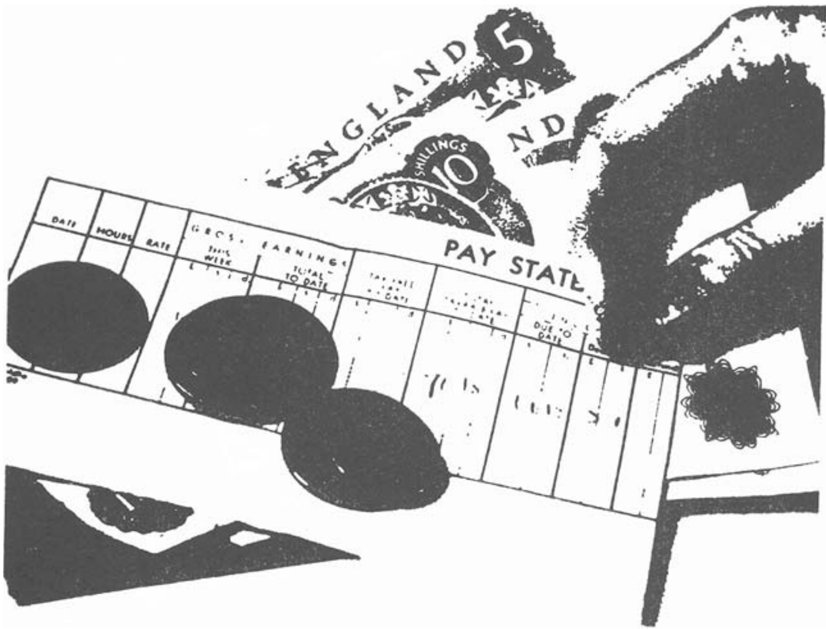
Maria Theresa

In the bazaars of the Middle East, where they have a keen eye to value, they still trade with a Maria Theresa dollar. This handsome (real) silver coin bears the effigy of the Empress Maria Theresa of Austria, titular head of an empire that no longer exists. The date on most of the coins is 1780. And if you traced the origin of that coin being weighed carefully in the hands of the Arab trader you might find it was made in London's Royal Mint in 1961. Not that making coins-without-a-country is entirely unusual for the Royal Mint. They still turn out British sovereigns, beautiful gold coins which are not legal tender in this country, but which are shipped abroad for the foreigners who like to use a coin that does not need to have written on it 'I promise to pay', because the metal it is made of is the best promise of all.

Our paper money, with Mr Fforde's promise, seems altogether frailer. It depends on men, not gold, and when retirement pensions are raised 10*s*. or the railwaymen are given a bonus, the pound sterling flinches on the foreign markets. To see why, and to see whether it matters, we must look not only at that trifling piece of paper, the pound note, but also at the things it stands for, the men who tell the presses how many to print, the manipulators of the financial world (some of them out for a private fortune, others fighting to save Britain from bankruptcy), and the man on whom the whole pound rests — the man in the street, who can make or break the pound.

It is the ordinary citizen, not Mr Fforde, who really Promises to Pay the Bearer on Demand.

2 Getting hold of it



Every so often a man dressed rather unusually in a white suit knocks on doors and gives the occupants a £5 note if they can produce a packet of *Splodge*, the whitest detergent of all. If the white-suited character called on *all* the houses in Britain every week, handing out his free fivers, what would happen? Would we all put the money in the bank? Or rush off to the shops on a spending spree? Probably it would depend on how much income we had already. But what would be the effect if we all decided 'easy come, easy go' and spent it as fast as Mr White Suit shelled it out?

In next to no time the prices in the shops would go up, for they would still have only the same amount of goods to sell but we would have all this extra money to throw around. Then employers would have to pay higher wages, for everyone would begin to get the idea that £15 a week was chickenfeed and it was better to stay at home waiting for the white-suited chap to drop in.

As the wages went up, to bribe us to go to work again, this would put

up the price of the goods made at factories and the shop prices would go up still more. Soon we would find that our extra £5 did not seem to have made us any better off. We would have proved an old truth that if there is more money about *without more goods to buy* then the value of money will fall. This is the basic reason why Cabinets meet when a group of workers look like getting an extra 10*s.* a week, and why 'pay pauses', 'guiding lights' and 'norms' and 'incomes policies' are invented to stop us getting too much money from our employers — even when they are willing to pay it.

Settling wages

But, before trying to work out how much we ought to be paid, we should take a look at the methods used to decide what an ordinary citizen has in his purse or pocket.

Why are doctors paid more than farm labourers? Inborn skill? Long education without earnings?

Who works the hardest? Who has the most wear and tear mentally? Why are medical consultants paid more than doctors? Why are nurses paid less than bus drivers? Why are paperworkers paid more than chemical workers? Why do men working in dry-cleaning get paid more than men working in laundries?

Is there any logic? Our farm labourer may take home £730 a year; our doctor £4,000. Our consultant nearly £5,000. Taken a bit further, the Prime Minister gets £14,000 a year, but a pop singer may easily reach £100,000. Most of the working population have distinctly lower salaries. In 1964:

21% earned up to £499 a year.
47% earned from £500 to £999 a year.
27% earned from £1,000 to £1,999 a year.
4% earned from £2,000 to £4,999 a year.
and 1% earned more than £5,000 a year.

What made these salaries so different from each other? Who decides that a senior aircraft-pilot should get more than £100 a week and a crack express train-driver £27?

On the whole, in a semi-capitalist society such as our own, it is the simple

rule of supply and demand. If recruitment to the police force falls off, then police wages will go up, in the hope of attracting more men to the life (or the police force will be permanently under-manned). If everyone suddenly gets it into his head to buy a wheelbarrow, then wheelbarrow manufacturers, in a fever of activity, bid for labour by paying higher wages than competing industries, and the average wage of wheelbarrow-makers becomes the envy of their neighbours.

For most people, in far-off, simpler days, the wages paid were bargains struck between master and man. The master named the figure, the man touched his cap and said 'thank you'. Then mass-production methods brought men together to work in large numbers and the weak trade-union movement gained strength as a method of joint bargaining for better wages. One man asking for more money might be shown the door of the factory, but one man speaking on behalf of several thousand would get a better hearing.

Nowadays in those industries where trade unions are well organised, almost all wage rates are the result of bargaining between the leaders of the industries and the leaders of the unions.

Other negotiators

In certain industries without strong unions there are Wages Councils and Agricultural Wages Boards — set up by government authority — to ensure that wages do not fall behind acceptable standards. These councils, under different names in different professions and trades, are generally not so forceful as unions, and may recommend rates of pay lower than a trade-union negotiator would accept.

There are many other pay-negotiating bodies. Some shudder at the thought that they are trade unions, but the British Medical Association and the Law Society, to name a couple, are as sharp over pay matters as any cloth-cap unionist.

Those who have no strong organisation to fight on their behalf slide down the salary scale as the years roll by. Women, on the whole unenthusiastic trade-unionists, have been years fighting for equal pay for equal work, achieving it in only a few lines of employment.

Of course, some people may not depend solely on a pay packet for their money. A number of people own property which allows them to live rent-

free or draw rents from other tenants. And a number of people have money invested which brings them income; some of this money they may have earned themselves and some of it they may have inherited.

So we all have a certain 'slice of the national cake', as that irritating cliché has it.

Yearly rises

Almost every year almost all organised workers apply for a rise. Sometimes they get, say, an average of 5%. If (to keep things simple) *everyone* got 5% on the same day, would we all be 5% better off? What would happen to the things we buy? Some industries, especially if they were highly mechanised, might be able to get by with putting their prices up just a little, to meet the extra wage bill, but others (the railways and other 'service' industries) would have to put their prices up substantially and these would 'filter' down even to those industries that had not raised their prices at all. Eventually the extra money (like the white-suited man's £5) would not seem to have gained us anything at all and we would have to put in for another rise. Which is just what the unions do.

Of course, if your union can win 10% when others only get 5%, then you are going to gain; or if you can get 5% a year in company with quite a number of others but leaving behind some members of the community (nurses, old-age pensioners, the railwaymen, and agricultural workers, perhaps), then you will still be all right. Or if the income from your shares on the Stock Exchange goes up by a large amount while wages keep static, then you can be quite comfortable.

The periscope theory

But if everyone increases his income by more or less the same amount it is rather like giving everyone in a large crowd a periscope. We all seem to be better off, but in fact we find our relative advantage is no better.

In addition, because our costs have gone up, all our goods are more expensive for foreigners to buy so we cannot sell them overseas. If we cannot sell our goods overseas we cannot buy food and raw materials and our standard of living will slump alarmingly.

'Fine, fine,' says the man struggling to pay for his family's food, 'but why lecture me? Without my union I would be falling behind all the price rises and my family would not have enough to eat, let alone a decent standard of living. Don't ask *me* to say "No" to my next pay rise.'

'Fine, fine,' says the great industrialist, 'you don't have to tell me anything about the value of money. You may think my salary of £100,000 is a lot of money for a single man, and so it is, but I take home less than £17,000 of it and my £6,555 Rolls-Royce includes £1,131 15*s*. 5*d*. purchase tax. I shan't work any more this year unless I can get *something* extra over last year.'

'What about me?' asks the retirement pensioner. 'It's all very well you saying that 10*s*. a week on my pension adds more than £160 million on the nation's annual tax bill but I must eat.'

That retirement pensioner reminds us that some people get money not from working, not from savings or inheritance, but from the State. More than 6,250,000 people draw retirement pensions (at 60 years of age for women, at 65 for men, £4 for a single person, £6 10*s*. for a couple). More than 600,000 draw widows' pensions, something like 1,500,000 sickness, unemployment pay, and other benefits. Couples with children draw Children's Allowances (8*s*. for the second child and 10*s*. a week for subsequent children). Some people have subsidies on their houses, most have subsidies on their education; everyone has subsidies on his food; the people who use public parks even have subsidies on their fresh air. We are all frantically subsidising each other and drawing from each other to the tune of about £6,000 million a year — more than £100 for every man, woman, and child.

The man who takes from one of our hands and puts some of it back into the other is the Chancellor of the Exchequer. If he sees wage rises of 10% going on all around when he believes the country can stand no more than 5%, he will try to get us to settle for the lower figure. He will institute a 'guiding light' or any other useful word he can think of. With luck he may get us to hold to his figure. Otherwise, after we have congratulated each other on our cleverness in getting another few pounds a year the Chancellor of the Exchequer will stand up in Parliament — and take the top 5% off us again in higher taxes.

3 Taxes

Taxes are not only raised for spending by the central government. Quite a lot of public expenditure is handled at 'local' level, by the council in the Town Hall down the road. British local authorities employ a million people and spend many millions of pounds every year on vital but humdrum things such as drains, roads, parks, fire services, schools, etc. They raise some of the money from a local form of taxation called the 'rates' which is levied on the occupiers of buildings and land.

Depending on a formula, each house or other property has a 'rateable value' and the local authorities announce at the start of every financial year the 'rate in the pound' that they are levying. If your house has a rateable value of £100 and the council rate is 15*s*. in the pound then you pay £75.

Rates amount to about £600 million a year but this does not meet all the local government's expenditure. Some other money they can raise from their own resources (council-house rents, swimming-bath entrance money,

and so on) and some by borrowing from the public. But a great deal of it comes from grants by the central government (in other words from our national taxes) so even though the Chancellor of the Exchequer does not appear to be running the local government, he can often wield great power there by withholding or granting money or loans.

P.A.Y.E.

Our national taxes can be broadly divided into 'direct' and 'indirect'. Most direct taxes are a percentage of a person's income and at one time were levied once a year after a statement of what the taxpayer had earned. Nowadays, the majority of people pay by a system called Pay As You Earn (P.A.Y.E. to people who cannot bear to say the words), in which the employer deducts the tax every week and hands it over to the Inland Revenue — the people responsible to the Exchequer for collecting taxes (their trade union insures them all against assault).

P.A.Y.E. is worked out not only according to a person's income, but also according to his circumstances. Each person has a code number allotted to him, and this code takes into account the number of dependants the taxpayer has and also some of his outgoings, such as insurances, loans, and other exceptional expenses. If Parliament decreed that all people owning budgerigars should have the expenses of seed-buying free of tax then all budgerigar-owners would have their code number altered to allow for this. Once the code is agreed then the rates of tax come into force according to the income of the payer. Those with small incomes pay little tax, those with high incomes stick pins in images of the Chancellor. For the system is known as 'progressive' with a higher *proportion* of each pound handed over as the income rises. In 1966, for instance the rates were:

The first £100 of taxable income is charged at 4*s*. in the pound.
The next £200 at 6*s*. in the pound.
The rest at the standard rate of 8*s*. 3*d*. in the pound.

This means, for instance, that a single man earning £1,000 a year pays £186, but a married couple pay £137 and a couple with two young children pay £52. If that single man earns £5,000 he pays £1,515 tax, and if his income is not 'earned' by employment but comes from investments he pays £2,433 tax.

Anyone earning an income of more than £5,000 pays surtax at rates of between 2*s.* and 10*s.* in the pound *on top* of the 8*s.* 3*d.* (In 1966 a once-for-all increase took 10% extra surtax for a year.) This slightly savage tax means that anyone whose earned income reaches £100,000 a year normally hands more than £83,000 of it back. The only consolation, if you pay surtax, is that the Collector of Taxes writes to you as Joe Bloggs *Esq.*, rather than the *Mr* Joe Bloggs he wrote to for income-tax purposes.

Thus income tax and surtax have made the table on page 7 look a little different. Some people argue (including probably the people concerned!) that to take so much off the very rich is ludicrous because it will stop brilliant men from striving to reach the top. With an annual tax income of more than £8,000 million, the Chancellor cannot really justify taxing those few go-ahead people so savagely (surtax brings in about £225 million).

In fact, few Chancellors care to try to justify it at all. Is the tax scale made 'progressive' to make the rich pay for improving the lot of the poor? Or is it because, for sociological reasons, it is considered better that the gap between the very rich and the very poor should narrow? Most of the 'hidden incomes', such as subsidies, help the poor more than the rich. (The rich often pay for their children's schooling as well as pay their share of State schools, and pay for private medical care as well as State hospitals. The rich man's 'share' of food subsidies is a negligible percentage of his income but it may be quite appreciable to the poor man.) So the top half of that table on page 7 is getting a little richer, from subsidies, while the bottom half is getting distinctly poorer, from taxes.

Taxes and subsidies

Where is the line where outgoing taxes equal incoming subsidies? It is a clever man who can draw it. Some people take out of the pool early in life and pay into it later. Others, perhaps, may pay in a modest amount at first and then draw out much more later — possibly by dutifully paying for their National Insurance stamp every week (a rather complicated sum varying between 13*s.* 8*d.* and 16*s.* 1*d.* for men, with 13*s.* 4*d.* or 15*s.* 9*d.* added by their employers and lesser amounts for women and youngsters) and then, in old age, drawing from the State many hundreds of pounds in pensions.

Among the many forms of taxation, several others may be worth special consideration. Estate Duty, colloquially known as Death Duties, is paid on a rising scale which takes 80% of an inheritance of more than £1 million. Is this huge confiscation fair, after taxes have been paid on the money during the man's lifetime? Or is it only right that the money, now a windfall for the heir, should be taxed like any other increase in income? Some of these large inheritances are not hard cash but a stately home, valued at a half a million pounds or so, but with no liquid (loose) money to pay off death duties without selling the house. Hence the modern sight of Dukes and Marquesses and lesser breeds busily showing people round their thousand or so ancestral homes at half a crown a head, often solely so they can meet the death duties demanded by the nation.

Some people feel that there is nothing wrong in exacting this high tribute — after all the stately homes may have come into the family's possession in a not-very-noble way centuries ago. Others think that only the honest pay death duties since there are a number of ways that a sharp-eyed accountant can suggest for 'making arrangements' earlier to avoid paying death duties at anywhere near the maximum rate. For this reason, death duties are often said to be voluntary taxes!

Another controversial tax is the Capital Gains Tax, a tribute exacted from those who have bought something (shares, jewellery, property) and sold it at a profit some time later.

Purchase tax

A major *indirect* tax is the all-embracing purchase tax, levied on a huge range of articles at three rates. They include:

At 10% — clothing, gloves, handkerchiefs, headgear, footwear, domestic furniture and bedding, floor coverings, hardware, ironmongery, tableware, kitchenware, and toiletware of all kinds used for domestic and office purposes.

At 15% — confectionery, soft drinks, cider, and ice-cream.

At 25% — clocks and watches, motor- and pedal-cycles, sports goods, toys, toilet soap, vacuum cleaners, refrigerators, washing-machines, gas and electric fires, leather goods, cameras, photographic films, jewellery and imitation jewellery, musical instruments, greetings cards, motor-cars, radio and television sets, gramophones and gramophone records, cosmetics, and perfumery.

All these taxes, and certain other taxes, were increased by 10% in the 1966 economic crisis.

Also in 1966 an entirely new 'selective employment tax' — dubbed 'the jobs tax' — was put on by the Chancellor. In this, by increasing the cost of National Insurance stamps, employers paid 25*s.* for every man on their payroll (women and boys 12*s.* 6*d.* and girls 8*s.*). Manufacturing industries would have this handed back to them later with a little extra added, and a middle range of employment would have the refund but no extra. With some exceptions, the idea was to divert people from less-essential industries into ones which were considered by the government to be more important.

Corporation tax, the creaming off of 40% of companies' profits, was also fixed in this budget and a new tax was imposed on betting and gambling.

New ideas

What new taxes would *you* impose if you were Chancellor? You can dispose of the really rich fairly quickly. They are paying 18*s.* 3*d.* in the pound on their income (plus 10% in the 'crisis' of 1966), and it only brings in about £225 million more than if they were paying standard rate of income tax so there is not a great deal more to be taxed there. A Chancellor has to remember that if he really turns the screw on any one group they will simply stop working so hard or emigrate, or pay large sums of money to ingenious accountants to find ways round the tax. Would you work full time if you were paying, as the rich were a while ago, 19*s.* 6*d.* in the pound? To buy a bar of chocolate you would have to earn one pound.

But what about the poor? Clothing, furniture, kitchenware. . . . Many people do not know when they are paying tax, but even the little boy spending the first pocket money of his life will pay tax by buying sweets or an ice-cream on which purchase tax has been charged at 15%. Why, in 1966 even sixty boxes of shamrock flown into London on St Patrick's Day were charged £20 duty by Customs' men!

Economists are full of bright ideas for painlessly extracting our money. One of the commonest suggestions is a wealth tax, a duty charged each year according to our total assets. Another is a spending (or outlay) tax, a percentage of the difference between what we owned at the start of the year plus our income, and what we owned at the end of the year. But why think up new taxes? Have we not got enough?

As the demands on the Exchequer grow, so do the areas where taxation is levied. It is little use complaining if, at the same time, we expect the government to take on more and more responsibilities which were once left to the individuals.

The right to starve

It has now become accepted by almost everyone that the State should interfere greatly in our freedom to starve to death, to die of neglect, and to indulge in many other similar traditional rights. To do this it must interfere greatly in a rather more cherished right — the right to spend our money on anything we want to. Certain direct taxes are not called taxes at all (the National Insurance stamp is really a tax for it is a compulsory removal of part of our money by the State, or a State organ, the National Insurance Fund). Normally such 'taxes' are allotted to certain definite purposes (that stamp pays for some of the Health Service and most of the sickness and welfare benefits, but not the retirement pensions). One of the most quoted of these 'special taxes' is that levied on road-users.

Every private motorist pays £17 10*s.* for a Road Licence on his car (commercial vehicle operators pay more). Originally the declared object of collecting this money was to pay for road-building. Chancellors of the Exchequer lost no time in raiding this Road Fund and now it is all swallowed up in the general tax collection. Is it a good thing to earmark certain taxes for certain projects? Should motorists know they are being asked to pay merely for better roads? Or would beer drinkers expect that their taxes should go to subsidising better breweries? Is it unfair to 'soak the motorist' and then not build better roads? Or no more unfair than 'soaking the smoker' for 4*s.* 2*d.* out of his 5*s.* 5*d.* a packet of cigarettes? The first taxes on whisky and gin were levied to pay for free education for the people.

The taxes on alcohol and tobacco are 'indirect', like purchase tax, because they are collected from traders who are later repaid by everyone who buys the goods, whether they are poor or rich. Are they better taxes? Does the citizen soon forget how much of his 5*s.* 6*d.* a gallon petrol goes straight to the government? (It is 3*s.* 7*d.*) But purchase tax is spread over a large range of goods and the retirement pensioner may pay it as often as the £2,000 a year man.

Should indirect taxes be only on luxuries, to avoid hitting the poor? But what is luxury? A car? A television set? Cigarettes? What are luxuries today may be commonplace necessities tomorrow. In an inquiry in 1966, people in Los Angeles who claimed to be living in poverty were asked to describe their circumstances. Many had cars, all had television sets, most had refrigerators. Try asking an Indian villager what he thinks of their poverty. Where does your 'poverty line' come? And where will it come in five or ten years' time?

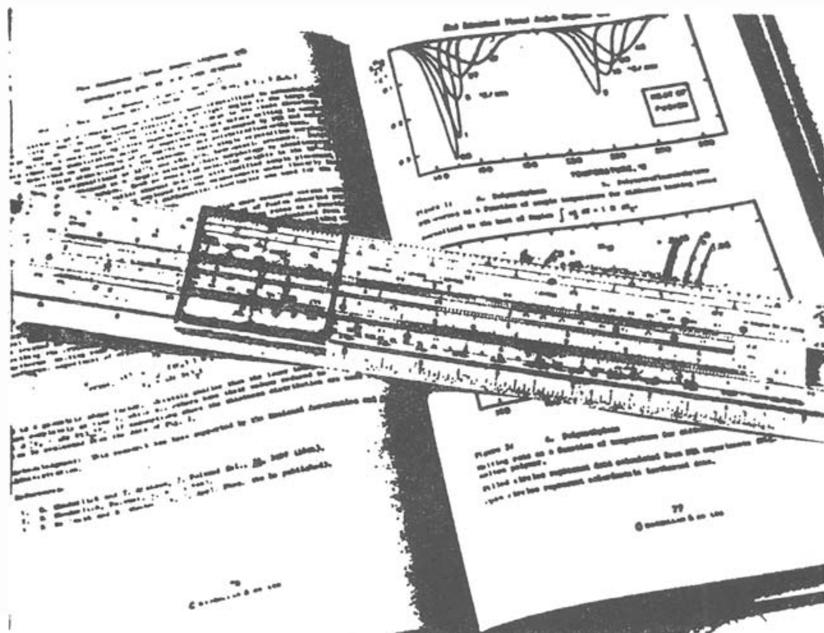
Richer every year

All those people expecting a rise each year are only concerned about how much it will be. They seldom ask whether or not they will get a rise at all. How do we know, or think we know, that we can get richer every year? Not long ago it was accepted that there would be 'good times' and 'bad times'. The economy of the country followed certain 'natural laws' and when there was not much money in the kitty people lost their jobs, sometimes starved and always suffered. In good times, there was work for all — though not a lot of money for all. The poor, everyone knew, 'were always with us'. Now we are not so sure about the poor and sometimes distinctly over-confident that good times 'will always be with us'.

A lot of this is due to the amazing technological advances in industries, and scientific advances in agriculture, which have helped the already-advanced parts of the world to leap still further forward. But a lot of it — some people will say — is due to planning. All over the world, from the communist systems of China and Russia to the free-enterprise system of the United States, the planners are at work. The economists are becoming the cure-alls of the modern world.

No longer does our own Chancellor of the Exchequer stand alone at the pinnacle of the country's economy — there is a Minister of Economic Affairs to look to the long-term health of the country's economy. Once people said 'money talks' and it was people with money who directed our affairs. But money can be made to stop talking by a vote in Parliament and can be printed by the million pounds at a word from the Chancellor of the Exchequer. Who *is* doing the talking now?

4 The miracle-mongers



It used to be said that the purpose of good government was to create conditions in which business could flourish. It was up to the businessmen themselves to look after *how* we earned our living. The financiers, who moved in their secret, top-hatted ways through dark city alleyways into anonymous oak-panelled boardrooms, supplied the money for business and hoisted storm cones every so often when things were going badly.

Every morning at eleven a little group of men still gather at Rothschilds, the bankers, to fix the price of gold. The almost casual arrogance of a handful of men in London deciding what price the world's money should be seems to some to be part of the natural order of things. London once was the financial centre of the world and all trade worked to simple rules. No money in the country's central bank? Work harder for less reward until

things got better; some people would starve but eventually the vaults would be full again.

The 'simple rules of the market', the 'law of supply and demand', were unchallenged for many years. But with mass representation in Parliament and a government of the people for the people, more humane ideas than 'devil take the hindmost' spread around. Wide education, help for the sick and unemployed, assistance for the needy . . . all these things meant a greater and greater questioning of the ruthless economic laws of the country. Probably the principal modern questioner of established theories was John Maynard Keynes.

Keynes

Between the two World Wars when the Great Depression swept millions of men out of work and wrecked the economic systems of huge areas of the world, it was Keynes who fought against the traditional response of the economist. They reacted to a slump by cutting back expenditure still further. Keynes urged governments to do the opposite — to spend their way out of the depression. By pumping more money into the economy, business would be stimulated and the slump overcome.

But what about the traditional 'balancing of the budget' and every government's aim to spend no more than it received in taxation? Forget it, urged Keynes. Spend far more than you are getting back, and encourage business to borrow and expand too. Then, once the slump is past and the country is in boom conditions the surplus money can be skimmed off again in taxation and by calling in the loans. But how can you manipulate the flow of money in this way? You cannot increase and decrease the supply of gold and real wealth. Forget the gold standard, said Keynes, and those who felt like him. Stop worshipping gold bars and calling them money and realise that money is the resources of a country — its own minerals, its labour force, its investment. If you issue paper money backed by these then you can increase or decrease the flow of money by turning on or off the printing presses and the country's taxes.

Stop–go

This is an over-simplification of Keynes' principles, but all over the world his idea of a country spending its way out of a depression, and creaming off its surplus during a boom ready to spend it again in bad times, has been adopted. Whichever party is in power in Britain uses phrases like 'a touch of the brake' during cutting down periods, and 'controlled expansion' during the boom times and says that only it has the wisdom to guide the economy successfully. Whichever party is in opposition accuses the government party of adopting 'stop–go' policies and implies it cannot make up its mind. (And not only in this country: why, the Director of the Swiss Public Economy Department's commercial division is a Dr Stopper and Singapore's Finance Minister is a Dr Goh!)

No party suggests that the economy should be left to take care of itself. 'We are all planners now,' it has been said. But by 'all' we should include not only governments but continents, where groups of countries have agreed to plan ahead together (see page 121) such as the European Economic Community, European Free Trade Association, Alliance for Progress, Economic Commissions for Africa and Asia, and so on. And not only national and international planning but regional and local planning — regional areas of Britain already have their own plans, big industries have their plans, individual firms are getting the habit of looking not two years ahead but twenty. If we are to iron out the bumps in the economy with any accuracy we must see them coming. If we are to take responsibility for a slump in this or that industry we must try to prevent it happening.

Planning committees

Within the past few years a vast growth of planning committees has spread over Britain. The principal National Economic Development Council is known as 'Neddy'. Neddy has representatives of government, unions, and management sitting round a table, and it has given birth to 'little Neddies' (Economic Development *Committees*) covering specific areas of industry. But how can individual industries plan for twenty years ahead if they do not know how the economy of the country as a whole is due to be reshaped? So a National Plan was produced.

Before we look at the Plan — should we stop and think whether we want one at all? Most people are agreed about ironing out those bumps, keeping full employment, controlling inflation, and similar objects, but does a long-term plan, or Plan, not go much further? By saying in advance that the government's aim is to encourage the Can Opener industry (by allowing tax concessions, or making development sites available for factories) and discourage the Fruit Machine industry (by permitting the closing of railway lines in those counties specialising in fruit machines and by refusing to build a new port to handle fruit-machine spare-part imports), the government can actually *shape* the economy in ways it thinks right.

Is our form of government outmoded when it comes to planning? To decide priorities for a transport system, or the reshaping of whole towns, may call for twenty-year plans, yet a session of Parliament can last at the most five years and then may give way to a group of men opposed to the just-beginning schemes. There are many methods, some blunt, some subtle, by which the government of the day can get its way and so draw the broad lines of future expansion. Is this good?

Freedom to spend

The semi-capitalist society under which we live gives us a fair degree of freedom to spend quite a lot of our money just as we like. Some of us waste it. We spend on ice-cream when we would be better advised to buy meat; we pay for days at the seaside when it would be more worthy to buy Savings Certificates; we fritter money on new suits and hair-dos when we could be paying for textbooks to improve our earnings. To an economist it must be maddening to see all the waste going on around him. With a little more planning all our economic troubles would be over.

With a little more compulsion, more direction, more effort, Britain could be immensely prosperous. Is there a temptation that persuasion to meet the Plan's objectives will turn into coercion? Or is it right to have objectives to strive for and should there be pressure brought on the country generally to support serious industries rather than what has been called the 'candy-floss' of modern life? But what is a serious industry? Is it serious to make aircraft? What about cars? What about cars once most people already have one-per-family? What about television sets? What about chocolates? What about whisky? And what about any of these that

might be called unnecessary but which are exports and earn us all money? Are there really planners in existence who can assess the needs of everyone, and also the coming needs of everyone? Would a planner have backed television in its infancy? Or would he have denounced it as an unnecessary flippancy likely to consume an immense amount of the nation's resources if it became popular? This Plan, then, should it be used as a detailed guide, or just a broad indication of the way we should all live in the future?

What *does* the National Plan indicate?

5 Britain in 1970

Britain's first truly National Plan was produced, some say in too great a hurry, in 1965. Stripped to its essentials, it said that by 1970 the country should increase its total economic wealth by £8,210 million. About a quarter of this extra wealth would be needed to put right the economic illnesses from which Britain was suffering; the rest would be available for making life sweeter. The rise would mean a 25% increase in national output in five years. Personal spending would go up. For every £4 the man in the street had in 1964, he would (if the Plan were right) have £5 in 1970.

But why stop at that figure? Could the Plan have made it £7 — or £8? Who could possibly say how the economy of the country was going to progress? How could we be so impudent as to assume that people abroad would buy our goods and improve our standard of living still further?

The gods of modern government — the economists — said it, or at any rate *some* of them said it. First they took a welter of statistics about every

industry and every branch of the economy (even the opponents of the National Plan concede that its statistics are invaluable). The various little Neddies (page 20) and other advisory and consultative bodies weighed in with their best estimates; the government itself estimated its spending abroad and at home; aims were set for the development of certain regions and certain social priorities (such as housing). And estimates were made of many imponderables such as how many carpets would be bought the year after next and how many men would buy cotton shirts rather than nylon. Less confident people than economists would call some of these estimates wild guesses.

Graphs

In more primitive days, when the country got into difficulties, the people turned to the heathen priests for help; now they turn to the economists. The priests, if they were lucky, produced the odd miracle; the economists will produce a graph. Masses and masses of figures are poured from rival economists to prove rival theories but most of them stand or fall on some basic guess that is at the bottom of all the reasoning. If men switch to nylon shirts the cotton industry will suffer and there is not an economist to save it. If foreigners stop buying British goods, then the country hurries towards bankruptcy and the economists go to the wall with the rest of us. That National Plan, for instance, visualised an annual average growth rate of 3·8% and, for 1965, we had the lowest such rate in Europe — less than 3%. Half-way through 1966, the government agreed that the Plan would have to be recast.

Many uncertainties

Is it all a lot of nonsense then, figures plucked out of graph tables based more on hope than science? Or is a National Plan the best sort of guideline to produce for the economy when — as is obvious — the economic life of the country is based on so many uncertainties? How many pairs of shoes are *you* going to buy the year after next?

The economists will point to the enormous successes of the developed

countries since the Keynesian outlook has been prominent. The doubters will say that this outlook coincided with great technological advances, with huge strides forward by science, with a boom due to post-war recovery programmes and another due to Korean War buying. . . . A free-for-all economy would have bought about the same number of washing-machines without all the economists to chart them.

Does a Plan help show where shortcomings are likely? It was possible to work out that, if the Plan's 'growth' targets are achieved, there will be an acute labour shortage in 1970. Simultaneously with this realisation, the number of immigrants was cut down. So much for the charts.

It is generally agreed by both those in favour and those against a Plan that it can work only if everyone understands its purpose and pulls his weight. People will have to realise that increases of income *must* be related to increases of productivity (spread all over the country, for some trades cannot measure increases in their efficiency — try asking your teacher to prove that you have learnt 4·8% more this year than last).

On the other hand some 'increases in the standard of living' do not depend on increases of income. It has been said that the unions' campaign to get a universal 40-hour working week in Britain jeopardised the National Plan. Yet some people think it is better to increase the general happiness by working fewer hours, or fewer years, than to get more in their pay packets. Of course, other workers think very differently. It has been estimated that one working person in six has *two* jobs. Taking an extra job (known as 'moonlighting') has become common since the 40-hour week came in. The standard of living can also be improved by a fall in the price of goods — or a cut in taxes. In general, though, people's idea of a rise in their standard of living is pegged to a rise in the money in their pay packet. And it is just such a substantial pay rise that the National Plan held up as coming to us by 1970.

Publicising the Plan

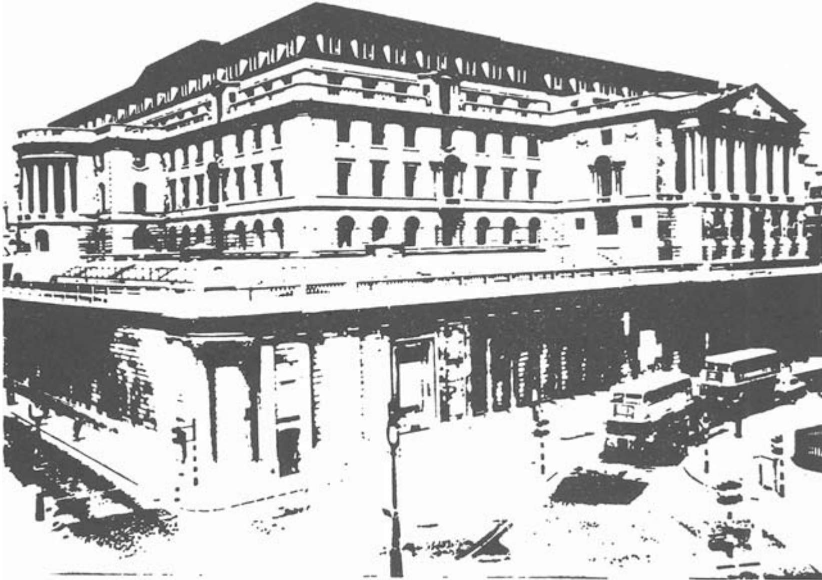
The new Ministry of Economic Affairs, charged with producing and nursing the National Plan, exceeded any other ministry in its efforts to publicise its baby. It started its own newspaper (for factory notice boards), it held countless news conferences and television appearances, and issued countless leaflets. Looked at from a productivity point of view it must

have broken all records in launching a government product. A week later one of the Public Opinion Polls asked people if they had heard or read *anything* about a National Plan. Nearly six and a half people (they come sliced in surveys) out of ten had heard *nothing at all.*

One prominent ex-Minister, after studying the Plan, called it a 'monumental edifice of fatuity and folly'. Too harsh? Or on the nail? Would it be fair to say that even a rough-and-ready guide is better than none at all? And that if the Plan does nothing else it shows the hurdles along the way? If you collect this vast amount of information, at least you cannot complain when a *predictable* crisis comes along.

Some traditionalists wipe aside all this economic planning stuff as a lot of hocus-pocus. Britain, they say, needs none of this to find out the root causes of her trouble. Men and women alike are getting away from fundamentals. To study the health of a country's economy you need only look at the health of the currency. A strong pound and our troubles are over. A weak pound and nothing else can bring prosperity. Why, then, is the pound weak?

6 Keeping sterling strong



Many things can do service as money. Schoolboys sometimes use cigarette cards; primitive tribes use beads. But one thing that will upset the bargaining usefulness is an increase in the quantity of the monetary units without an increase in the number of things that the units will buy. A new boy at school bringing with him a thousand cigarette cards will greatly reduce the value of those already in circulation; the arrival of a boatload of beads will send the 'exchange rate' of beads in New Guinea down with a bump. The discovery of rich mines in the New World by the Spaniards upset the value even of such stable monetary units as gold and silver.

You can notice it from month to month in Britain. At times of high spending — such as Christmas — the banks have to issue more pound notes because everybody wants more money in pocket and purse. The result? The prices in the shops go up and many people feel angry.

Every year, broadly speaking, there are more pounds sterling circulating. Unless there is an increase in 'productivity' (the production of goods for which this sterling is to be handed over), then the value of each pound will

fall — you will get less in exchange for your pound note than you did last year.

It is common knowledge that 'a pound doesn't buy what it used to in the old days' and this is just another way of saying that a pound has fallen in value. The eggs, the meat, the clothes, the furniture are still there, but the useless bits of paper that we exchange on trust that we will always get our pound's worth are becoming more and more common and so exchangeable for less and less goods. How do they get more common? Several ways. By rises given to workers when there is no corresponding rise in productivity; by a fall in savings, which means that more money is being put into circulation; by a drop in taxation, leaving more loose money in our pockets; by an increase in the rate of spending by all of us; by a rise in government spending which again pumps money into general circulation; or by banks lending us all a lot of money.

Forged notes

The devastating effect of a large increase in the *amount* of money, and thus a big fall in the *value* of money, is so well known to the Germans, because of their own runaway inflation after the First World War, that in the Second World War the German Intelligence Service conceived the idea of forging an immense number of British £5 notes and dropping them from aircraft over Britain. The forgers got to work, but the idea was later amended and the forged notes used to pay spies and other trusting people. The 1943 rescue of Mussolini from an Italian prison was paid for out of these notes and they still turn up, generally in the hands of foolish tourists who have bought them at cut rates on the Continent, to find in London that they are worthless.

A sharp fall in the value of the pound sterling now (and 'sharp' is a vague sort of word, the pound of 1946 was officially estimated to be worth 10*s*. in 1966) would only concern British people here in Britain were it not for the oft-stated fact that we export in order to live. Unless foreigners can be persuaded to pay for our goods we will not be able to maintain our standard of living and will eventually go short even of food.

But because of our trade with foreigners, if the pound is worth less and less within Britain it is also going to be worth less and less abroad, and finally foreigners will be unwilling to take it in exchange for their goods.

Britain will be forced to consider 'devaluing' the pound (fixing a lower exchange rate between it and foreign currencies) and then the whole thing will start again with the new rate gradually becoming eroded. This time, however, even to start with, far more cars will have to be exported to gain the same amount of foreign currency as before (although their low prices should lead to an increase in demand from overseas). Devaluation is also a tremendous blow at these foreigners who trusted Britain, lent us money or kept their savings, or reserves, in sterling. They wake up one morning to find we have decided that the pound is, perhaps, only worth three-quarters what it was.

Cheap imports

Britain has long depended on cheap imports. Lately, as our payments difficulties have increased, our main trouble has been to increase our standard of living without boosting the imports (which always go up when 'there is more money about') by a greater amount than can be met by increasing our exports.

Although imports always do increase when there is more money about, we could control them. At present we import communist Wellington boots, American greetings cards, European rose bushes. But if, by government order, we cut down the ones we think are unnecessary, the countries concerned will simply cut down our 'unnecessary' exports. And some of ours are distinctly odd. For instance, who would have thought we had an export trade in crossbows to Russia? (They shoot hypodermic 'arrows' for stunning monkeys.) Even the Beatles have brought us in 4 million dollars.

When the pound is under pressure because foreigners think they are not getting their money's worth for the pounds they accept, the pound is said to be 'weak'. And the number of reasons given for this weakness is almost as great as the number of people studying the problem.

'The Times'

In March 1966 *The Times* was one of many organs of public opinion saying that the strength of sterling was a prime issue of the general election.

In a leading article, at least notable for having a sentence more than 500 words long, the paper summed up:

> The £ is weak
> because Britain is living beyond her means;
> because neither the Labour Government nor the Bank of England nor the British people overcame the crisis a year ago; the foreign lenders did so;
> because Britain is still so heavily in debt abroad;
> because Government spending abroad goes on rising;
> because no Government has the courage to face the British people with the truth;
> because the world sees the Transport and General Workers' Union — the country's largest — defying the system on which the Government's economic policy rests;
> because the 'trial' by workers in Oxfordshire of some of their fellows who refused to join them in an unofficial strike is regarded as symptomatic;
> because full employment has led unions to over-use their powers and employers to under-use their labour;
> because British industry has continuously lost its share of world markets;
> because whenever the mildest deflation begins to work, it is discontinued before it can even half finish its job;
> because extra leisure is put before extra effort by too many people in all classes;
> because too many working hours are turned into gambling hours;
> because money is regarded by too many people of all classes as something to be got or won rather than earned;
> because under present conditions the trade unions are responsible to no one, and no Government has been prepared to bring them under reasonable control; because the world knows that the trade unions know this;
> because the Labour Government is showing it has learnt nothing; it has committed itself, if returned, to proceed with the irrelevance of nationalising steel;
> because if a Conservative Government is returned after so short a spell of opposition, the workers are likely to resume their class warfare;
> because Britain, never having been defeated, still refuses to see she is up against it;

because the world fears that devaluation will ultimately be chosen as an alternative to deflation, and the world knows this will not solve Britain's long-term problem;

because while France, Germany, and Italy have had their 'economic miracles', Britain has as yet not shown the willingness or the capacity to make the effort to achieve her own 'miracle';

because in all too many cases Britain loves the old instead of the new, seeks reasons not to do things rather than to do them;

because too many managements have been supine or unimaginative;

because the change from privilege to talent has been too slow in all too many board rooms;

because there is on both sides of industry still too much hankering after restriction and too little eagerness for competition;

because in the last analysis economics is a matter of human nature and not of formulas; no country can be saved if its people will not save themselves;

because for twenty years leadership has been lacking; soft words have been substituted for hard facts; exhortation has never been followed by deeds; rights have come before responsibilities; the national philosophy has been all take and no give;

because the world knows that, however slow the descent, the abyss is still at the end of the road.

The £ could be strong if the British people had the ears to hear, the eyes to see, and the will to recover their native sense and energy. They have done it time and again in wars; why can they not do it just once in peace?

Mild inflation

Is it as serious as all this? There are some who think that a mild inflation (that is, a little falling in the value of the pound) does no great harm. It encourages production in the factories (there is more money around to buy the goods). It helps spread wealth more evenly by taking 'value' from those who have a lot of money and giving more (by increased wages) to those who have little. But what of the people on fixed, small incomes? Are the rest of us trying to get too much for doing too little?

Or is that what our society is organised to bring about — a civilised struggle between various interests? Are the trade unions simply trying to get more money for less work? And is this necessarily bad? Do not investors shop around for the best return for their money? Why not, then, shop around for the best return for your labour? But is it different when a trade union holds a monopoly over an industry and can therefore hold it up to ransom, demanding unreasonable wages and pushing the price of the goods up to an uneconomic height?

It is difficult to bring home to people enjoying good wages and plenty of food and clothes that they are up against a financial crisis. Even when the country is £900 million in debt the cars still run in the streets, the restaurants still serve fine foods, the television sets still flicker in the homes of millions. But it is a crisis nevertheless, and we are all living on money borrowed from foreign bankers. What is to be done? If our money is getting 'cheaper' at home we must make it dearer. To make us work harder for the same amount of money is why 'restrictive practices' are being attacked on both sides of industry (most people recognise that it is restrictive to have a man look after a machine that is designed to look after itself; it is less obvious that an agreement between firms not to compete in lowering prices is also restrictive, and so is the legal world's insistence on having a junior barrister hanging around whenever a senior one is briefed for a case).

Welfare State

But is all this talk of bankruptcy just defeatism? Britain is still number three in the exporting nations of the world, and only Germany exports a higher proportion of national production. We run a humane Welfare State (but, incidentally, every time old-age pensions or payments to the sick are increased the extra money helps force up prices and makes it harder for the rest of us to get out of international debt). We are building new industries, new towns, new schools, and universities. But are we in fact doing too much of this internal spending? Should we stop using up men and materials on improving our own country, and use them instead on building up export industries and getting ourselves out of debt? Should we tackle first the spending of several million pounds every day on defence, including foreign bases so that we can be 'policemen for half the world'?

Are we suffering from delusions of power, a hangover from days of international greatness and so wasting money on 'show'? Or must we put first things first and ensure that we are well defended before bothering about balancing our banking books?

Foreign countries have their problems. Germany and France and many other countries have had far more inflation than us. Simply to say 'export more' to solve Britain's problems is to echo a meaningless slogan. To export more we must either cut down on home consumption or increase productivity. There is no way out. If twice the number of cars go abroad next year, we either have far fewer for ourselves or we increase the number of cars we produce. To suggest that we can 'get by' without radically altering our productivity or cutting our standard of living is to fool ourselves.

We could cut down home consumption by having savage credit restrictions but, unless all the spare production goes abroad, wide unemployment results. This throws all the burden of 'reducing home demand' on to those who are unemployed. But even this may not stop price rises for the rest of us — half-used machines still cost as much to maintain and we might find *fewer* goods produced at *higher* prices.

Unions and management

Throughout the many suggestions for improving the state of the pound run two recurring threads: inefficient management, selfish unions. There have been many suggestions for improving management, from business schools to joining the European Common Market (when, in theory, fierce foreign competition would drive the bad managements out of business).

One way to brighten up managements is to make it harder for them to put prices up without first exhausting all ways of making their industries more efficient. One way of making unions more co-operative in making industry efficient is to make it hard for them to get wage rises without a corresponding rise in productivity. Hence the many efforts by government to control prices and incomes culminating in the creation of the Prices and Incomes Board.

7 The Prices and Incomes Board

As we noted earlier (page 8) most wages are based on bargaining between representatives of employers and employed. The right to free bargaining has been built up over the centuries, together with the right to strike. Politically we are all equal — each man's vote is worth exactly the same as his neighbour's, each man is equal before the law, each man shares the political rights and obligations of this democratic society — but economically we are far from equal.

Some of us are born rich, some poor; some find it easy to get well-paid work, some spend their lives in and out of poorly-rewarded, mind-bending, or back-breaking drudgery; some are left thousands of pounds by almost-unknown uncles, others have barely enough money for food in old age. In many ways we can do nothing about this inequality but, while at work and especially while at work where strong trade unions bargain for us, we can at least see that we fall no further behind in the struggle for economic equality. If the firemen get a rise, the policemen will want one; if the shipbuilders get a rise, the engineers will demand to follow suit.

But if the workers get a rise what do the manufacturers do? If they are efficient they may improve their methods and save, by increased efficiency, an equivalent sum of money; but more likely they will simply increase the prices on their goods. The higher prices will not deter the customers because many of the customers are our old friends, the workers, flush with money because of that rise they had a little while ago. The main sufferers are those left out of the race for higher pay — such as pensioners on fixed incomes — and the pound sterling, worth just that much less because of the increase in the amount of money flowing into, and out of, people's pockets.

Catching up

The struggle of everyone to catch up, or stay with, other people's incomes is one of the greatest causes of our mutual impoverishment. And to prevent it reducing us all to undisguised bankruptcy, several methods of restraint have been tried out. The latest was the formation of the National Board for Prices and Incomes which had to be notified of prospective changes in prices and of claims for wage rises so that it might inquire into their justification. The object was to endorse only those wage rises that were the result of increased productivity (and therefore were not inflationary) and only those price increases that genuinely could not be avoided by improved methods. The Board, by persuasion, also encouraged wage rises of quite large amounts where they were the result of 'productivity agreements' which in effect are the unions selling their 'rule book' for a big rise. One of the most famous was that of the Esso Refinery at Fawley where an agreement on higher productivity produced spectacular pay rises. The rule book is often another way of saying 'restrictive practices', for it may insist on procedures and checks long since unnecessary with modern machinery.

The Board also tried to keep other workers in step with rises in those trades and professions where productivity could not be linked with earnings. On occasions, though, there was a conflict between productivity as a basis for rises and 'comparisons' — comparisons, that is, with rival industries. Railwaymen, for instance, had brushes with the Board. They wanted comparisons, the Board wanted productivity as the pay yardstick.

Although the Board had not been long working, by mid-1966 it had

shown that it could hold prices fairly steady and that, with the less-pugnacious unions, it could have some success with wages. Was it likely that all the unions would come to see the wisdom of the Board? Or would they regard it with suspicion as an attempt to clip their wings when, for the first time in history, it was the wage-earner who had the upper hand in wage bargaining? The Transport and General Workers' Union (see *The Times* Leader on page 30) was in 1965 not co-operating. Then, with the 1966 economic crisis, the whole Prices and Incomes policy was shaken by a 'freeze' on wage or price rises with the government taking legal power to enforce such 'voluntary' action. Many people felt the 'freeze' with its allied economic measures was a sign that Britain was in for a dose of the traditional way of making people work harder for less money — unemployment.

Unemployment

No modern government will admit that it is even contemplating measures leading to increased *long-term* unemployment. The memory of the inter-war years is too fresh among the trade unions to tolerate anything less than full employment as government policy. The unemployment brought on by the 'freeze' was designed to be short-term redeployment. (In countries such as Germany the threat of inflation is a far stronger one than the threat of unemployment for they know what runaway inflation can do. Once you have paid £1,000 for a loaf of bread you do not forget that the stability of the currency is more than a slogan).

But it is all very well to talk about most unions accepting the Prices and Incomes policy. The unions are only the sum total of their members and if they are more 'responsible' than the men who make up their number, then there will be an increase in unofficial, or 'wildcat', strikes among workers who reject the advice of their leaders. What is to be done if that happens? Jail the wildcat strikers? Even when their number runs into thousands? Can secret voting be brought in before any strike action is taken? But how can we discipline the rogue unionists who simply ignore the rules and stay away from work 'by coincidence' on the same day as thousands of others? These wildcats can sometimes be got a little out of proportion. It has been said that if wildcat strikes were abolished all our economic ills would be cured by the increased production; but in the wildcat league of the eigh-

teen industrialised nations Britain comes twelfth, which does not suggest we are too bad on the whole. The most prosperous nation in the world, the United States, comes top of the table with more wildcat strikes per 1,000 workers than anyone else. On the whole, our trade-union movement is already very 'responsible'.

Nevertheless, the number of strikes, official (that is to say union-backed) and unofficial, does affect the economy of the country and the plans of any government. No modern Prime Minister can afford to upset the organised labour movement too much because of the grip that trade unions have on the life of the country. The Trades Union Congress (T.U.C.) has 8,500,000 unionists affiliated to it. On the other hand no responsible trade-union movement can forget that the prosperity of its members is bound up with the prosperity of the nation. A dogfight between unions and government in the end, no doubt, would be won by the government, but it would be won by a government of a country whose economy had been shattered in the struggle.

Political economists

In years gone by the rulers of the country were those men who controlled its military power — for force of arms was the method of choosing the king; then, as civilisation developed it was the great landowners who controlled the reins of government — for land was wealth and wealth was power. Then democracy came and the vote spread throughout all classes of the population, and into the government stepped those men and parties who could express the will of the people and set alight their imagination. Now, political power is almost taken for granted, but the search for economic equality has produced a new race of leaders — the political economists.

The different types of rulers through history have been reflected in the men wielding power in London — the kings, the court favourites, the peers and finally the prime ministers. It should be no surprise that in these days of economics the present Prime Minister and Leader of the Opposition are both economists and many of their right-hand men in Cabinet and Shadow Cabinet also find their way as easily among economic theories as their predecessors did in more traditional corridors of power.

When the privilege of the vote spread to the common man, education

spread to him, too. ('We must educate our masters,' one wise politician put it.) It was clear that to give the vote without the education necessary to enable the voter to judge politics wisely was to invite disaster. Nowadays a huge amount of government decisions are not purely political but economic. Is it time that everyone had some *economic* education so they can judge these actions as wisely as the political ones? It was once possible to keep a government from becoming tyrannical by withholding money from it. Even individual citizens like the famous John Hampden who would not pay one particular tax (Ship Money, in 1636) could have an effect. But nowadays a government can make its own money and every citizen will unwittingly subscribe a share of the wealth. Economics is not just a collection of theories. It is power.

But this is not always obvious to the man in the street. Going to work, being paid for it, trying to buy enough to keep himself and his family in tolerable comfort, to him all talk of economic theories may seem a little remote. For the man with a modest amount of money, what is there to interest him in the world of finance?

Of all the monetary institutions in the country the one he notices most often — for it stands in every village and town — is the bank. Why have banks? Why not keep any spare cash under the mattress? For countless years there were no banks; then there were banks for the rich and banks for the unwary; then there were banks that pulled international strings and banks that treated their customers with a disdain proper to their inferior status. Nowadays banks advertise their services with pictures of children playing with toys and plumbers waving their spanners.

Like the politicians, banks have realised that money has spread down among the ordinary people of the country. With economic equality moving nearer, the banks are throwing their nets among a far wider section of the community. For people may often need banks and the money they control but banks *always* need people and the money *they* control.

8 The banks

For most ordinary people in Britain, finance probably means banks. Those who keep their money (or rather an account of their money) at the local bank may do so for a variety of reasons. They may want simply to keep their money safe (along with any other valuables or legal documents), to make use of bank services (such as raising loans when they are hard up), to transfer money to other people's accounts by the simple credit-transfer system, to gain financial advice or — perhaps the most common reason of all — to have the convenience of being able to pay for goods by cheque.

If everyone had to lumber around bundles of pound notes when they went on a shopping spree or paid business debts, then carrying a wallet or handbag would be a more inconvenient, and a riskier, thing. So, instead of rolls of notes, you need only a slim cheque-book and a fountain pen. With these you can spend up to the limit of your personal account, although in fact cheques are not 'legal tender', or money, in the legal sense of the word.

Banks do not provide their services free. They make a lot of money by

hiring out *your* money when you are not using it yourself and they charge you for the services they provide when you are using it. Is it worth 'opening an account' at a bank if you have only a little money? What will you get out of the bargain?

Bank charges

Most banks encourage people starting out in life to open an account, although the banks make little profit out of small accounts. They hope the habit will stay and later on, when there is more money in the pay packet, it will still flow into their vaults, and then they *will* make a profit. One of the biggest drawbacks to keeping money at the bank may be the 'bank charges' which are deducted — often without explanation or warning — from the total amount in your current account. The ways of banks are strange and most bank managers are reluctant to quote the formula used to assess these charges. One rule of thumb, for customers who keep a modest amount of money at the bank and use it to pay bills at the rate of one cheque a week, might be that the charges would be about 30*s.* a year. Sometimes you can bargain with the manager and sometimes the bank will make a set charge of 6*d.* a cheque (including the 2*d.* government duty paid on each cheque). If you are a customer with complicated arrangements and many cheques and 'standing orders' (regular payments, such as annual subscriptions and so on paid automatically by the bank), then you will pay higher bank charges.

The Post Office

There are other banks which do not make charges. The Trustee Savings Bank gives a service of looking after your money and allowing withdrawals at any of its 1,350 branches. The bank with the most branches open most of the time is the Post Office Savings Bank. This bank accepts withdrawals and deposits of as little as a shilling a time, and up to £10 can be drawn out on demand at any post office in the kingdom (larger amounts have to be authorised by letter first). It pays only 2½% in interest (5½% in a special investment account), but it costs nothing to bank there how-

ever many times your deposit goes up and down and however often you present your Post Office book at the counter and ask for your money. There is also a tax concession to encourage savings. The first £15 of interest earned on Post Office Savings Banks (and ordinary accounts at the Trustee Savings Bank) is made free of income tax.

The lack of 'cheque-book service' at the Post Office may be met soon in Britain with a form of 'giro' bank. This (whatever name it is given) will be modelled on giro banks abroad. No interest will be paid on accounts but it will be possible to transfer money from one account to another (for instance to pay electricity bills — or football pools!) for nothing. The system will be useful for quick payments with little cash-in-hand in individual deposits; when it is set up, giro will in some ways equal the convenience of having a cheque-book and a bank account.

Credit cards

The efforts to have cheque-book service without paying for it have produced some entirely non-banking schemes. Credit cards, for instance. By paying an annual sum to the credit-card company, and submitting to a vetting to see that you are 'creditworthy', or in blunter terms, honest, you can be issued with a small card-of-introduction which enables you to buy goods and service at any authorised establishment simply by signing the bill. The shop or hotel concerned sends the account to the credit-card organisation, which pays on the nail, and every so often the credit-card organisation sends a list of its payments to you and you send one cheque to meet the grand total. (The credit-card organisation gets a discount from the shopkeepers in exchange for prompt payment and introducing new business.)

To meet the challenge of the credit-card people — whose activities reached into almost every country in the world and covered everything from hiring horses to staying at four-star hotels, from barbers to undertakers, from buying shoes to taking round-the-world aircraft trips — the banks fell back on that old principle, 'if you can't beat 'em, join 'em'. They started credit-card schemes themselves or bought an interest in existing ones. Some had slightly more dignified names than credit cards but all were basically similar. Other banks announced such ideas as allowing customers to cash cheques on demand of up to £30 in value at any of

their branches, instead of only at the customer's own branch. Others guaranteed cheques at shops up to similar amounts. In effect the shopkeeper does not have to trust the bank customer — only the bank. As the bank is the ultimate in trust this makes the cheques as negotiable as banknotes. Some customers felt these were good ideas, adopted fifty years late. Critics of British banks often suggest that they are fifty years behind the times, but lately the banks have tumbled over each other to suggest bright ideas, mostly for doing without money.

Some customers in shops are almost deferential about paying cash with all these incitements to defer payments. The fly ones, on the other hand, knowing that credit-card organisations get about 5% discount for cash, are gaining the habit of asking for this discount themselves when they put hard cash on the counter.

There is another side to the matter. Once these credit facilities are available everywhere, will the man presenting a cheque without a guarantee card be suspected of being non-creditworthy? And, back at the banks, a rather more proper respect for customers is becoming apparent as the banks compete sharply with each other. It may still be a long way from the image-making in some American banks — with happy bank managers wearing ties inscribed 'It's a wonderful world' — but British banks are on their way. They no longer look askance at the way-out teenager. After all, teenagers have incomes in excess of £2,500 million a year.

No wonder banks are willing to welcome them with a cheque-book fitted into a free plastic wallet.

Cheque-books

Is having a cheque-book just a status symbol? Or is it worth while? Any big item that has to be bought — furniture, cars, even a lawn mower — will need at least part of its price paid with the order. Is it better to write out a cheque at a small cost to yourself or to have to build up a heap of money in the mattress back at home?

Is a cheque-book a way of carrying a substantial 'buying power' around with you without risk of theft and without temptation to squander it on small items, as you might if the money were loose in the pocket or handbag? Or is the cheque-book a temptation to buy large items since it only needs a signature and not a great handful of real bank-notes?

What is a cheque anyway? In effect it is a simple letter to your bank, telling them, for instance, 'to pay John Smith the sum of twelve pounds, four shillings and three pence' followed by your signature. (You do not need a cheque form, in fact, but could write this order on a letter — or as some eccentrics have done, on a cow, or someone's forehead — provided the stamp duty is paid.) When you hand the cheque order to John Smith he sends it to his bank and the two banks settle the matter between themselves. *Your* account is *debited* £12 4*s*. 3*d*., and Smith's account is *credited* with £12 4*s*. 3*d*. If you have given that cheque when you had only £10 in your account then the bank may simply mark the cheque R.D. ('refer to drawer') and the cheque 'bounces' back to Smith. He gets no money and you will be seeing him on the doorstep any minute.

Overdrafts

However, if you are a good customer, and the bank thinks you have made an honest error then the bank will meet the cheque and let your account be temporarily 'overdrawn'. You will probably get a letter from the manager asking you to make sure this 'overdraft' is cleared off soon. Or you could have had an arrangement with the manager to allow you an overdraft of up to, say, £100; the bank will charge you for this loan.

There are other forms of loans available from a bank. Generally they are only loans backed by 'security'; that is to say you must put into the bank's hands some insurance policies or other handy valuable to cover the amount lent, in case you fail to repay the loan. These valuables must be readily convertible into cash, without loss — no good offering your best suit and two shirts. Lately so-called 'personal' loans have been made of relatively small amounts without security, the loans to be repaid in instalments at fixed times until the debt is cleared. The banks are fairly flexible, but anyone who has tried to borrow £200 will tell you how tough they were with him compared with the rogue who has just gone broke owing the bank £200,000, which he got apparently on no security at all.

A slightly more unusual cheque issued to ordinary customers is the Travellers' Cheque. This is made out to himself and taken on holiday or business trips. It enables the customer to go to any bank and 'pay himself', out of his own account, a sum of money in any currency. This saves him

carrying about large sums of money as well as the rest of his luggage. Once more, the bank charges for its service in issuing these cheques.

Deposit accounts

If you have some money which you do *not* want to call on in a hurry to pay cheques, you can place it in a deposit account at the bank (as opposed to the 'current' account, for day-to-day use). Then the bank will pay you for the privilege of looking after your money. The rate of interest will be Bank Rate (see page 86) less 2%.

The bank pays interest on deposit accounts because you are lending money to it, which it can use to earn higher rates of interest than it pays you; but the bank is also using your current account, in its quiet way.

If everyone tried to withdraw his current account money from the banks at the same time, every bank in the country would have to close its doors for there is nowhere near enough money on tap to pay out the customers. In December 1965, for instance, the paper money in circulation totalled £2,600 million; the bank deposits totalled £10,000 million.

Considering that banks are indignant when their customers sign cheques without having the money to back them, how can the banks get away with coolly depending on our not asking for our money back?

The goldsmiths

To get the intricate world of banking into focus it is necessary to take a quick glance back to the original bankers — the goldsmiths. When gold was the one indication of wealth, people were nervous of keeping bags of the stuff around the house for fear of thieves. The dealers in gold, the goldsmiths, had proper ways of looking after their own gold and the practice grew of depositing privately-held gold with them for security. The goldsmith naturally charged for this service and also issued a receipt.

As time passed two things happened. The depositors of the gold used the receipts — the goldsmiths' notes — as a form of currency, handing the receipt to someone to whom they owed money so that that person could collect the gold himself. The goldsmiths noticed that, when they had plenty of gold deposited with them, although a lot of customers drew out gold

and a lot of customers paid in gold there was quite a bit of gold lying around never being used. Having a sharp eye to business they fell to lending those spare bags of gold to people who were willing to pay interest on a loan. So they charged people for leaving gold with them and then charged other people for borrowing the first people's gold.

But even that could be simplified. Once people learnt to trust the goldsmiths, then a *receipt* for a bar of gold (exchangeable any time it was presented) became as acceptable as the gold itself. So not only were bankers born but also bank *notes.*

Today's bank-notes are still receipts with Mr Fforde's promise to pay . . . but we know about *that* promise. The Chinese, in that inscrutable way of theirs, had paper money as early as 1375. The notes carried a warning of death to counterfeiters and a statement that the note 'shall be in use for ever and ever' — *that* is the sort of confidence today's bankers should emulate!

In the Western world, as the years went by and after many a banker had been caught out by too many people trying to withdraw their money at once, only to discover that there was not enough money in the bank to meet commitments, the banks found by experience that they could get by with having £8 in ready cash for every £100 deposited with them. The rest of the money could be re-lent for profit without fear that it would be wanted in a hurry. They keep a total, traditionally of 28% but lately often 30% in easily-obtainable form, the rest can be invested in long-term ways.

Every now and again when banks publish their balance sheets you can check that they are keeping within these figures for, however many million pounds are involved, 8% of the money deposited in the banks will be shown as ready cash and a total of about 28% will be fairly easily cashable.

Bankers may seem rather cautious when it comes to handing out money to you but they all have a good eye for the main chance. Once having found that it only needed £8 actually in hand to meet any demands for every £100, they drew the conclusion that if the banks had £8 it was quite safe to lend someone £92 *which did not even exist.*

Making money

This became known as 'creating credit' or — less accurately — 'making' money. The bank does not literally 'make' the pound notes but it does

bring into use £92 worth of purchasing power. To oversimplify (and ignoring their 28% figure), if Brown has just deposited £8 in cash in the bank and Green follows him in with a request to borrow £92, the bank (if it grants the loan) can pay Green by writing £92 on the credit side of his account. Green thinks he has £92 and goes, perhaps, to buy a motor-cycle with it. The second-hand dealer takes Green's cheque and pays back into the bank the £92, but this time it goes into the dealer's account. The bank then credits the dealer with the money. The £8 is still there, in case of emergency, and the £92 the bank 'created' can be destroyed.

But what about pound notes? Are they not real money? Not a bit of it. Unlike the bags of gold in days gone by, the pound notes are just pieces of paper that can be destroyed and printed at will. Pound notes act like real cash but to the banks they are only receipts (like the goldsmith's receipts of old) and so can be exchanged and cancelled out one with another just like cheques.

Some of the banks have joined together to form the London Bankers' Clearing House, and its branches, where the thousands of cheques from the Browns and the Greens and the untold other customers are exchanged and set one against another until, in the end, each bank's liabilities and assets are much as they were before it all started. The faster the banks exchange money and cheques, the quicker they can start using the money all over again. Thousands of millions of pounds change hands in a year without a pound note moving — it is all done by signing cheques and altering the totals in bank customers' accounts.

In for a pound

If the banks had no restraint on the amount they lent — or created — the monetary system of the country would collapse because there would be so much money about that the price of goods would rocket and pounds would soon be worth only pennies. (And in practice the banks lend on the assumption the money will not be turned into pound notes but just dealt with as bank deposits to be exchanged by cheques.) The amount the banks create is limited not only by their own self-restraint in not ignoring that 8% and 28% basis, but also by the government which can put pressure on them to be more, or less, liberal with lending money. Also, from time to

time, a tough government will impose what has become known as a 'credit squeeze'. This is a series of moves to cut down the amount of credit and keep prices down (it also has a number of other effects). One of the methods of enforcing the credit squeeze is to compel the banks to make so-called 'special deposits' of their loose cash in the Bank of England. If the banks had to put £8 of their cash in an untouchable account then they would have to call in loans of £92 to keep their basis right. In practice the government asks them to make special deposits of a cool £200 million or so (usually expressed as a percentage of total bank deposits), and the effect on the amount of overdrafts and loans available throughout the country can be severe.

Bank deposits, in fact, are treated by the government as though they were real money themselves. And that is because they *are* real money, just as real as pound notes, when it comes to performing the principal function of money, acting as a medium of exchange or, in plain words, buying goods. In fact bank deposits total about 78% of the amount of 'buying power' in the country.

Making pound notes

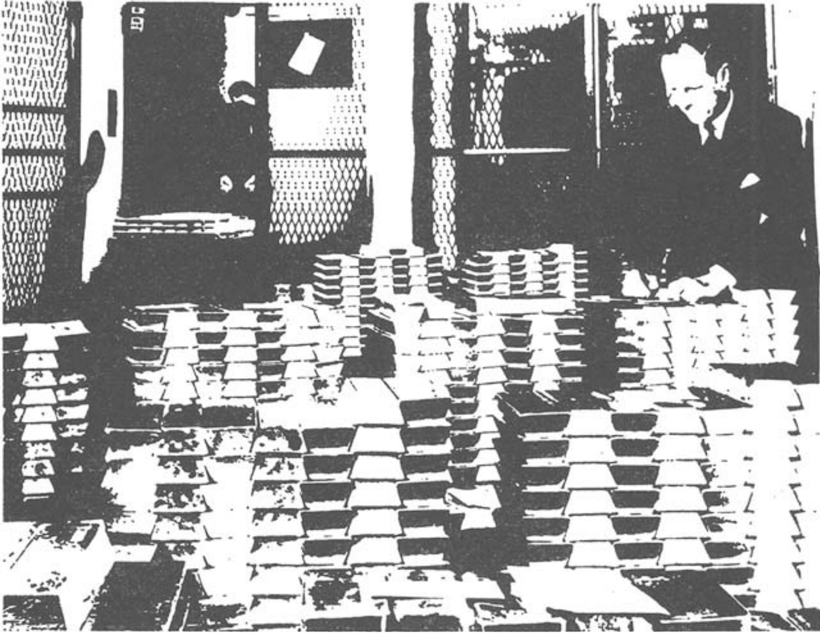
The banks 'create' money by making entries in books; the government (through the Bank of England) makes money by printing pound notes. In theory the government could authorise unlimited numbers of pound notes to be printed and so give everyone £2,000 a year for life for doing nothing. In practice, as with bank loans, the number must be limited if the money is to be worth anything at all. Print more notes and the value of every note falls in proportion, unless there is an increase in the number of goods available on which to spend the notes. In war-time, or other emergency, bank-notes *are* printed in excess of the proper numbers and we all suffer as a result, though not so great a suffering as allowing an enemy to conquer us.

And there is a 'back stairs' way of creating money in which the government merely asks the Bank of England to lend it a few million, and this has the same effect as printing money as there is no 8% cash basis for the loan. Many people consider this a prime cause of inflation. If *you* ask the banks to lend you money your request is limited by the amount of credit, or security, you can offer in return. The government, on the other hand, has

no ceiling on its requests — and they are not really requests, they are commands.

All this manufacturing of money, mutter the traditionalists, is immoral. It would never have happened with real currency. What is needed is to bring back honest, dependable, internationally-accepted, unsurpassable gold.

9 Gold



Very few people of sense stockpile bank-notes. They know that a pound note (or any other modern currency for that matter) deteriorates in value from year to year. What a pound buys today is much less than what a pound would have bought, say, ten years ago. Most people with spare pounds try to put them to work earning interest, or profit, and so — at the very least — keeping the value of their savings static and, more optimistically, increasing it. But one of the oldest currencies in existence is still hoarded. In Britain it is forbidden to buy or hold gold bars and if you have a gold sovereign, remnant of the days before paper money, you should exchange it for paper money. Yet, all over the world, gold has never been more popular among hoarders. About £7,000 million worth is believed to be salted away in private hands, and lately the total has gone up by £400 million a year.

No one knows exactly why the hoarders have kept their money idle in

this way, but it may be that their own currencies have a habit of deteriorating even faster than the normal rates of interest on investment, or it may be that they are hoping for a rise in the international price of gold that will bring them a fortune.

Why should the price of gold go up? It is not a very important metal, apart, that is, from its quite artificial use as money. Even though gold is not legal tender in Britain the Royal Mint still turns out thousands of golden sovereigns. They are exported to certain countries for profit — and they add to that £7,000 million cache, for the hoarders know that the Mint gold is of proper standard of purity and value. Not all that long ago, every British coin was backed by gold. Either (like the sovereign) they were made of gold, or they could be exchanged for gold.

Off the gold standard

Then, like the goldsmiths with their receipts, the banks — and eventually the government, through the Bank of England — issued notes backed only by a percentage of gold. (Some Scottish and Northern Irish banks still issue bank-notes but in England and Wales it is now a monopoly of the State-run Bank of England. In 1966 a Boston, Lincolnshire, woman found a £5 note of the Lincoln and Lindsey Banking Company in the lining of an oak chest. She presented it to the Midland Bank — which took over the Lincoln and Lindsey in 1913 — and was duly given five new pounds.) Finally Britain went 'off the gold standard' altogether and the bank-notes were not exchangeable for gold at all.

Yet the principal gold market of the world is still London, even though the British citizen is not allowed to store gold — unless he is a dentist or other authorised user. Although sterling is no longer exchangeable for gold by a British citizen using, as it were, 'locally-gathered' sterling, it is still possible to exchange sterling for gold in the foreign exchanges — otherwise few foreigners would accept payment in it. But again, by relying on the fact that not everyone abroad will change their sterling into gold at the same time, the stock of gold in Britain is able to fall well below the amount of sterling circulating in the world's markets. The stock of gold — now referred to as 'gold and convertible currencies', i.e. currencies which can immediately be turned into gold and therefore counting as such — falls dramatically whenever there is a 'run on the pound', but when

confidence in sterling is high the small reserves do not matter critically. Britain acts as a banker for the whole of the 'Sterling Area' — the huge group of countries trading in sterling — so these reserves are not *Britain's* gold and convertible currency reserves but the *Sterling Area's* reserves. More than one-third of the world's trade is carried on in sterling. Members of the Sterling Area pay in and draw out from the reserves, which are called the Exchange Equalisation Account, at the Bank of England. They are *not* the property of the British government alone.

Non-convertible currencies are those monetary units which are restricted by financial arrangements and can only be spent in their own, or other specified currency areas. Sterling which is held *outside* the Sterling Area, and is freely convertible into gold, is called 'external sterling'.

Why gold?

But why do foreigners care about gold? If they have sterling can they not buy goods with it?

If the State of Ruritania tried to buy tractors without limit by just offering Ruritanian dollars printed by the Ruritanian Central Bank, on the shift system with overtime, it would soon find the supply of tractors drying up. The manufacturers, on first discovering that the only things for sale in Ruritania were useless souvenirs for tourists, would try to change the Ruritanian dollars for some other currency. But no one would give them a 'hard' currency (one that keeps its value and is in demand) for such a 'soft' one as Ruritanian dollars, and the tractor manufacturers would quickly cancel their second agreement to sell more tractors until Ruritania agreed to pay for them in a hard currency. This hard currency would be of some use to the dealers in foreign exchange who could then pass on to the tractor company its own, or another suitable, currency in payment for the transaction. Ruritania, learning its lesson, would either harden its own currency by restricting the Ruritanian Central Bank printing presses until the currency became properly valuable, or by agreeing to pay for any foreign transactions in 'gold or convertible currencies' (assuming it had any). So, in a less fanciful way, sterling is only of use to foreigners if our goods are the ones they want to buy. Otherwise they will want to convert it.

International currency

The search for an international currency goes on nowadays in spite of the multiplicity of national currencies. A 'Euro-dollar', which acts almost as a combination of hard European currencies and the United States dollar, has made some headway, but whenever big trading is undertaken between non-combining countries (such as, for instance, China and the West) gold comes back into its own. And, even though Britain is off the gold standard, the bulk of the world's trade in gold is done through London. Into the Bullion Rooms of the Bank of England stream boxes from South Africa packed with gold. It is weighed on scales claimed to be so sensitive that they show the difference between a cancelled and an uncancelled stamp.

Boxes come from elsewhere than South Africa, of course. Some come from Russia, from Canada, from the United States, from West Africa. Gold is mined in about sixty countries and it is possible to find it in the most unlikely places. In one part of New Zealand people prospect for gold at week-ends, much as we might go out picking blackberries; and not long ago thirty scouts camping in the hills of North Wales spent their fortnight's holiday working a derelict mine near Dolgelley. At the then price of £12 an ounce they covered their expenses. In South Africa the mineowners do rather better.

Figures about gold are difficult to come by, for secrecy is a disease of high finance as well as a necessity to guard against robbery, but the London gold market probably handles five tons of gold a day. Most of this gold was dug out of holes in South Africa and after a lot of exclusive travelling on ships and aircraft a great deal of it will be buried in holes in the world's central banks, including one particularly large hole at Fort Knox, in Kentucky. Is it all a shocking waste of time?

Doing without it

Several countries have tried to do without gold but even the most self-determined, such as China, have had to use it. The huge Boeings occasionally leaving London Airport with £3 million apiece of gold paid for by the Chinese are not chartered for fun but because the Chinese cannot manage

without the gold. In some ways gold is an unsatisfactory currency. It depends on geological conditions and the supply is therefore quite chancy. If huge deposits were found in Essex the whole financial position of Britain and the world would change overnight. But no one has yet found a more acceptable way of settling accounts between trading nations.

In trade between any two countries the money earned by exports ideally is balanced by the money earned by imports. This 'balance of trade' can be a little out of true and still be healthy, for one country may make a lot from 'invisible imports' (shipping charges, insurance premiums, loan interest, and so on). Britain is strong on such invisible imports and so our 'balance of payments' is more satisfactory than our balance of trade. Any deficit in a country's final balance of payments can only be covered by loans, gifts, or the handing over of some of the country's gold or convertible currency reserves.

American gold losses

At one time the United States held the vast bulk of the monetary gold in the world (outside Russia) but she spent it and lent it in such huge amounts to help others abroad that in 1959 it was estimated that 59 gold bars (weighing 400 ounces and worth about £5,000 apiece) were being transferred every hour from the United States gold reserves to those of foreign bankers. Hence the cutting down of United States aid abroad, hence the fierce export drive for dollar goods, hence the long hard look at mutual defence arrangements, hence the cold relations with France, enjoying (in 1966) a gold surplus yet continuing to turn her dollar-holdings into gold and therefore making America's position more difficult.

When America's position is difficult, most of the rest of the Western world tends to suffer too, for the United States accounts for a third of the whole world's economic activity and a sixth of the world's export trade.

Doubling gold price

Some people say that most of the world's currency confusions could be cleared up by simply doubling the price of gold and then basing all

currencies on gold, instead of paper. These people believe that present-day 'convertible' currencies are not truly convertible because so many regulations hedge free trading that they are virtually protected currencies. With, perhaps, twenty currencies a year being devalued and a hundred or so countries having a black market in their own currencies, only gold can save the day. France tends to support a pro-gold movement (and so do all the gold hoarders), but most politicians prefer today's system when they have the last say about the economics of a country rather than yesterday's when gold-rule financiers often wielded great power over government.

The dramatically-incognito trip of a central bank governor, the whispered aside by an international financier at a diplomatic function, the bulging brief-case on the dining-table of the Orient Express as a Danubian country hovered on the brink of bankruptcy, are all rather old-hat now. Central banks, and even the ordinary local banks, have been forced to toe the line by successive governments ever since the Great Depression of the 1930s destroyed the confidence of the politicians in the traditional methods of finance, and brought to the surface a great new range of economic ideas. (The financiers sometimes retort that the depression was caused by muddle-headed government interference in financial matters which governments had not yet understood.)

But financiers are tough birds. In spite of present-day widespread government control of the financial world, a man with a couple of hundred thousand pounds at his beck and call is still able to throw his financial weight about. Increasingly, though, he is finding himself overshadowed in the City by quiet men with computer-type minds who have at their finger-tips breath-taking financial power. They are the negotiators for great companies that control a mass of other companies, and the huge insurance groups.

10 The financial giants

When half a High Street's shops are under the control of one company, when the Head Office bears a couple of dozen nameplates, when one man wields influence over six different industries, there is bound to be jealousy. But that is not all that makes some people uneasy about the financial giants, the sometimes almost anonymous financial giants who control 'holding companies'. These companies, by having controlling interests in numbers of other companies, can, through one board of directors, influence great areas of industry and commerce.

In modern times when automation and huge marketing campaigns demand large sums of money, small firms often go to the wall when a large competitor arrives on the scene. If the banks will not lend money and the assets of the firm are not big enough to raise more capital from shareholders — and if one of the periodic 'credit squeezes' of Whitehall is making life tougher still — then the managing director of the family business may well swallow his pride and look around for a 'take-over'

bidder (someone who will bid for enough shares to take over control of the company).

Take-over bids

Many take-overs are ferocious affairs, fought with venom (sometimes disguised by Public Relations Officers and lately modified by a 'code of conduct' drawn up under the leadership of the Bank of England), and with the outgoing board of directors firing until their last round of public statements is exhausted; but other take-overs are of firms who have positively thrown themselves at the feet of the taker-over and whose board of directors, co-operating in their own extinction, look forward to some hard cash, or shares in the new boss's company, instead of all those depressing accountant's figures in their old set-up.

The company that is doing the taking over is often one whose whole existence is devoted to building up a financial empire (more euphemistically called a 'family'). This empire enables the various companies to support each other and also, since it may be safe to assume the man at the top is of a higher calibre than the men he has bought out, the individual companies may themselves benefit from a new executive, vital, thrusting, efficient — and ruthless.

As with any take-over (see page 75) it can be argued that the move is good for industry as a whole, or bad for it in the long run. But with a holding company almost wholly devoted to taking over other firms, are there fresh arguments for and against? Is it good that an admittedly brilliant man should be allowed to outwit slower-moving directors who, perhaps, may in the long run have a greater service to offer? Is it right that the brilliant man can continue from take-over to take-over until he becomes almost irresistible to any firm he sets his mind to acquiring?

Can he be opposed only by an equal giant and will this make the whole atmosphere of finance and business more a get-rich-quick one, without regard to the interests of nation, industry, or employee? (A recent government measure ensures that future take-overs will be looked into, to see if they are in the public interest, and any take-over may be referred to the Monopolies Commission — a public watch-dog which many people find unferocious although it does occasionally draw blood.) Or does the holding company save the smaller firms' identity from total extinction since the big

companies will swallow them in an out-and-out merger if the holding company does not step in first?

But is the holding company so different in essence to the financial trusts that invest in companies? Or is there all the difference in the world between pure investment and investment plus active control?

The State

The most powerful 'holding company' of all in this country is the State itself, with an enormous financial interest in non-governmental organisations.

Some of this stake is direct — the coal-mines; gas and electricity; rail, canal, and some road and some airways transport; atomic energy; much forestry; some shipbuilding; and, the oldest of all, the Post Office. All these industries, with their hundreds of thousands of workers and their hundreds of millions of pounds of investment, influence every corner of the country. But, beside this 'front-door' nationalisation, there is a great deal of the back-door variety. The State has shares in some industries, particularly where vital national interests may require diplomatic or even military backing to ensure that the industry is unmolested (oil is the most obvious example). The State also takes an interest in industries which State money has helped to develop, perhaps through research grants. It has been estimated that the State, directly or indirectly, is responsible for nearly half of the spending in the country. But apart from all this direct and semi-direct State control, can it be said that this greatest of all holding companies also dominates industries where no State director sits on the board?

Back-door control

When the Chancellor of the Exchequer alters an investment allowance, when he raises or cuts purchase tax, does this not 'control' great sectors of industry? Can an aircraft firm be free of State control when its whole output depends on a government order for bombers? Are there, then, relatively few private enterprise firms left in the country? But what of the State

firms? The profit motive seems to be coming back into their chairmen's speeches — the railways close lines which were kept open for social rather than financial reasons and the Coal Board closes uneconomic pits. Perhaps the nationalised concerns are becoming more 'free enterprise'? Will 'back-door nationalisation' of private enterprise firms be followed by 'back-door free enterprise' for the mines and public utilities? And is this mixture a good thing? (Russia, under Mr Kosygin, rediscovered the profit motive and threw out a great deal of doctrinaire thinking on economic development; the United States under President Johnson has moved towards State interference in many fields in the search for the 'Great Society' and is even toying with the idea of controlling prices and incomes.) In the search for this mixture, or compromise, the State has turned itself into the country's biggest holding company, almost absent-mindedly. But all the State's 'companies' ultimately are answerable to Parliament and ultimately are financed by taxpapers.

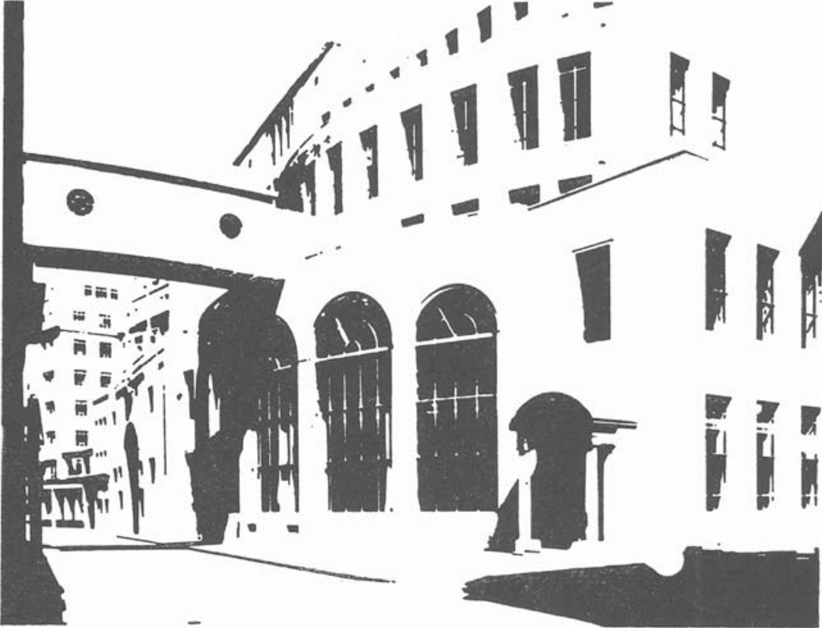
Investment managers

Apart from the State, and the occasionally dramatic interventions by well-known City financiers, another extraordinarily powerful group of investors has grown up: men with hundreds of thousands to invest in a day, whose weight can tilt the price of millions of shares; yet they are men who do not seem to seek to influence the industries they almost control. They are the investment managers of the quiet giants of the City — the insurance companies. With thousands of millions of pounds invested in safe securities, these men will say that they are not seeking to interfere with the day-to-day running of any industry; in fact they will deliberately buy less than a controlling interest in a firm. All they want is a safe return for their money — or rather their policy-holders' money.

Critics of their influence on the market may say they invest where no new money is really desperately needed for they will pick only firms which are already financially secure. But this ultra-safe policy occasionally goes awry. In spite of getting the best minds available to advise them on their investments they occasionally trip up and find they have put a lot of money into a bad firm. What then? Can they really stand on the sidelines, as they say they like doing? Or will they be forced to step in to vote down the incompetent managing director and his colleagues and save the firm? And will

such interventions tend to become more common and so make the insurance companies a devastatingly powerful force in the financial life of the country? But how do insurance companies have so much spare money anyway? What is this vast industry that turns doorstep collections of a few shillings into stock-exchange dealings in millions of shares?

11 The risk-sharers



When it rained on the church fête at Burlingham-in-the-Marsh, the vicar was paid £200 by an insurance company; when Hurricane Betsy swept over the southern United States in 1965, it cost insurance companies in *Britain* something like £35 million; the historic Grocers' Hall burnt in London not long after, adding to a disastrous year of fire damage; several ships sank in the same year; hundreds of cars crunched into hundreds of others and almost every one of them claimed off an insurance company. All the time a great number of people held life-assurance policies — in fact every week more than £10 million was paid out on these policies, that is £1,000 a minute, day and night. Insurance is truly big business.

The City of London is the biggest international insurance market in the world. There are more than 250 British companies there, and many foreign ones, together with the unique establishment known as Lloyd's. A vast amount of the business is done with overseas customers — hence the

tragedy of Hurricane Betsy was a financial blow to men in London and a ship sunk in the China Seas may deal a savage knock at that well-dressed man travelling up from Surrey to his work at Lloyd's.

Lloyd's

It is worth looking at Lloyd's to see how insurance works, for that famous institution is the nearest thing to the original concept of insurance. Lloyd's building is an imposing marble-and-glass affair, in considerable contrast to the coffee house run by Mr Lloyd in the seventeenth century. In that coffee house merchants and shipowners used to gather and combine together to share the bigger risks of their trade. If a ship was driven on to rocks it could ruin a businessman (as well as kill the crew); but if half a dozen businessmen had combined to share the risk on a number of ships, then, should one of the ships go down, or be seized by pirates, it remained a blow, but not a mortal blow, to the business, for the loss would be shouldered among the group.

From such arrangements there grew a breed of men who *underwrote* (by writing their names at the bottom of a document) the risk of a voyage and so became 'underwriters at Lloyd's'. There had been similar insurers earlier in history but these at Lloyd's established a pre-eminent reputation. They insisted on certain standards for the ships they would insure and the term 'A.1 at Lloyd's' entered the language of the world. Shipping is still the most famous risk covered at Lloyd's, but almost all types of insurance policies are issued from there.

Should you decide to take out a policy at Lloyd's to guard against some risk — perhaps an accident while on holiday — you will get a policy signed by a handful of men who *personally* guarantee to pay you their share of an agreed sum of damages if you have an accident. Such personal guarantees by the underwriters at Lloyd's cover a gigantic total risk. The premiums (that is the sums paid by the policy-holders in exchange for having their risks borne by the underwriters) total more than £1 million every day.

Weighing the risks

To calculate the risks involved and assess the premium needed to cover the risks is a task which gets more complicated as modern life gets more involved. The nod of agreement to a proposition in a coffee house has given way to an urgent telephone call to statistical staff and possibly a few seconds on a computer, but the principle remains — it is a personal obligation undertaken by the man who signs your policy and the occasional financial collapse of a Lloyd's underwriter shows that the risk is still a real one (the policy-holder never suffers for the other underwriters shoulder the burden).

The whole principle of insurance depends on spreading the risk. Any actuary (a prince among statisticians and a key man in the insurance world) can tell you with a fair degree of accuracy how many ships are going to sink this coming autumn, how many fires are going to break out this coming summer, how many men aged sixty are going to die this coming winter, and how many cars are going to crash and hurt how many people this coming spring. But he cannot tell you *which* ships, *which* fires, *which* men, *which* cars, and *which* people.

Each of us takes out insurance policies because we are not willing to risk the chance that our house will go up in flames, or whatever disaster it is we are insuring against. If the insurer has done his sums right, and can take insurance from enough people, then he will spread the risk and know that he can not only meet the cost of the statistically-expected number of disasters but will also have enough of our premiums over to pay all his running costs *and* give himself a profit.

But most of the insurance business carried on in this country is not with individual underwriters but with the huge insurance companies. The premiums paid each year to these companies total more than an astronomical £1,700 million.

It is easy to see how this total grows when you walk down any street and remember that almost every building is insured against fire, every car against certain accident claims, and a large proportion of people against death.

Of course no one can be insured against ultimate death, so this class of insurance (comfortably referred to as 'life' rather than death) is called *assurance*, life assurance. It is said to mean that you can be assured of the policy bearing fruit. Other insurance may never be paid at all — everyone

hopes he may never be burgled, or have his house catch fire — but everyone knows that life will run its course, short or long and the life-assurance policy will pay up one day. (The simplicity of this explanation of the irritating insurance/assurance terminology is rather ruined by much insurance for shipping calling itself 'marine assurance'.)

Life policies

A straightforward life assurance, known as a 'whole life', is one where you pay premiums right up to your own death (or at any rate for a long period of time) and then the company pays your dependants either a lump sum or an income for a specified number of years. The company takes the risk that you will die a week after paying the first premium; you take the risk that you will live to be a hundred and still may be paying to the insurance company.

Then there is the endowment policy. This guarantees a lump sum, or income, to your dependants if you die before, say, twenty years' time, but pays *you* a lump sum, or income, if you are sensible enough to live long enough to claim it. A husband might take out such a policy to guard against the possibility of his widow being left penniless with children to bring up, but should the husband live through this child-rearing period he will regain a share of the money he has paid to the insurance company to bear the risk.

Then again, the policy-holder may pay premiums, or a lump sum, to gain an annuity, which is in effect a pension paid to himself immediately, or when he reaches a certain age, and which stops on his death. (Girls, incidentally, may well pay higher premiums for such life policies, not out of prejudice, but because statistics show they live longer.)

An employee may have such an annuity — or pension scheme — run by his firm in partnership with an insurance company. The premiums may be paid jointly by the firm and the employee (a contributory scheme) or wholly by the firm (a non-contributory scheme).

All of us have an annuity, of sorts, in the retirement pension which we gain from the State in our old age. We pay part of the premiums towards it by our contributions to the National Insurance Scheme through the National Insurance stamps compulsorily bought each week of our working lives (see page 13).

There are many different types of life policies, and many variations on

those already outlined, but one major classification crosses the divisions. Policies can be 'with-profits', which means that a percentage of the insurance companies' profit over the years is paid to the policy-holder, either as a regular bonus or as a sum added to the policy when it falls due for final payment ('at maturity'). These with-profits policies carry a higher premium than 'without-profits', but find favour with people guarding against a fall in the value of money or just pleased to be compelled to save a little extra regularly and get it back in bulk later. Without-profits policies can be taken out by a younger man and altered into with-profits later, when his pay goes up and he can afford bigger premiums.

Insurance brokers

Marine assurance often hits the headlines with its millions of pounds involved and its tremendous claims when, perhaps, a huge tanker, or even a liner, sinks. Many people know of the salvaged ship's bell, the Lutine Bell, which is tolled at Lloyd's for special announcements — twice for good news, once for bad. Insurance is so traditionally international that they even tolled one stroke on the Lutine — for bad news — during the war when an *enemy* battleship was sunk. But we need not worry overmuch about marine assurance since, should we find ourselves in a position to seek insurance for ships or cargo, we can get good advice from one of the insurance 'brokers' — men who act as go-betweens when people want to approach an underwriter or insurance company.

Insurance brokers are necessary in some sorts of insurance transaction and can be useful even in the small insurances taken out by Mr and Mrs Everyman. They do not charge a fee, taking a commission from the company and, if efficient, will have 'shopped around' to find the most advantageous policy for Mr Everyman's particular needs.

The policies most people will be concerned with will be life policies, policies connected with house-buying (see page 97), vehicle insurance, and insurance on houses and their contents. Vehicle insurance is partly compulsory (for certain so-called 'third party' risks, broadly speaking to cover death or injury you may do to other people — though not your passengers) and partly voluntary, to cover third party damage to other vehicles and property, damage to your own vehicle, to any passengers, to your personal belongings and to yourself.

It pays to look very carefully at vehicle-insurance policies for there is probably more misunderstanding over these than any other insurance policies. Often the garageman selling a motor-cycle or car will act as an insurance agent, selling the policy on behalf of an insurance company. Remember the garageman gets a commission on the policy and is anxious for you to sign on the dotted line without too much time wasted. It is worth taking a long, cold look at the policy and refusing to be hustled. Sometimes a low premium may not in the end prove to be an attractive feature, for the company concerned may keep its premiums low simply by paying out very little to meet claims.

Tariff companies

Other companies may keep their premiums low by requiring the driver to pay, perhaps, the first £15 of any claim himself (this is known as an 'excess' clause) or by excluding certain risks from the policy. It is notable that almost no insurance company will insure the limbs or lives of a pillion rider on a motor-cycle; not mothers but statisticians tell them it is a highly dangerous place to be.

Some companies have combined together to an extent by agreeing among themselves not to offer cheaper policies than each other. These are known as 'tariff' companies (because they abide by an agreed tariff) and they do this in some other fields as well as vehicle insurance. They are all reputable companies. Non-tariff insurers include some highly respected companies (let alone Lloyd's) every bit as good as tariff companies but also they include some slippery companies best given a wide berth.

Is this regrettable, to see a virtual price ring in the free market of insurance? Or is it wise of certain companies to guard against cut-price gimmicks and shabby sales pressure by agreeing on minimum standards and so minimum premiums? And do the non-tariff companies provide all the check necessary against artificially-high premiums being charged? But what if *all* the insurers joined the tariff arrangements?

It may be worth noting that the vehicle-insurance world is probably the area of insurance where relations between insured and insurer are at their worst. This is because there is so much room for argument. No one contradicts when the doctor says you are dead; there is little doubt when your

house goes up in flames that it is destroyed. But on the roads all is in dispute. It is made more explosive by the system of giving a 'no-claim bonus' (which is really a discount) to those who make no claim on their companies during the year. But as almost every accident on the road is the other chap's fault, all policy-holders are furious when their no-claim bonus is lost after an accident in which they believe themselves to be transparently blameless.

House insurance

The other relatively common insurance policy taken out by the man in the street (or in this case the house) is one on the home and its contents. Almost every house is insured against fire and its contents against theft, and many have 'comprehensive' policies (which are not in fact comprehensive in the true meaning of the word) covering other liabilities such as flooding, accidents to passers-by or visitors, burst pipes, and so on. But all these risks are *specified*, often in rather small print, and it is only the matters covered by this list that will be accepted as claims by the insurers. If the policy says it covers breakages to bathroom basins it is no good claiming for a broken kitchen sink; if it will pay compensation to servants who are struck by lightning it is no good claiming for the butler who trips over a turkey in his pantry. The word 'comprehensive', like much else in the insurance world, means different things to different people.

As well as these fairly common forms of insurance there are an immense number of other types. Some are extremely important — Employers' Liability, for instance, enables people injured at work to sue for damages with the knowledge that a rich insurance company stands behind even a hard-up employer to meet any judgment — and some are a trifle frivolous, such as a film star insuring her legs for £10,000.

Earthquakes

In between are hosts of insurances, including those against illness, earthquakes (the San Francisco earthquake of 1906 cost London insurance companies £11 million), hurricanes, fraud, libel, having triplets, explosion,

accidents, damage to the Lord Mayor of London's coach, burglary, cancelled holidays, and aircraft crashes (at most airports you can take out a policy with almost no formality to insure your life during the trip you are just going on).

It is quite common for a perfectly ordinary person to have more than half a dozen separate insurance policies on one thing or another. One motto is worth remembering: 'It's cheaper when you're young.' (Except with vehicle insurance, which is *dearer*.) The premiums are lower on a life policy taken out by a young man and — even taking into account the number of years he pays them — he gets a better bargain than the man who takes out a policy in middle age. If a single man has the foresight to start a policy he can get it altered on marriage, and on becoming a father, to suit his changed circumstances.

If a single girl takes out a policy she can get it changed, if she wishes, into a policy on her husband's life, after her marriage. And all the time a life or endowment policy is in existence its 'surrender' value increases — that is the money you would get back if you cancelled it. But, better than cancelling it in times of hardship, is to use it as 'security' for a loan either from the insurance company itself or from a bank. Many a policy has helped its holder get quite a few loans before it has finally been paid out at maturity.

The world record for life assurance is believed to be held by an American who insured his life for £2,850,000. The premium comes to £52,500 a year and ninety-eight companies are sharing the policy, and the risk.

Each one of us has to make the decision about what risks in life we will bear ourselves and what risks we will pay others to shoulder for us.

Too timid?

Are we getting too timid altogether? The State now forces us to insure against sickness, unemployment, extreme poverty in old age and a number of other contingencies by making us join the National Insurance scheme and also by subsidising the scheme through taxes. Would it be good to extend the State's interest? Why not force us all to insure against almost every possible misfortune? Would it make us happier to know that we would not have any financial emergency during all our lives but would have less money all round all the time (since we would have to pay a fairly

stiff premium)? Or is it better to leave it as at present with all of us forced to take out a minimum of insurance and then left to make up our own minds about the rest? Is it foolish, or bold, to 'under-insure'? Is it timid, or prudent, to 'over-insure' and take out policies even against remote risks?

The cheapest way to pay for insurance is by annual premiums, for the companies' overheads are low and so the cost of the premiums is kept down. The dearest way is by paying weekly instalments, for so much is spent on collecting the small amounts that less is available to actually insure the policy-holders. Those life policies with premiums collected from door to door are called (for no good reason) *industrial* life policies. There are a huge number of these with a network of collectors covering almost every street.

Some people feel that the whole world of insurance is so financially powerful, and has the entire country dependent on it in one way or another, that the State should take over the business. Would this help us keep control over those who influence so much of our lives? Or are the insurance companies doing so good a job that it would be foolish to intervene? Do the multiplicity of companies and policies help us to choose ones that best suit our needs? Or are we lost in a sea of technical language and need the stamp of government guarantee to reassure us that we are not being misled by the smooth talk of the insurance agent? Is it right that we should be compelled to take out certain vehicle insurance, and almost compelled to take out several other insurances, and yet be at the mercy of non-official firms?

Is most insurance now so statistically certain that there is no risk at all for the firms who, in theory, accept a risk in exchange for our money? If the State stepped in, with its even greater spread of policy-holders, would this bring premiums down dramatically? Would it be good to add such premiums to the National Insurance stamps already partly used to pay for State benefits? Or should they be borne by the taxes? How many risks would we be prepared to compel ourselves and everyone else to insure against? Would we feel happier to rely ultimately on Parliament to make sure we had a square deal, or on the companies competing against each other as at present? What of all those foreign firms and people insuring with British insurance organisations; would they continue sending their business to London to State-run firms?

Money reserve

Insurance began in a rather personal way, with groups of people banding together to share between themselves the risk of disaster hitting any one of them.

All policies still are based on this idea. We all contribute to a money reserve. When one of us is struck by misfortune he can draw on the reserve. In this way, everyone suffers a little but no one suffers a lot. Insurers make their profit partly from seeing that the premiums paid into the reserve are large enough, and partly from using the reserve while waiting for claims to be made on it. This reserve, with its millions upon millions of pounds, cannot be left idle. Some of it — for life policies for instance — will not be called on for payment to policy-holders for many years.

How can the insurers make certain the money works for its living meantime? Some of it is invested in property, where over the years it will increase and where the rents can be used to meet current claims of policy-holders, or be re-invested. Part of the money is lent to the government, at set rates of interest and with absolute safety. But lately more and more of the insurance companies' millions have been invested in shares in British industrial firms.

With careful investment (and the insurance companies make certain they buy the sharpest brains to tell them where to invest) these shares can bring back high yields of interest with very little risk, because the investment is spread over so many different firms.

To buy and sell these shares, known as Equities, there is one place famous all over the country. To many it is believed to be the absolute model of honest dealing and integrity; to others it is dismissed as a casino. It is the London Stock Exchange.

12 The Stock Exchange

About 25 million people in Britain have a financial interest in the London Stock Exchange whether they know it or not. Some have stocks and shares and 'play' the Exchange to make a quick profit (or a loss); some have steady investments; and about 22½ million of the total have an indirect interest. Those insurance premiums, because they are invested on the Stock Exchange, may well be much lower initially than they would otherwise have been; that works pension fund is backed by Equities bought here; those trade-union reserves, that legacy from an old boy to help his school . . . Funds from a thousand sources pour into this insignificant corner of the City of London called Throgmorton Street.

If you go into the public gallery of the London Stock Exchange and gaze through the plate-glass observation window you may see up to 3,500 people milling about below. Hardly a whisper seems to have passed in that corner over there and yet shares worth hundreds of thousands of pounds have changed hands in a second or two; a note jotted on a slip of paper serves to

remind that man over by the pillar that he has clinched a deal worth millions. Most of the business seems to be done by word of mouth and the Exchange motto 'My word is my bond' is no idle phrase.

Of course, if you should call on one of those slack days that occasionally descends on the market you might see impeccably dressed middle-aged men throwing paper darts at one another, or trading music-hall jokes with the messengers (called 'waiters' from the days when this sort of market, too, was born in a coffee house). What is it all about, this strange market where a man may make a fortune in steel without ever seeing a steel mill — but lose it again in a Far Eastern plantation confiscated by a dictator who did not rate five lines of mention in the papers?

Going public

First, what is the market *for*? It is to bring together those who wish to sell their financial interest in an undertaking and those who wish to buy such an interest. The time has gone when the majority of firms raised their own capital and 'minded their own business'. A firm may start that way (you may start one yourself) and it may turn itself into a private company, limited to raising money from only fifty people. Eventually this company may well find, if it is successful, that it needs a lot of money on a permanent basis in order to expand the business and so become still more prosperous. So, in most cases, it 'goes public'.

After being carefully vetted to see that it is telling no lies about its recent profits or its prospects, the firm — let us call it *Schooldinners For All* — is allowed to advertise discreetly, through the proper institutions, the sale of 10,000 'shares'. Each of, say, 10,000 shares, may cost £1 (they can be almost any value) and the present boss, who built up *Schooldinners* out of almost nothing, is taking 5,001 of the shares himself. That means that although the general public can buy the other 4,999 the present boss can outvote any man or combination of men who may get hold of them.

The *Schooldinners* shares may be offered through what is known as the New Issues Market (which is not a true market at all but a privileged group of City institutions) and are duly sold. Supposing twenty people now own different amounts of these shares. They all control the original firm in proportion to the size of their holding. If *Schooldinners* closed down and sold off all its buildings, equipment, and other 'assets', the original boss

would get only a fraction over half the proceeds, because he now holds only 5,001 shares out of 10,000. Any new shareholder with, say, 1,000 shares, would get one-tenth of the firm's selling-up value. (Naturally, all debts of the firm would have been settled first.)

Dividends

But *Schooldinners* is not closing down, and all the time that the firm is prospering the chairman will announce each year what profits it has made and what 'dividend' on the shares will be granted to the shareholders.

It might be that a dividend of 5% will be 'declared' and our friend with 1,000 shares, face-valued at £1,000 (though he paid slightly less for them) will get a £50 dividend. Meanwhile the shares might increase in value as people realised what good things *Schooldinners* were. If someone bought our friend's shares from him for, say, £1,200 they would be said to have risen in value to 24*s*., although each would have still the face value of 20*s*. Next year's dividend, should it be declared again at 5%, would be 5% of 20*s*. on each share and the new holder would, in effect, get less than 5% of *his* investment of £1,200. His percentage would be $4\frac{1}{6}\%$ and this figure would be known as the 'yield' or true return on the 24*s*. shares.

Obviously it is difficult to find among your own friends and acquaintances people who will buy your shares when you are short of money, and sell you some when you have money to invest so, over the years, numbers of stock exchanges grew up to bring buyers and sellers together. The London Stock Exchange is just such a place but its traditions and jargon occasionally disguise its purpose from the outsider. Let us look a little closer at the mysteries.

Brokers and jobbers

Even if you want to buy shares in *Schooldinners* you will not be allowed into the London Stock Exchange. You will have to get a broker (a stockbroker, not to be confused with an insurance broker) to do it for you. The broker, who is paid by you, takes his instructions from you and they might be: 'I want to buy 100 *Schooldinners* 20*s*. shares, and I don't want to pay more than 21*s*. 6*d*. for them.'

The broker goes on to the 'floor' (the main hall) of the Exchange and makes for the area where the shares are generally handled. Each area tends to specialise, maybe in industrials, chemicals, transport, and so on. (It is not immediately clear what classification *Schooldinners* comes under, but that is one of the things we are paying the broker to know!) On finding the right area, our broker goes up to a man known as a 'jobber' (more accurately a stockjobber) who is in effect a wholesaler of shares. The jobber will not deal directly with the public but will buy and sell only through brokers.

'Hullo,' says our broker. 'What are *Schooldinners*?'

'21*s*. 3*d*. to 22*s*.,' says the jobber.

The jobber does not know whether the broker wants to buy or sell *Schooldinners* — and the broker certainly gives him no hint — so he has given two prices, one at which he is prepared to buy *Schooldinners* and one at which he will sell them. The difference between these two prices is known as the 'spread', or the jobbers' 'turn' (profit). In fact the jobber stays in business by means of this turn, balancing his books so that his sales equal his purchases of various shares. If he wants certain shares (if he is 'short' of them) he raises his buying price and someone will soon sell them to him; if he has too many shares of a particular company (if he is 'long') then he drops the price and along come the buyers.

The jobber's turn is 'narrower' on 'active', quick-turnover shares that everyone is asking for and 'wider' on those that he might have to hold on to for quite a while, waiting for a deal. They are the 'inactive' shares. The calm-faced jobbers may see their incomings and outgoings fluctuating by thousands of pounds in a few minutes. Steady nerves are as necessary as a tolerably large bank balance.

Now our stockbroker, seeking the *Schooldinners* shares, knows that you told him to pay no more than 21*s*. 6*d*., but the jobber has quoted an unsatisfactory spread of 21*s*. 3*d*. to buy and 22*s*. to sell. The broker will ask the jobber to 'come closer' and, if the jobber 'narrows' his prices and brings his selling price down to 21*s*. 6*d*., the deal is clinched. Each deal is known as a 'bargain' and the number of bargains in a day shows whether the market is active or inactive. Naturally, if no bargain is struck with our broker he will try other jobbers, or report back to you that he can get no *Schooldinners* at your price today.

Had he been successful, in addition to paying for your shares you would have had to pay commission and duties, to the broker and the government, and these must be inquired about before any novice starts breaking into the stock market.

Which shares?

The decision on which shares to buy varies with the character as well as the pocket of the investor. Some companies pay high dividends regularly but of course their shares will cost more and the high dividend relates to the face value. The *yield* on your money may be nowhere near as great.

Some companies pay small dividends at present but may seem to you to be on the verge of great developments (discovering diamonds in Cumberland or marketing a new type of dishwasher at an absurdly low price) so it is worth a poor dividend for a few years if the 'growth potential' is good and a big 'capital gain' on the value of your shares comes when the new development becomes apparent to your slower fellow share-buyers. Given the right choice, your £1 shares might then sell for £4 apiece.

Then again, some investments are safe, like government securities, known as 'gilt-edged' or 'gilts' but paying a not very exciting return in interest. Some industrial shares are almost as safe—they are called 'blue chips'; but some are risky. There are shares that are sound one day and risky the next (perhaps because of a revolution abroad where the firm's raw materials come from, or a threat of nationalising the industry at home).

Some stocks and shares go up and down in price so wildly that you must pick and choose the right moment to sell. There are so many reasons why this or that block of shares is good for you but bad for your neighbour that a small industry has arisen to advise investors. Special magazines are published and tipsters (under rather grander names) offer exclusive and sometimes contradictory advice to their clients. The local bank manager will suggest suitable investments and so will the stockbroker when you ask him to invest on your behalf. If you do not happen to have a stockbroker in your visiting-book the local bank will suggest a name, or a letter to the London Stock Exchange will produce a list of stockbrokers to choose from.

Stocks and shares

Even within one company the type of share varies. (The words 'stock' and 'share' tend to be interchangeable.) Ordinary Shares, which make the buyer a part-owner, give him in theory the right to an unlimited portion of

the business profit, if there is any; Preference Shares are ones which have first call on the profits, but only for the payment of a fixed-interest dividend; Debenture Stock is a fixed-interest loan, to be paid regardless of whether the company thinks it can afford it and are really hardly to be called 'stocks and shares' at all. The Preferences and Debentures in a good company rate almost as gilt-edged.

Which type is the 'best buy'? In times of depression the fixed-interest pay dividends, the Ordinaries pay nothing; but in boom times the Ordinaries pay handsomely while fixed-interest ones are still modest — and even falling in value if there is inflation about. Ordinary shares also tend to vary in price more drastically from day to day than fixed-interest shares.

What makes the shares go up and down in price? Partly the number of people seeking certain shares. But why do they all go for the same shares? Sometimes rumour, sometimes facts, are 'influencing' the market. The shares concerned with natural gas and oil exploration in the North Sea went up and down like a yo-yo during 1965 and 1966 as reports leaked out of a gas strike, or of disappointments at the drilling-sites. Huge sales of wheat by Canada to Russia may push up shipping shares in the expectation of a greatly-increased demand for ships to carry the wheat; rumours of war in the Far East may send rubber shares tumbling; a Gallup Poll suggesting that the Prime Minister is losing popularity may shoot up the shares of industries likely to gain from a change of government and make others tremble at the thought of an end to government orders in industries not favoured by the opposition's provisional programme.

Some industries may have expanded too fast and their shares are suddenly seen to be over-priced. (In 1963 half-crown shares of Rolls Razor Ltd. cost 47*s.* 10½*d.* each; in July 1964 they were selling at 1*s.* 3*d.* — it is not all easy going in the share market!) Some have been too cautious and their dividends have not reflected the growth potential; quietly at first, and then in a blaze of publicity, a man or firm may try to buy up these too-low-priced shares until he holds a controlling interest in the firm (he is making a 'take-over bid'). When he holds enough shares to outvote anyone else he may 'realise', or turn into cash, the potential of the firm or bring the books more in line with the firm's real wealth, so that the share prices soar and he has made a personal fortune out of shares bought cheap but now shown to be worth a great deal.

Is it right?

But why should he come along and make a fortune out of someone else's hard work in building up a firm? What has he done for the community by his action? Nothing? Or has he brought a firm up to date by showing that the existing board of directors were not running it as profitably as they should have been? Is the take-over bid the one way of throwing out a half-asleep management and getting a business into an aggressive go-ahead frame of mind that will ultimately benefit the employees and the country at large?

Is all this buying and selling and profit-making in shares a thing to be encouraged from a moral point of view? More than two and a half million people now invest directly in stocks and shares but nobody really *makes* anything tangible in Throgmorton Street in spite of dealing in companies worth about £40,000 million. These jobbers and brokers do not actually *do* anything to make life richer or sweeter or nobler for anyone else — or do they?

The Stock Exchange does not put new money into industries (that is done through the New Issues Market) but it does provide an easy way to sell shares and buy others, once money already is in shares. In fact, it deals only in 'second-hand' shares. The Stock Exchange attracts funds to those industries needing them and the market investor's money is readily available to him even though it is invested in industry. If this 'easy way out' were not there, would the shareholder have put the money in to start with?

But these jobbers — they rely on buying cheap and selling slightly dearer and so making a living, or a fortune, or a loss, of course. Is it all a rich man's business, then? It is possible for a man with not all that much money to buy and sell shares *which he has not even got.* He buys 'options' — these are options to purchase at a particular price over a set period. Then if, perhaps, the shares go up in value he can complete, or 'take up' his option and immediately sell the shares at a profit. If the shares go down he can decline to complete, forfeiting merely the price of his 'option' and so cut his losses to the minimum.

Bulls and bears

Two of the best-known stock-exchange animals are bulls and bears. A bull is a man who buys shares believing them to be underpriced and hoping to sell them at a profit quite soon; a bear is one who sells at the current price believing that it is about to fall and hoping to buy back the same shares later at a lower price. Neither of these two animals may truly own the shares it is trading in, for when buying shares the money is generally paid on certain 'settling' days and a shrewd speculator can arrange matters so that his profit comes in time to meet the purchase price due.

These are the sharp operators, and though the market is sometimes said to be 'bullish' or 'bearish' the speculators form only a proportion of the dealers on the Exchange.

If City investors were not willing to put their savings into firms (because they feared they might not be able to get it out in an emergency), where would the firms get money with which to expand?

From banks? Many do, but banks do not like indefinite loans; they, and similar institutions, make available only short-term loans. From 'ploughing back' the firm's own profits? It happens now, but what of a firm that wants to install £1 million worth of new machinery? From the existing shareholders? They sometimes do, by making a 'rights issue' or an 'issue to shareholders on bonus terms' which offers new shares at favourable prices to those who have already a stake in the company; but the need for money often is too great to be met this way. From the government? Some do, but no government is going to hand money out to all and sundry; it may support nationally-vital industries, but who is going to suggest that taxes be used to expand an ice-cream factory or build a ten-pin bowling alley? But perhaps it would be good to have a system of priorities so that important firms got money and unimportant ones did not? But who would agree on the priorities and would we all gradually lose our freedom to spend our own money our own way? After all, some of us *like* ice-cream.

Dividends first?

The shareholders of a huge works actually *own* it and even a new shareholder is a part-owner straight away (though he has 'limited liability' and

is not responsible for its debts, beyond his already-invested money). But most shareholders (unless they are directors as well) take no action in the day-to-day running of the works they own and indeed may know absolutely nothing about the industry in question.

They can criticise the board of directors at the annual general meeting and, with a bit of behind-the-scenes organisation, even throw the board of directors out of office if they think things are being run badly, as they, the shareholders, are the true bosses. Is that a satisfactory arrangement? The shareholders may be tempted to put their dividends before all else and have no patience with decisions made by the board for the good of the industry as a whole, or the work-people, or the country. But if you are going to get people to put their money into the firm, then surely you must grant them power to say how it is to be used? And do they not act as a check on directors becoming too selfish, worrying more about their own interests than about the interests of the firm and its employees as a whole? There are some 'non-voting' shares, which shareholders buy knowing they will have no say at all in the firm's policies. Is that a good idea? Or worse, because the shareholder merely puts up the money and leaves real power in the hands of the existing management?

What about getting work-people to nominate representatives on the board of directors? Would this give the man on the factory floor a greater feeling of being part of the company? Company comes from *Com Panis* — bread-sharing. Does the ordinary worker feel part of the firm? But perhaps the workers could buy shares in the company?

Imperial Chemical Industries and many other firms do encourage share-owning by their employees. Is that wise? Will it make for better working relations, to feel that they are partly working for themselves as well as getting a normal pay packet? Or will it be better for a man to put any spare cash into a rival firm so that if his own closed down at least he would not lose both his job and his savings? During the inter-war Depression many workers in Jarrow not only lost their jobs but found their locally-invested savings suffered too.

Different baskets

Most people have only a modest amount to invest anyway and do not spend their lives reading the reports from the stock exchanges (there are a

number of provincial exchanges in Britain as well as the principal London one). The great thing about investing may be to put your eggs in a number of different baskets, but if you have only a few eggs this is difficult. Several ways out of this quandary have turned up over the years.

First, through life-assurance-with-profits policies, the ordinary man invests in the stock exchange and reaps the benefit without even knowing he is doing so. Lately, too, a number of Unit Trusts have been formed and gained a great deal of favour among small investors. Broadly speaking, unit trusts take money from investors and buy an enormous range of stocks and shares, manage them skilfully, and then pay one dividend. This dividend incorporates fractions of the hundreds of dividends from the shares into which, in theory, each individual pound has been split. The unit trust has the advantage of 'spreading the risk' and making use of the experience and skill of the investment manager in buying shares wisely. About 1,500,000 people now have £570 million invested in unit trusts, but to keep things in perspective, we must remember that there is more than £8,000 million in National Savings and £5,000 million in Building Societies (see page 94).

Another method for the small investor is the Investment Club. It is a sort of do-it-yourself unit trust, run by a dozen or so people who want to invest, perhaps, no more than £1 a head each month.

Investment clubs

The group of people who have decided to join together in an investment club meet, say, monthly to pool their experience, hunches, inside information or research and discuss where they should invest their current £15 instalment. The cautious may suggest the shares of a company that is slowly but surely growing in value; the adventurous advocate that this month they should try a bit of a gamble by buying shares in a company that they feel is on the edge of a breakthrough in the world of women's fashion — if the fashion catches on then the shares will rocket, if the fashion flops then the shares may follow suit; the older members favour the solid dependability of a property company; the younger members are all for an off-beat investment in ice-rinks, which they think will grow in value as the sport is daily widening its appeal.

Many of these investment clubs have links either with the National

Association of Investment Clubs, in London, or the Association of Investment Clubs, in Liverpool, which help novices with some of the technicalities of the financial world. Such clubs have fallen from favour since the days when shares seemed always to be increasing in value.

Even when there are boom conditions, is all this encouragement for people with limited means to invest in shares a splendid and democratic idea? There are a number of places for people to put their money in with almost absolute safety where it will earn a modest rate of interest — the Post Office Savings Bank, the banks, National Savings, government bonds, and building societies — so why should they want to go into the risky business of trading in Ordinary shares?

People's capitalism

One reply might be that all the safe investments bring only small returns for the money and there is no reason why it should be left to the rich to get rich returns on their savings. Many small investors started to buy shares in the post-war boom period in Britain when Ordinary shares were going up in value consistently and an investor could hardly fail to make profits. But the experienced shareholder knew (and the new men found out as trade conditions slackened) that this does not happen all the time, and even during a boom there are times when fingers get burnt and shares worth 45*s*. last month are hard to move at 15*s*. If a man is well off he can either hang on to those sadly-depressed shares until they rise in value again, or he can cut his losses by selling them and hope that he will get a profit on some other investment to make up the lost money. With a man of modest means it is not so simple. If your life savings of £600 have changed into life savings of £200 it is not easy to shrug the whole thing off.

The people who urge 'wider share ownership' (by which is meant ownership by poorer people) believe that it is good for democracy for everyone to have an interest in the country's wealth. In the days when land was the mark of wealth it made for stability if many people had a 'stake in the country' by owning even a little land. Nowadays, in this industrialised nation, would it make for greater stability if we all had a stake in industry?

But those against encouraging wholesale entry into shareholding say that the man in the street can afford only a handful of shares in an industry and so his voice is powerless to influence the company he owns. He can

only sit back and accept the decisions of 'his' board of directors. Therefore he becomes the most useless kind of investor. Let him put his money in a unit trust or life assurance (runs this argument) and the company will invest it, together with a couple of million other pounds, and *that* is something like an investment to bring stability to an industry.

Hostility

Those in favour of wider share-owning say it would help end the hostility shown by some wage-earners towards the whole world of shares and shareholders. When dividends are declared, and a sizeable part of a company's profits is handed over to shareholders, some employees may feel cheated. Why should the money go to people who have not worked for it? If it is spare, why not give it in rises to the people who earned it by the sweat of their brow?

The classic answer is that dividends go up and *down* from year to year as profits fluctuate, while wages never go down even in times of bad business (they do in one way, by cutting overtime work and by another — unemployment). Let a man personally subscribe a bit towards that £5 million new factory, by taking out shares, and he will henceforth understand the reason why shareholders deserve a return for their effort — their financial effort.

But the reminder that dividends can go down as well as up underlines the fact that it is only when a man already has a basic bread-and-butter income that he can afford to have varying amounts of jam coming in. If the savings of a man of only moderate means are invested in a risky enterprise, is he more likely to panic at a time of poor trading? Will he draw out his money, getting the worst price for his shares and adding to the difficulties of those who have lost his financial support? Will he feel cheated that his money has been lost by the actions of the company he trusted?

Just as the question of whether or not to invest is a matter of weighing several alternatives, so is the decision on what sort of investment is the correct one for each man.

What risks?

High risk and possibly high returns (Ordinary shares)? Many of the advantages of share ownership but all done through another company's judgment (unit trusts)? Lower returns but certainty of getting the money back (banks and most government securities)? Certainty of getting the money back, certainty of getting no interest, but possibility of getting a large prize (Premium Bonds)? Negligible risk, moderately high returns and ease of withdrawing money (building societies)? Higher returns than building societies but only for long-term investors (with-profits life assurance)?

Rule of thumb

The list is almost endless. One handy thought might be that any spare cash should go into an absolutely safe investment, such as National Savings, until enough is accumulated for you to be able to look around for a riskier, high return for the rest of the savings. Then you can be certain you will not have to withdraw the money in an emergency (when the moment might not be right for cashing your investment). What about leaving all share-buying for those who have already got £500 in safe investments? The rewards for risky investment are comparatively small when only a hundred or two is invested; the pain of losing the capital, when it is all you have, is greater.

But why should people who already have money be able to make more without actually working? Putting on one side the fact that a great many people spent their lives working at buying and selling money as a commodity, just as others do in buying and selling turnips or washing-machines, the whole thing can be said to come down to the fact that people with money to spare — even our friends in the investment club with only 5*s*. a week to invest — can insist on others paying a fee (interest) for borrowing it.

Money costs money

If you buy a record-player or a motor-cycle on hire-purchase (see page 99) you are using someone else's money for the purchase and before you have finished paying for it yourself you will have paid an unknown person a fee for the risk of lending you his money. That is why the hire-purchase company offers 8% interest on money lent to it by members of the public, for relending on hire-purchase sales. Your father may have £20 invested in that hire-purchase company. If you can persuade him to withdraw it and lend it direct to you for 10% interest — which would save you paying about 12% through the shop, and give him a higher yield than he is getting at present — then you are well on the way to a career in the City.

But what is this thing called the City? In a small area of London men engaged in banking, insurance, and allied trades bring in about £200 million in foreign currency 'invisible earnings' (that is, earnings not using any raw materials or physical goods) every year.

Money pours in from all over the world in return for scraps of paper sent out from the City bearing nothing of substance beyond the integrity of the firms that sign them. Is the City one of the greatest sources of our high standard of living? Or a dead hand of privilege holding back the political, economic, and social progress of the country?

13 A square mile of money

The City of London comes up in every discussion about Britain's money and also it is a strong influence even on the day-to-day money of Mr and Mrs Average. A decision made in the City may fix how much interest will be charged on a vacuum cleaner hire-purchased to a housewife in Burnley; a decision made in the City will echo in Stockport when a local bank manager turns down a request for a loan to extend a small factory; a decision in the City may prevent a grandmother in Lowestoft from sending a gift of money to her married daughter in Canada; a decision in the City may enable a private Welsh school to build a Science block; a decision in the City may throw 3,000 men out of work in Liverpool — or provide employment for 4,000 in Paisley. Nowadays, Westminster may make the political move that triggers off all those decisions, but it is the City that opens or shuts the country's purses.

The square mile of the City's banks and markets once wielded similar

influence over the vast British Empire, and the prices that London markets set might well be — quite literally — a matter of life and death to hundreds of thousands of people in far-off lands who would not know the Bank of England from St Paul's Cathedral. Now the power of the City is rather less, but it is still one of the foremost trading centres in the world and is still the greatest banking centre in the world and the most trusted business centre in the world. What has it got that the others have not got?

The Bank of England

One thing it has is the Bank of England, foremost bank in the world. 'As safe as the Bank of England' is a saying that is still used even though the Bank issues worthless pieces of paper instead of good old-fashioned bars of gold. Admittedly, inside its vaults there are neat piles of gold bars today, for London is still the principal gold market in the world; but the key gold in the Bank vaults is that labelled as the reserves not only of everyone in this country, but of the government and country as a whole *and* all the governments of every other country in the Sterling Area (for which London acts as international banker). The grand total of this gold — and convertible currency — in 1966 hovered around the £1,200 million mark. The assets of the Ford Foundation, a charity trust, totalled, in the same year, about £1,387 million.

The Bank of England, solemnly protected every night by a force of guardsmen, for fear of a repetition of the riots of 1780, has the sole right of issuing bank-notes in England and Wales. They are printed at its plant in Loughton, Essex — where 1,600 people work behind high-security fences — but are issued from the Bank's head office where porters push trolleys with tantalising mountains of the notes on their way to be sent to the branches of the clearing-house banks and so to the public.

Soiled notes returned from the banks are fed into the world's most aristocratic boiler. Few places can have their central heating boosted by burning bank-notes! (The Bank also has a department where notes accidentally near-destroyed by their owners are fitted together and new notes given in exchange. Notes pulped in washing-machines and chewed by dogs and babies are the most common.)

The Bank of England has been nationalised since 1946 but it still runs itself separately from the Treasury, issuing notes, managing the National

Debt, controlling credit and exchange, acting as 'defender of the value of the currency' and as the international banker of the Sterling Area and also as the 'banker of the banks' in this country, and 'lender of the last resort' to them when all other sources of money have dried up. It is by being the banker of the banks that the Bank of England helps control the rates of interest of all lending throughout Britain. Every Thursday it fixes Bank Rate (the directors stone people who use the definite article and call it *the* Bank Rate). Bank Rate is the rate of interest at which the Bank of England will lend money — through City institutions — to the other banks, and thus it affects the rates that those banks charge when lending to firms and individual customers.

The markets

The prestige of the Bank of England, with its 7,000 employees, and the pre-eminence of British banking and insurance tend to obscure the fact that one of the City's principal functions is that of a market or, rather, lots of markets. Many of the street-names underline this and certain areas of the City have specialised in the same goods for hundreds of years. You can buy diamonds by the hundred in the Hatton Garden area; walk a few yards and it is wool and textiles; skip round the banking and insurance heart of the City via furs and fish, and you will arrive at rubber, tea, grain, and shipping. Stop at the obscure alleyway, French Ordinary Court, and the warehouses full of spices scent the passing air like an island in Indonesia.

These delightful spices are physically in the City but most of the goods bought and sold at the markets never get near London at all; only samples or descriptions are shown to the buyer and the money changes hands on trust that the goods will match them later. The buying and selling of money is just one of these commodities, no more important as far as profit-making is concerned, than the buying and selling of corn or silver, copper or lamb. The range of goods is quite fantastic. In London you can buy an oil-tanker or birds' nests (for making soup); you can raise £10 million or buy a consignment of dragon's-blood (a red colouring from Malaya); you can buy a shipload of Canadian wheat sailing into Liverpool next Wednesday; or ivory tusks just arrived from Africa.

Under one roof

The dozen or so principal markets in the City (and they are mirrored elsewhere in the country with powerful provincial markets such as the Liverpool Grain Exchange) all have a certain similarity. Whether they are selling rubber or rye, metal or mink, they simply act to bring buyers and sellers under one roof. Sometimes the two classes mingle for individual bargaining, sometimes the selling is done by auction. The Metal Exchange has an unusual compromise by allotting five minutes at a time to each metal and allowing bids and acceptances to be shouted across a 'ring' until a bell signals the end of the clamour and a pause before the next metal is 'called' (all rather like a speeded up school timetable with deafening breaks between quiet lessons).

Whatever the jargon used and the traditions upheld, most people find it easy enough to follow when something is being bought immediately and delivered immediately (often called 'spot dealing'). It is tolerably easy to understand when the goods are being delivered next week or even up to three months ahead. But it is less easy to understand those markets that deal in so-called 'Futures'.

Futures (or Forward Trading) concern the buying and selling of goods perhaps a year ahead and some of them, such as certain crops, may not yet have broken the ground when they are sold. The scornful denounce such buying as speculation, with inspired guesses at next year's prices bringing unearned rewards to speculators. The steady buyer at the market will retort that 'futures' are a way of guarding against wild fluctuations in market prices, the very opposite of cashing in on a speculative basis. The buyer is said to 'hedge' his own purchases or sales of a commodity by buying 'futures', as it were, on the other side of the counter. For instance, a man *buying* 100 tons of so-and-so for delivery next August (when his warehouse or factory is ready to take the goods) promises a certain price. To 'hedge' against any sharp price change he also arranges to buy 'futures' for the *sale* of 100 tons of so-and-so next August. Should the price of the commodity fall drastically before August he will have sustained a loss on his buying, but he can offset this by the money he will have made on his 'futures' contract. Some call this hedging 'price insurance'. It is also useful to smooth the adjustment between supply and demand. No trader can carry on business properly if prices are out of control, rocketing up one day and down the next.

Defending the City

Those who work in the City tend to defend all its practices with equal vehemence as straightforward business. Words like 'speculation' and 'gambling' produce tense expressions and clipped rejoinders. Just as the traditions and jargon of much City dealing disguise the harsh realities of bargaining and soften the fact that *X* is taking money from *Y* because he has got the better of him in arranging supplies, so the City as a whole has tended to disguise its functions from the rest of the country. Lately, the City has wakened up to the fact that it must justify itself if it is to survive. Discreet publicity is now the done thing, luncheon lectures and brochures, guided parties and articles in the press do their best to improve the City image and convince people of its importance and integrity.

The City would like everyone to know that its huge 'invisible earnings' keep our balance of payments at least somewhat nearer the credit side than they would be without the square mile; and they would not have us forget that without the immense overseas investments we would not have had the money to fight either the First World War or the Second World War. These investments are now being built up again — they are currently about £11,000 million, or £200 per head of the population — but not without criticism.

If huge amounts of capital are 'exported' they may bring back no tangible returns for many years; interest is obviously far smaller than the capital sent out each year and the difference in foreign exchange has to be made good by the rest of the export drive. So embarrassing did the 'outflow of capital' become that, in 1966, the government asked the City to voluntarily restrict investment in the 'developed' countries — whose needs were not urgent. No pressure was put on investment in underdeveloped countries, which desperately needed money.

Critics of the City, lectured on the value of the square mile in raising living standards round the world, willingly concede that much of its activity is beyond reproach — or at least very helpful to them as well as the financiers; but they object to the closed circle, the 'old-boy network' which they believe exists in the City. They do not like seeing the same names on the lists of directors of many City companies. The people who run the Exchanges, the banks, the insurance companies, and the big financial institutions all seem to be related (or at any rate look alike!) and too much economic power rests in too few hands.

Unreal power

But much of this 'power' is unreal. The Bank of England could not raise Bank Rate in defiance of the government of the day; and the top financiers of the City could not combine, as once they could, to bring down a government they disliked. The existence of an 'old-boy network' is hard to prove or disprove, or to break down if it is there. People who work in a small place like the City, who deal with each other daily, and who have to trust each other's integrity to the tune of £100,000 or so will tend to develop a secret and completely unwritten bond of confidence. Once you trust a man, you tend to trust a man he recommends; once a man has done you a good service, you tend to keep an eye out for a way of helping him. And, without plan or purpose, an 'old-boy network' is there.

A staunch City man will defend even an old-boy network. In November 1964 there was a potentially disastrous run on the pound. Speculators all over the world gambled on its imminent devaluation: not just professional financial speculators selling sterling 'short' (without having it), but firms putting off paying for things in sterling in the hope they would be cheaper next week; merchants refusing payment in sterling; and even home-grown next-door-neighbour speculators who turned their humble £50 and £60 into foreign currency ready for their holidays abroad next summer rather than wait until devaluation made the Riviera expensive. The emergency was so severe that for a time it looked as though sterling would have to be devalued simply because of the strength of speculation against the pound. (One banker wryly told a questioner that he was putting all his sterling into luncheon vouchers!) But the City's old-boy network rose to the occasion. Telephone calls to the top men in central banks and leading financial houses abroad — all known personally to key men in the City — raised an emergency support of 3,000 million dollars to guarantee that sterling would not be devalued — and the pound was saved.

Computers

But critics say the same would happen without the old-boy network and without the hocus-pocus of the City institutions. They point out that it has been estimated that by 1968 more information will be exchanged between

machines than between people. It is computers that should be running the City, not sons of old banking families. It was all right in days gone by, working on the hunches of near-geniuses of finance, but today we should have research into business and banking just as thorough as the research we expect into scientific advances and aircraft design.

One big industrialist recently launched a blistering attack on the City, accusing the banks and insurance companies of duplicating each other's efforts, and the City generally of operating 'price agreements' to cut out real competition between firms. According to him, the net invisible export earnings of the City were only equivalent to his own single firm's export turnover.

The City might reply, perhaps, that it has no need of outsiders to tell it how to keep up to date. There are plenty of computers humming in the back rooms and plenty of brains in the boardroom, but the City's methods are sound rather than gimmicky. People do not bank where there is incompetence; just look at the streets full of banks in London! The City knows what should be done in a crisis but it no longer has the power to carry out policy. For good or ill that power has been taken over by the government. When gold was king and the City was his chancellor, the whole of the economy hinged on the simple fact of how much gold there was in bank vaults.

The gold rule

If gold reserves were high, imports could safely rise a little and exports slacken off; if gold reserves were low then the reverse was necessary. To keep the country's economy strong and the reserves high any action was considered justifiable. If the price of money (i.e. gold) was fixed then any changes in supply and demand, of inflation and deflation, must be 'cushioned' by the amount of goods in the country, or the pay of the workers, or the amount people ate and drank — in other words their standard of living. A simple rule was applied: 'expand credit when gold is coming in; contract credit when gold is going out'. To keep the currency stable the people might have to suffer unemployment, hunger, misery. Not so now. With pieces of paper and book entries taking the place of gold it is possible to keep full employment and full stomachs and let the currency go hang.

In one Latin-American country in 1964 the value of money fell 10% every month. If a suit was on sale for £10 in January it would have carried a £28 price tag by December. And not only suits rose in price like this, but food and everything else sold in the shops. The man at work could keep within hailing distance of these prices by constant rises but the man on fixed income or pension became desperately poor, and savings became worthless.

Decisions today, unlike the gold days, depend on striking a balance between maintaining the value of currency at all costs and of letting money run away with itself. The City expert may *know* that such-and-such an action is necessary for financial reasons, but the politicians — the men in Whitehall — must decide whether it is politically possible to allow a million unemployed or a savage rise in taxation. On consideration they may decide to let the pound fall a little bit more in value and do without the unemployment. Thus *everyone* who holds a pound note or earns a pound loses a little more of its value.

In this way all our lives are dominated by debates in the financial palaces of this capital of the Sterling Area. But for most people they are remote decisions taken by men they will never meet, in places barred to the public.

Occasionally, though, High Finance comes right into the ordinary man's circle. It comes for the biggest purchase of his life — a house.

14 Buying a house

Most people who set up home have to make the decision — buy or rent? There are lots of arguments and each person has a different set of standards by which to reach the answers. The man who buys his own house may tell you that it is the best investment he has ever made, for house prices have a habit of going up by 5% or thereabouts every year, and there is many a man now who bought his house for £3,000 some ten years ago and finds it is now worth £6,000. Of course, if he wants to buy a comparable house to replace the one he is selling then the new one will also cost £6,000, but he is still in a better place than the man who has been renting for ten years and only now decides to buy. The house-buyer also is master of his own affairs and is not at the mercy of a landlord to rule his life.

The man who rents may retaliate by saying that *he* knows what his outgoings are and leaves sudden crises, like leaking roofs or dry rot, to the landlord to worry about; that the house-owner may have no landlord to

worry him but he does have changes in the interest rates of the loans that enable him to buy the house; that the man who rents is more flexible and can change jobs easier because he can change the area where he lives without worrying about the elaborate organisation of selling his house, perhaps at a bad time for house prices (though he may well have to worry a lot about finding a house to rent in his new area). And, though there are bad landlords (he will say) there are also good landlords who take the worries of property owning on their own shoulders leaving the tenants free to concentrate on their jobs.

One of the arguments frequently used against buying a house is that all the complicated business arrangements are beyond most people's understanding. It is so much simpler just to hand over £*x* every week to a landlord.

Right, how difficult is it to buy a house? The first thing to do is to get the 'feel' of the market. Look at advertisements in the local paper and in house-agents' windows. Eye the properties from the outside and cultivate the skill of assessing, without going inside, whether the house is worth £3,000 or £3,500. When you have gained some ability this way you can go to a house-agent and tell him roughly what you are looking for. But, what is a house-agent, anyway?

Estate agents

A house-agent — or more properly an estate agent — is a man who brings together buyers and sellers. In theory he will advise the seller of a proper price at which to sell and he will advise a buyer of the best property available. His advice need not be accepted and he can charge no fee until it is — and then his fee is in general made according to a set rate and is charged to the seller (5% on the first £500, 2½% on the next £4,500, and 1½% after that — a man selling a £5,000 house pays the agent £137. 10*s*. for his services, which is well worth remembering when you are considering buying a house and the agent sounds persuasive!). As far as the buyer of the house is concerned, the agent will give him a list of available property in the price range the buyer has suggested, and of a size and suitability also outlined by him.

There are people who wave aside estate agents as unnecessary and say 'why should they get so much just for supplying a list of houses for sale?'

Probably the main reason for using an agent is that people feel he is able to give skilled advice and there is less likelihood of the whole sale being a swindle. This may prove a pious thought. One of the principal things to be said in favour of agents is that they can find their way through the jungle of money-raising — for most people do not buy a house cash down, by shelling out £5,000 in pound notes in the front parlour of their new home. They have to borrow the money.

But we are hurrying on too quickly. One of the first things in house-buying is to make sure that the house is worth taking over at all. For something between £15 and £50, a surveyor will look it over and tell you whether there is dry rot in the kitchen or trouble in the drains. The seller is not obliged to tell you, and the surveyor may save you a small fortune. If there is nothing wrong with the house, you will probably think the fee was a bit steep, but keep your annoyance — you will need it later. The legal fees for buying an average house vary between, say, £35 and £100 and you should ask the solicitor, early on, to give you an idea of the final bill. Also, *use* the solicitor. Sign nothing about the house without his approval. In Scotland, indeed, most houses are sold through solicitors rather than estate agents.

You may well find you have to pay more surveyor's and solicitor's fees when it comes to raising the money to pay for the house; because, if you are one of the vast majority of house-buyers you will be 'taking out a mortgage'. This means borrowing the money to buy the house and leaving the deeds of ownership (and in fact the ownership) with the organisation lending you the money until you have paid off the debt. Then the house becomes truly yours.

Raising the money

To borrow a large sum of money to buy a house, you will have to pay for the privilege, sometimes quite heavily. In periods of high interest rates (when money is 'dear') our £5,000-house man may find he is paying something approaching *double* the purchase price before the twenty-five years or so of paying is over and the house is his own.

The normal way to get a mortgage is through a building society. These societies were born in the days of mass-migrations to the towns from the countryside and the notion was that groups of people would club together

to lend money to each other to build their own homes. They still call themselves a 'movement' and they still rely a great deal on small investors supplying the cash to be lent to (relatively) small borrowers. To get the cash in, to lend it out, their interest rates have to compare with other savings schemes so it is of little use grumbling at the high repayments necessary on mortgages unless you are going to grumble at the general policy on money throughout the country.

But, back to that house. The buyer will not get *all* the purchase price of his house from the building society. He will have to find — probably — 10% in hard cash as a 'deposit' and he will have to prove that his earnings are sufficient to repay, by instalments, the rest of the capital as well as the interest on the loan. A very approximate rule of thumb is that a man must earn in a week what his repayments will be in a month.

The estate agent will help with a rough-and-ready calculation of how much the repayments on various sums will be and the buyer, if he has been too ambitious, will then have to trim his request until the price range of his potential house equals the deposit he can raise and the repayments the building society estimate he can manage each month.

The deposit

The deposit may sometimes be distinctly higher than 10%, even as high as 30 or 40%, particularly if the property is old or leasehold with only a short time to run or is a flat with the rest of the building owned by others. Briefly, property can be divided into three classes: freehold, in which the property and the ground it stands on is owned absolutely by the buyer; leasehold, in which either the house or the land or both remain the property of the 'ground landlord' and go back to him after a period of years (sometimes the lease may have only a year or two to run, others may be even as long as '999-year leases' and one lease, in Lostwithiel, Cornwall, runs for 3,000 years from 29 September 1652!), and during the period of the lease a rent has to be paid to this ground landlord; or (in Scotland) the feu system under which, generally small, payments are made to the feu landlord during the period of occupation of a building bought otherwise as freehold. A new government scheme may enable many leaseholders to buy their freehold at a fair price, or to have the right of an extension to their lease when it expires.

These various forms of agreement may make quite a difference to the total deposit needed for buying a house.

The initial deposit is often the stumbling-block for people buying a house for the first time in their lives, and this is where an insurance policy (see page 67) can come in useful for raising a loan either from a bank or from the insurance firm. Many local authorities also finance mortgages, sometimes on very good terms, and private mortgages can be arranged. The term of repayment can be stretched up to, say, thirty years, and this will keep repayment figures down but, added together, they will make the house ultimately far more expensive than, say, a ten-year mortgage.

Extra costs

Apart from the deposit, the buyer also has to remember that government stamp duty (for all houses over £4,500) has to be paid on the purchase; once more the agent should estimate these (without charge) before any decision is made. Sometimes these disheartening extra costs can be included in the loan for the house and are therefore not so intimidating.

The agent's job is to help you, and there is, in theory, nothing to prevent your viewing a hundred houses and still deciding not to buy any of them; nothing, that is, except the glassy stare of the agent when you ask for the keys of the 101st. But let us assume that the right house has turned up.

Once in the house, the job of repaying the loan begins. Each month the agreed fixed sum is paid to the building society — at first most of it goes to pay interest on the loan and only a little pays off the capital sum; later a higher percentage is devoted to repaying capital until finally the entire capital is repaid and no more interest claimed. One extra benefit is that the *interest* part of the repayment is deducted from income before income tax is payable so that, in effect, the rate of interest may have a third knocked off it (similar concessions are made on all long-term loans).

Income tax relief, of course, helps only those who pay a substantial amount of income tax. There is now a planned government scheme for those with smaller incomes; it is the 'option mortgage' in which the borrower can get money from building societies (or councils) at below-market rate of interest. The government make up the difference and the borrower does not claim income tax relief on his mortgage payments. The normal mortgage arrangements are better for the richer borrower; the

new scheme is better for the hard-up man. The estate agent should be able to calculate which method is most advantageous to an individual buyer.

Endowment policy

The question of income tax (which must be well thought out, for a mortgage may run for twenty-five years or so and the buyer must think ahead to what his earnings are likely to be in the years still to come) brings to the front another form of house-buying: loan-raising. This, with many variations, is a twin policy of long-term loan and endowment policy. The buyer, say, borrows £4,000 for twenty years. He places the house deeds as security for the loan and claims income tax relief on all the payments of interest over the twenty years. Then, with the same company, he takes out an endowment policy, insuring his life for £4,000; this sum will be paid out on his death or on his survival after twenty years. The premiums he pays on the policy are also subject to income tax relief. At the end of the twenty years (or at his earlier death) the insurance company pays out on the insurance policy with one hand and takes the money with its other hand to repay the loan — and passes the title-deeds back to the man, who, for the first time, really owns his own house.

On any of these schemes, if a man defaults on the payments, the society or company that has advanced him money can take possession of his house and sell it to regain their money. For this reason, if the house is being bought on a straight mortgage, it is wise to take out a second policy to insure the life of the mortgage payer so that the house becomes the paid-up property of his wife in the event of his death. The premiums on such a policy are subject to income tax relief.

All this chatter about income tax relief, which can greatly lower the cost of house-buying, is a fair answer to those who recommend a third way of living — as tenant of a council. Here, the argument goes, the tenant is not at the mercy of a private landlord but of a landlord acting on behalf of his fellow citizens and also sharing the benefits of subsidies, sometimes large subsidies, which can keep his rent down to a reasonable figure. Why not take advantage?

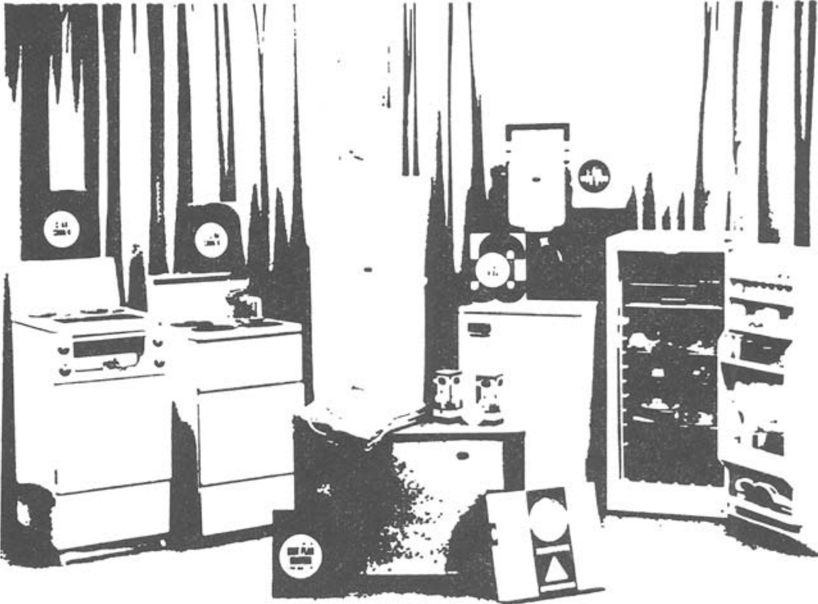
Council houses

Council houses are intended for those who for one reason or another are unable to buy a house or rent a suitable private one. They are subsidised, though not as highly as some people imagine. On average the tenants pay 75% of the costs, the taxpayers pay 19%, and the local ratepayers 6%. But anyone with a fair-sized income who takes a council house just to gain from the system of subsidies is not getting good advice, even assuming he can get the house. He would do better to buy a house and claim income tax relief — that hidden form of subsidy — of a greater amount and leave the council house for someone who needs it more.

Buying and selling a house looks more complicated than it really is. Providing the buyer takes good advice and keeps a cool head, refusing to be rushed and realising that he can make an offer for a house (even suggesting £4,000 for a house up for sale at £5,000), he can look forward *after* the sale to a long period of quietly living in his own best asset, watching it get more valuable every year. (Since 1939 the cost of living has gone up by three and a half times, shares by a little less, but houses by five and a quarter times.) If the interest rates on an owner-occupier's mortgage go up, the period of repayments can be lengthened to take this into account, rather than push the monthly repayment figure up, so he will be able to budget ahead with some confidence that his biggest outgoing will remain constant. Also, his brush with High Finance should have made him quite a bit keener in arguments about paying interest.

Such a man is more likely, in the future, to raise money from his bank manager, if he can, than to fall quite so quickly for the NO DEPOSIT, EASY EASY TERMS notices stuck on his next-biggest purchases, the cars and household hardware — washing-machines, television sets, and so on — that will go into his house. What exactly is this contradictory cross-breed between renting and buying — hire-purchase?

15 The never-never



Hire-purchase began when traders first thought of letting many of their customers spread the cost of goods over a period of time. Years ago the idea of not paying for goods with cash was frowned on. The world was divided fairly sharply into those who had plenty of money and could afford the better things of life — and so did not need credit — and those who had barely enough money to buy necessities — and so were not given credit because the traders would never have got any money.

But gradually the condition of the not-so-rich changed and the coming of mass-production brought higher wages and lower prices for 'durable goods', such as furniture, the ever-present mangle for the weekly wash, and the newly-invented sewing-machine. The idea grew to allow people to hire these goods but to make it part of the arrangement that the very last payment would in fact *buy* the article which would from that moment become the property of the hitherto-hirer. The ironic name of the 'never-never' was given to the transaction because if the hirer defaulted on the payments,

even when they were almost completed, then the trader could take back the article, without refunding any money, and hire it to someone else. In times of depression, the 'snatch-backs' grew in number and many people thought poor families were being encouraged to hire-purchase beyond their means so that the goods could be snatched back on the excuse of late-arriving payments even after quite a number of instalments had been paid.

Many safeguards have been brought in to protect people against themselves; the latest one is to ensure that an agreement to hire-purchase something, signed at the doorstep after a perhaps too-persuasive salesman has called, can be cancelled during a 'cooling off period' of four days. It has long been the law that goods cannot be 'snatched back' after half the instalments have been paid, unless the snatch-back *has the authority of a court*.

Living beyond means

In spite of legal safeguards in the methods of hire-purchase companies, many people are against them. Undoubtedly they enable people to 'live beyond their means' — in the sense that they can buy goods now, before they have saved the money. Is that bad? Is it a bad thing that a tremendous number of families now have washing-machines, cars, refrigerators which they would be unlikely to possess without hire-purchase?

Would people save several hundred pounds for a car without hire-purchase? If they put £100 down and pay the rest monthly, is this just a way of saving money, like putting it in the bank and buying the car later? Or is it reckless to buy in advance of having sufficient money? Is hire-purchase any more reckless than borrowing from the bank? If a man borrows over twenty years to buy his house, why should he not borrow over two years to pay for his car? Or does it encourage people to buy this and that, a gas stove for 5*s*. 6*d*. a week; a suite of furniture for 35*s*. a week; a radiogram for 12*s*.; a television set for 10*s*. 6*d*., until the grand total saps up all the spare money in the house and even some of the money meant for food?

What of its effect on prices? If an article is sold on hire-purchase at 12*s*. 3*d*. a week, will it sell just as easily at 12*s*. 8*d*.? If the cash price of an article goes up £5 it might make a buyer stop and think, but will he bother if it means only a few extra pence on hire-purchase? Will this mean that

prices can go up more than if goods were sold on a cash basis? Or will hire-purchase so increase demand that the price is bound to come down? Would many people have £100 washing-machines if they were sold on a cash-only basis?

The cost

How much does hire-purchase cost the buyer? Those 'easy' terms — are they easy for the buyer, or for the hire-purchase firm? First, it is reasonable to agree that we must pay the hire-purchase firm for lending us the money; the only question is — how much?

By law the cash price of the goods has to be stated, so it is simple — and well worth while — to work out what the twenty-four (or whatever number it is) payments will total and then subtract from that total the cash price. There, sometimes alarming, is the amount you are paying for credit. Not long ago the Consumers Association (see page 110) worked it out like this:

Cash price: £60
Deposit: £12 (20% of cash price)
Instalments: ten monthly payments £5 each
1st step, the calculation of the total hire-purchase price:
Deposit + (Number of instalments multiplied by the amount of each instalment) = £12 + (10 × £5) = £62
2nd step, the cost of borrowing:
Total hire-purchase price minus cash price = £62 − £60 = £2
3rd step, the amount borrowed:
Cash price minus deposit = £60 − £12 = £48
4th step, the cost of borrowing as an annual percentage of the amount borrowed (i.e. the hire-purchase):
Cost of borrowing multiplied by payments per year multiplied by 100 divided by amount borrowed multiplied by total number of payments = $\frac{2 \times 12 \times 100}{48 \times 10}$
hire-purchase charge = 5%.

This 'hire-purchase charge' is an invented term but the true rate of interest is higher because you are repaying the loan throughout the period of

hiring. So towards the end you are only borrowing a small amount but paying interest on the original total.

In round figures you can double the hire-purchase charge to find the true rate or follow the Consumers Association guide and multiply the hire-purchase charge by 1·8 for periods under a year or 1·9 for periods over a year. You might prefer to pay the £2 rather than do all the paper work, but try a few of the easy terms around your way and you may find some of them reach 15% interest while that dull old bank will give a personal loan at 7%. This may not make all that difference on £60 but when it comes to buying a car there is a difference worth talking about — especially as the interest charged on the bank loan will be allowed to count against your income tax assessment. If you pay the standard rate of tax this may mean in effect that your rate of interest on the bank loan tumbles by about a third. Interest charges by normal hire-purchase firms are *not* allowed against income tax.

Alternatives

With all these considerations, does it seem sensible to buy through hire-purchase at all, if you can raise the money through a bank loan? Somebody thinks so — or does not work out interest rates too closely — for at present £1,200 million is borrowed on hire-purchase. That is more than £20 a head for every man, woman, and child. (Part of this hire-purchase debt is by companies who for one reason or another cannot make use of bank loans.) A hire-purchase loan costs between a third and a half more than a loan from the bank, but even if it is not possible to borrow from a bank there is still another alternative. It is obviously far better to draw out any savings from a Post Office account (where it is earning 2½% interest) or similar low-interest account and use that, rather than fork out 15% interest to a hire-purchase firm. An important thing to remember in that event is to pay back into your savings as regularly as you would have paid into the hire-purchase firm (pay as *much* as you would have done to the hire-purchase people and you will end up with both the goods and increased savings!)

There is little sense in a housewife walking miles to find 3*d.* off a pot of marmalade and 4*d.* off a tin of beans, if she is handing over 5*s.* a week more than necessary in interest charges on a washing-machine.

But beware, too, of the goods that are sold on hire-purchase at almost no interest, or quoted free of hire-purchase charges. They may be super bargains — or they may have their original price inflated so as to compensate for the apparently 'easiest terms of all'. (So called 'Deferred Terms' by responsible firms are a different matter. In that case payments are exactly the same as for cash but are deferred for a short period of months. Occasionally there is a small service charge.)

The big hire-purchase firms who supply the bulk of this credit money have grown very respectable over the years and are now even part-owned by the banks which compete against them. These 'respectable' firms are often in the forefront of moves to stamp out shady dealing over hire-purchase. But they will point out that they have bad debts a-plenty and so interest rates must cover these. Is this right, for good payers to cover the sins of defaulters? How else can the hire-purchase firms survive? Can they take more care about whom they lend money to? But would we welcome searching enquiries into our creditworthiness before we can hire-purchase a motor-cycle? Already some firms run 'blacklists' of bad payers.

Is hire-purchase a good thing when treated sensibly but a menace when weak-minded people over-extend themselves because they feel they must have more and more goods although their income is only modest? But who drives them on to demand more goods? Who makes an easily-influenced housewife desperate to get this year's refrigerator? Who makes an otherwise contented man fiercely determined to change his car for one with a wrap-around ash tray? Who drives a shorthand typist into giving up lunches so that she can buy an Italian holiday on the never-never?

Could it be the industry without which modern mass-production would have produced itself out of a job — advertising?

16 Pest or benefactor?

Some of the finest towns in the country have their central areas liberally spattered with advertising hoardings; almost every newspaper and magazine depends on advertisements to keep it alive; half the country's television viewing is paid for by advertisers; many cinemas have commercial films between the entertainment ones; our letterboxes are frequently stuffed with colourful leaflets and free samples; and most of the buses and trains keep their fares down by carrying advertisement panels.

Everywhere we go we come under the influence of advertising, £579 million worth of advertising a year. About £337 million of this is for 'display' or 'selling' advertisements. All day long they persuade, appeal, cajole, bully, inform, warn, and plead. Is advertising a pest? Does it make us spend when we should save (apart, that is, from the advertisements telling us to save with this building society or that bank). Does it make us feel inferior if we do not own such-and-such a product and so make us spend

above our income? Does it trick us, by suppressing certain information and underlining irrelevances until we are misled? Does it awaken desires which we cannot really afford to gratify — for a holiday on the 'never-never', perhaps, or a sports car — and so lead to our financial downfall?

Or is it a great modern benefactor? Does it tell people about some of the good things of life about which they would have remained in ignorance? Do those advertisements for holidays in Italy open up a new field of experience for some dull person who had not thought of venturing abroad before the advertisement showed it was so simple? Poor Mrs Drinkle, with six children and little money, would she have worn herself out washing clothes had she not seen she could get a washing-machine for a few shillings a week? How can new products, new experiences be brought to the notice of the mass of the people without advertising? Would television have become popular without advertising television sets? Would washing-machines have become commonplace without advertising? Would cars have been made by the million without advertising?

Would we have been better off without these things anyway? Even if advertising *has* benefited the mass of the people by bringing to their notice, and (through increasing demand and lowering prices) within their pocket, luxuries which would have been for the rich alone, has advertising 'overdone it'?

Informative advertising

Would most people agree that there is a strong case for advertising when it is informing people about a new product or reminding them about an old one, as long as the statements made are true? In fact it is rare nowadays to be able to catch an advertisement out in an absolute lie, but of course to say that Bloggs' Compost is the Best Compost is the sort of statement that only a tomato plant can really contradict.

But much advertising has long since passed the stage of chattering informatively. For a start there is very little information to give that would make you favour one cigarette rather than another, one petrol rather than another, one beer rather than another, one bank rather than another. If there is nothing much to tell between the products, the advertising men (admen) often concentrate instead in building up an image with which the potential customer can identify him- or herself. This cigarette will make

you more manly (you can see it will by the men posing for the advertisement, who probably gave up smoking years ago) and make you admired by the slightly out-of-focus girl in the background; that cakemix will make the housewife a centre of affection in her family (you can see it will, by the look on the faces of the family in the advertisement, none of whom is related and all of whom are looking happy because they are earning several guineas without having to eat any cakemix whatever); that petrol will make you one of the with-it way-out set because the young man and girl in the car being attended to at the garage in the advertisement look with-it and way-out (and so would any of us with their pay for looking that way).

Psychology

With many a nod to the science of psychology (there is even a *machine* for measuring the emotional response of *people* to advertising) the men who think up the advertisements — the 'creative' advertising men — are selling us at times a picture of ourselves as we would like to be, and fooling us that we will get that way if we only buy their shirts, their beer, their lipstick. The actual product is hardly described or 'sold' at all. It is the image of the buyer that we are buying. The advertisement agencies (who 'handle an advertising account' on behalf of the manufacturers and live off the 15% commission they receive from newspapers, television, or whatever medium they use) produce advertisements in this mould, rather than in a straightforward informative manner, simply because it sells more goods. Also it may bring the advertising agency an annual turnover of £20 million.

It is *you* who decides to buy that bar of Mudge because it shows a delightful girl chewing it rather than a bar of Pudge which is advertised as containing honey and glucose. Next month Pudge will switch to beautiful girls and bother the honey and glucose.

The advertising agencies, which handle so much of the big advertising, may have spent thousands of pounds on 'depth' research to find out why men use hair cream; and endless numbers of girls may have been questioned by student-psychologists to find out what they are looking for in the perfect shampoo. If the psychologists find that the men secretly feel hair cream makes them look like eagles, and the girls deep down believe that shampoo helps them understand classical music, then the first manufac-

turer to issue advertisements of a man using their hair cream with an eagle perched on his shoulder and a girl looking immaculately shampooed in a concert hall will sweep the board.

What a long way from the straightforward lies of the first advertisements which simply said 'Ladies and Gentlemen Are Assured that Dr Splockstein's Blue Pills Will Cure All Ailments'.

Does it matter? What about the man who merely produces a good product and even offers it cheaper? Will he go bankrupt because he does not apply psychology to making people buy his goods?

Can we rely on the car we buy being a good car when the advertisement to sell it does not mention its qualities as a car but only as a status symbol?

Teenage spenders

Some of the most blatant image-selling advertisements are aimed at teenagers. There are two main classes of teenagers, those less well-off than most people in the country, because they are studying or earning low wages during training; and those who are comparatively high spenders because they get good wages with none of the big outgoings that a married person has. It was estimated in 1965 that *disposable* income (that is, after regular payments had been met) of Britain's teenagers was £1,500 million — quite a packet to cream off. A glance at advertisements will show how often they are angled at this new-to-the-game-of-spending group. Cigarettes will make you grown-up (they may also give you lung cancer — as the government accepts by banning television and certain other advertisements; should they ban *all* cigarette advertising?), beer will make you popular, new suits will make you acceptable.

But all the country is assiduously classified by the market researchers, chopping us up into classes, ages, occupations, incomes, likes and dislikes. Do women of such and such a group like ready-mixed cooking packs? Or do they feel guilty about the little work needed to prepare a meal? Should we emphasise to this group of men that this product will make them more respected, or more popular? Will this shape of bottle subconsciously attract women? Or repel them? Will this colour of packet strike men as masculine, or would they be embarrassed to have it on the bathroom shelf? This group may respond to a 'hard sell' (6*d.* off! Buy now! Mail this Coupon *Today*!). This group may respond to a 'soft sell' (people who are smart are

buying while the fashion is exclusive). This group may respond to the 'prestige sell' (United Toothpicks — always in the forefront of international projects).

If you consider it deplorable that advertising has gone so far from its original purpose of explaining about goods, what can be done about it? Forbid handsome men from wearing shirts in shirt advertisements? Enforce standard shapes on container manufacturers instead of letting Freud dictate the outline? Prevent little-boy-lost men from being used on posters to stare dewy-eyed at girls wearing Buckett's Frocks?

Legal steps

Already the law has stepped in to enforce standards of weights and measures so that, for instance, containers have the amount of their contents stamped on them. Medicinal advertisements are strictly controlled, and purposely misleading statements are not allowed. The Advertising Association, the admen's own watchdog, investigates allegations of undesirable advertisements. In some countries, Germany and the United States in particular, rules are more rigid and prosecution may well follow a near-lie in the copy (the written material of the advertisement).

In Britain the old maxim of *Buyer Beware* still holds much sway, but is it a fair maxim when the seller has all the arts of psychology, market research, mass opinion polls, and salesmanship to help him get through the defences of the buyer? It is undoubtedly bird-brained to buy a £100 refrigerator just because the man in the television advertisement had an expensively cut suit and spoke so nicely, but how can you get people to choose refrigerators for better reasons? If an advertising agency demonstrates that, rather than listing the ingredients of a tablet of soap, it is better to fly to the South Pole and show a tablet against a background of ice with a caption 'the coolest soap in the world', what can the rest of us say?

But, of course, it *is* the rest of us that are buying the South Pole soap and ignoring the, perhaps, better listed-ingredients soap. Or buying ice-cream after seeing whipped-up mashed potato under television lights, or changing to someone-or-other's catfood because a very expensive cat is deprived of food for the day so that it will stick its nose well into a dish for a colour film to show in the interval at the cinema.

Are we all hypnotised? Or does it not matter anyway? Is it all a bit of harmless fun with free television thrown in?

When one of the detergent manufacturers, stung by criticism of wasteful advertising, brought out a packet that was better value, but not widely advertised, the packet did not sell well. To any big manufacturer it not only pays to advertise but it is disaster not to. We will not buy his goods unless he tells us to.

Public relations

He may even tell us to buy his goods without the use of paid advertisements. The era of the Public Relations Officer is upon us and every company worth its salt in marketing has a public relations office to make sure that the image of the company is kept bright and clean. The P.R.O. will answer inquiries from the press, television, and the public; he will arrange for the company's achievements to be made public knowledge and try to see that its latest products receive mention in the editorial columns of as many publications as possible. Much of the work of the P.R.O. is valuable and worth while; there is no reason why people should not get to know of the achievements of firms which, after all, are earning us all our daily bread. The P.R.O. becomes less defensible when he is used as a shield to conceal failure, hide facts, and gloss over unpalatable truths. But there is no doubt the P.R.O. is here to say. Why, they have even spread to museums. In one of the big London museums, in order not to lower the tone of the place, he is known as the Keeper of the Public Relations Department.

What defences have the ordinary customers (increasingly, and perhaps significantly, now generally known as consumers) against the attacks of the admen? Not only against the advertisements that may mislead, but the related problems of sharp selling practices, doctoring of goods (if you make butter more attractive to look at by adding harmless colouring chemicals are you deceiving someone who may choose it in preference to the butter with no chemical added?), bad labelling, shoddy workmanship, faulty design . . . in fact against 'not getting your money's-worth.'

Watchdogs

Several organisations have been set up. The British Standards Institution (with its Kite mark on goods) is a semi-government organisation devoted to increasing standards of quality in a vast range of manufactured goods. Most of the 'signs of approval' dotted around the shelves of modern shops mean very little at all and are on a level with the Miracle Ingredients without which no self-respecting toothpaste would show its tube, but the Kite mark does mean something and shows the article has reached a published standard.

The Design Centre (28 Haymarket, London, S.W.1, and 46 West George Street, Glasgow, C.2) is also a government-backed organisation. It has exhibitions of excellently designed goods and allows firms which are chosen to exhibit to mark the goods with a Design Centre label. This may be a guide to what is currently considered good design but does not necessarily mean that the articles are good value for money. A third government institution is the Consumer Council, which is intended to be the watchdog of the ordinary shopper and was set up after a government inquiry into shopping practices. It has its own magazine, *Focus*. The nationalised industries, which are not subject to the usual 'laws of the market place' (being mainly monopolies) have separate consumer councils to keep them in touch with opinions on their goods and services.

Which?

As well as authority doing its best to fight on behalf of the shopper against the sharp practices of a minority of industry and commerce, the miserable consumers themselves — or some of them — rose up a few years ago and formed a non-profit-making group called the Consumers Association. This association (14 Buckingham Street, London, W.C.2) publishes a monthly magazine *Which?* for its 400,000 member-subscribers and this tries to put the advertised goods into perspective. The Consumers Association tests comparable goods and gives 'best buys' in many different types of goods. If it tells you that the Extra-Super Spring-loaded shoelace is a swindle and you *still* buy it then there is little to be done for you. But that is only 400,000 people, and their families. The bulk of the more than 52

million in Britain have to use their horse sense. There is little good in earning twice the salary of the man next door if you spend it unwisely.

But, if you accept the benefits of mass-production, should you accept the side effects as well? Would we all have reached our present standard of living without advertising? A century ago men might work twelve hours a day in industry and yet be only able to afford a cellar for their family and a pile of straw to sleep on; now a comparable man might work eight hours a day, have a house he is buying on mortgage, a car in the garage, and a fortnight by the sea in the summer. Much of this is due to mass-production methods at work, and much of mass-production depends on advertising to keep demand up and the factories at full blast. Must we respond to the blind orders of some impersonal 'manipulator' when it comes to spending our wages? At this rate it might seem as though what we do with our money is almost out of our control.

The government takes a chunk of our earnings. Mortgages, insurances, banks . . . everyone chips away at it and just when we think we can spend the rest on what we like, the advertising industry convinces us that what we want is Bodgo when *they* know that all we want is the colour of the bottle and the friendship of that happy, smiling couple holding the bottle in the picture. Have we *any* free will in money matters?

17 Inflation

The man in the street still has the freedom to decide when to spend and when to save, when to squander and when to hoard, and no one — not even the economists with their countless theories — can say for certain what decision the man in the street will take. If people in Britain get the spending urge, the country goes into a boom period; if people decide to hang on to their money, the country goes into a slump. Boom, slump, boom, slump, the rhythm has gone on through the centuries and, until recently, no one has thought that much could be done about it.

What people spend in a year equals what they buy, that much is obvious. What people buy could be expressed as the quantity multiplied by the price. But what do they spend? The total number of pound notes? But each note may be used a dozen times a week or only once a year. And what of bank deposits? If Brown gives Jones a cheque for £50 and Jones gives Harris a cheque for £50 and Harris gives Ferguson a cheque for £50 and Ferguson

gives Brown a cheque for £50, no money has changed hands yet £200 has been spent. It is not just the total of money (notes and bank deposits) in circulation, but the speed with which it is used ('velocity' economists call it) that indicates the total spending power.

So our obvious remark that what people spend in a year equals what they buy can be thought of as: The total notes and bank deposits of the country, multiplied by their velocity, equals the total quantity of the goods bought, multiplied by their general price.

Change any one of these four things and another part of the equation (properly called the Quantity Equation) must give way. 'Goods' means goods and services, for certain things such as railway fares, haircuts, cinema seats, still cost money even if no goods are handed over a counter.

If prices go up, then either the total amount of goods must fall *or* the amount of money or its velocity must increase. If prices go down, then either the total amount of goods must increase *or* the amount of money or its velocity must decrease.

If the amount of money, or its velocity, increases then the amount of goods, or the price, will go up. If the amount of goods does not go up (if there is no 'increase in productivity') then the price will.

Increasing money

How is the amount of money increased? By lowering taxation, by increasing government expenditure, by raising welfare benefits (such as retirement pensions), by permitting wage and salary rises, or by allowing the banks to lend more money. The banks do not literally 'make' such money; they turn the customers' credit, or security, into ready cash.

But sometimes the amount of money may go up yet prices and total trade are not affected. That is because — for reasons which economists can only guess — the man in the street has decided not to spend so freely. Perhaps he thinks prices are going to fall. Perhaps he thinks his job is in danger and it is best to be careful of spending too much. He hangs on to his money longer; he ignores the blandishments of the advertisers; he cancels his holiday; he does not have the extension built to his house.

The business world notes the atmosphere. The shopkeeper orders fewer goods as his shelves are still full; the factory owner cancels his plans and lays off thousands of workers; the unemployed now have little cash to

spend; the builder decides for the time being not to put up that estate of houses. . . . All over the country the velocity of money slows down — and we are heading for a slump.

After a while a different mood begins to creep into millions of homes. For no very good reason people begin to launch out again, to buy new carpets, spend more freely on food and drink, visit estate agents and look at new houses. Trade picks up and the shopkeepers frantically rush in orders for more goods to replenish their suddenly-empty shelves. The factories take on extra men to meet the spate of new orders. The newly-recruited workers spend their pay on things they have gone without during their unemployment. . . . The velocity of money speeds up enormously — and we are heading for a boom.

Politicians do not talk about booms and slumps any more. A slump is a period of 'deflation' and a boom is a period of 'inflation', or sometimes 'reflation'.

Up and down

All the time the country moves to and fro between inflationary and deflationary periods. In times of inflation (remember the total notes and bank deposits of the country multiplied by their velocity equals the total quantity of goods multiplied by their prices) the value of money goes down, because there is more of it about — unless, that is, there are more goods to spend it on. In times of deflation the value of money goes up, because money itself is scarcer. (In financial circles money is called 'cheap' when it can be borrowed easily and at low rates of interest. When money is scarce it becomes 'dear' and Bank Rate soars to 7%.)

Of course the 'value' of money is only a figure of speech. Those ludicrous notes with Mr Fforde's promise are never themselves worth anything at all; but the value means the quantity of things they will buy, their 'exchange' rate. In inflationary times they buy less; in deflationary times they buy more.

In the days when gold was king of the currencies, the bankers of the world maintained the balance between inflation and deflation. Since the currency was tied to gold, as the value of the currency fell, the amount of gold it bought fell and the country's stocks of this real money went down. The central bankers thereupon put up Bank Rate (which influenced the rate of interest everywhere) and made it 'dearer' to borrow money, the

amount of money in circulation fell and, together with other measures, the inflation was brought under control. When deflation was the trouble then the bankers made money easier to come by.

But those were simpler days. When deflation was in the air people were thrown out of work and their luckier workmates shrugged the matter off. The government was not expected to run the economy of the country — it was left to the bankers to follow their 'rulebook' — and the government did not itself spend the astronomical amounts which today directly and indirectly influence the course of the economy as much as private money does.

Today, the State interferes in a variety of ways. One often-used device is for the Bank of England (which is the government, whatever the heading on the notepaper says) to buy, say, £50 million worth of securities in the financial markets. It pays for them with cheques, drawn on its own limitless 'account', and the sellers put these cheques in their own bank accounts. The individual banks can now lend 12½ times as much as these cheques (see page 45). So, by writing cheques for £50 million the government has in effect 'created' £625 million worth of purchasing power and — perhaps — averted a slump. Later, to avoid too big a boom, the Bank of England can sell securities and 'destroy' the cheques that pay for them (and so make the individual banks call in loans to bring back that prized 8% ratio of cash-to-loans). This presupposes that there are buyers and sellers ready to accept the Bank of England's offers; if there are not, then the individual banks are under pressure to take their place and the end effect remains the same.

Bank deposits the key

It is no longer notes, but bank deposits that are the key to inflation or deflation. A government does not have to run the bank-note printing presses on overtime to change the value of our money; it can just order up a cheque-book.

Once it became accepted that the State took responsibility not only for planning the economy but also for the success or failure of the whole economic life of the nation, it was understandable that the power of the bankers should be taken over by the State. If the politicians were going to be held accountable for the fact of a million unemployed in Lancashire, or high prices in the shops everywhere, they were going to see that it was their

decision and not some anonymous bankers' that brought these things about.

Ironing out

From the time that these powers of 'ironing out' the inflationary bumps and deflationary dips in the economy of the country were in the hands of the Treasury, headed by the Chancellor of the Exchequer (and now working in conjunction with the Minister of Economic Affairs), the whole apparatus of government became involved in economic planning, and all over Whitehall the economists slid quietly into the seats of influence.

But, just as a decision to build motorways in Scotland may be influenced by expansion plans for Northern Ireland, or the starting of a new industry in Wales may spell unemployment in Tyneside, so deflation or inflation in Britain may have repercussions all over the world.

Britain, left on her own, would have a far poorer standard of living than she has now. She maintains her prosperity by buying and selling across the world. Few people buy British out of affection; they buy because the price and quality is right. But they do not buy in pounds sterling, they buy in dollars, francs, marks, and so on. Who decides how many dollars go to a pound?

To the world's foreign exchanges come various forms of 'cheques' (most of them called 'Bills of Exchange') comparable to those we pay through our local bank. Here is one from a German who has been paid £10,000 for a shipment of wine to Britain; there, one for 20,000 marks from an English firm that sold barley to Germany. The English firm wants sterling, the German wants marks. These, and countless other accounts are exchanged by dealers so that all parties are satisfied. In a few 'free' foreign exchanges the deals are genuinely those of the market place — you get as many pounds as you can for your marks or dollars and the amount may vary quite a bit from day to day. (Some people want Britain to let the pound find its own value on all the exchanges — they want it to be 'floated'.) Just like any other commodity, if lots of people want dollars the price will edge up, if few people want francs the price will fall. Many people make a tidy living buying, say, pounds when they are cheap in Geneva and selling them a few *minutes* later, by cable of course, in New York. (Financiers may look rather staid but they move fast when there is money about!)

Supporting the pound

In practice most of the foreign exchanges are — not to put too fine a point on it — rigged. The rigging is done quite openly by governments. There are direct 'exchange controls' forbidding certain currency deals, and there is government 'support' for currencies. The British government, for example, sets the price of sterling as equivalent to 2·80 American dollars. If the price varies a trifle the government does not mind, but if it falls below 2·79 dollars then the Bank of England (which as we know is the government with another hat on) steps in and 'supports' the pound. It does this by buying sterling in exchange for dollars, or whatever currency is the pacesetter, until 'pressure on the pound' eases and it returns to an acceptable price.

If the pound rose in value dramatically our exports would fetch more sterling but they would be harder to sell as they would be more expensive to foreign buyers; our imports on the other hand would cost less. If the pound fell dramatically our exports would sell for far less — and therefore it would be easier to export — but our imports would cost more so we would have to sell a great deal more to pay for what we brought in. Either situation would be dangerous for us because we are balanced on a knife-edge already as far as paying our way is concerned, and on top of that we act as banker for half the world. It is difficult to be a banker when your reserves go up and down drastically.

The Bank of England cannot just produce foreign currency out of the air. It can only sell dollars to 'support the pound' if it has dollars to sell; and our real reserves of 'gold and convertible currencies' (see page 50) are often incredibly low. Sometimes, indeed, they are *all* borrowed money.

A run on the pound by traders or speculators may bring the Bank of England hurrying to the scene. But what if the Bank itself runs out of gold and acceptable foreign currency? If that occurred the pound would 'collapse', that is fall to its true value, which — because of speculation — might not be true at all but catastrophically below the 'true' value. And sterling as a trusted currency, and Britain as a banker to the Sterling Area, would be a thing of the past. To avoid this catastrophe when there were two runs on the pound in 1965, foreign bankers (who do not want to see a fellow banker go broke and who loathe wildly fluctuating exchange rates — think what it does to trade when a man doesn't know how much money a shipload of cars will bring in this week as against last week) lent a

total of £900 million in foreign currency so that the Bank of England could go on supporting the pound, and everyone, including speculators, would know that the pound was staying at 2·80 dollars. The crisis was over.

Or was it? You cannot go on supporting the pound for ever on borrowed money; it must 'stand on its own feet', otherwise you simply go deeper and deeper into debt.

Exporting more

To stand on its own feet the pound must be wanted by foreigners in exchange for goods. In other words we must export enough to pay for our imports. But we cannot make people buy British. Some say we face an almost impossible task for barriers are raised against our goods, either by putting a high tariff on them or banning their import altogether. When we were the richest country in the world we encouraged 'free trade' and let other countries send their goods to us in payment for debts. Now, when *we* owe money, we cannot sell our goods in some countries because of these barriers and so we cannot pay debts and have to borrow more money — and so get deeper into debt.

But, assuming no such barriers, we must still see that our prices are competitive. If our goods are too dear the foreigners will not buy. But what makes the goods too dear? Two principal elements go into the making of our exports: labour and raw materials. Many of the raw materials are imported and outside our control; incomes *are* our affair. But we have seen that incomes to a large extent go up every year as everyone struggles to keep up with his neighbour and up with the prices in the shops.

Steady the incomes — allowing big rises only when there is increased productivity (thus more goods so our Quantity Equation is undisturbed) — and clamp down on price rises. And here we are, back at the Prices and Incomes Board (see page 35).

But many people feel that a little inflation is a necessary thing. Almost all through history there has been gradual inflation, although there have been periods of deflation — the last big one was in the 1920s. Inflation is one way in which the vast debts of our forefathers can be made bearable. Businessmen rather like inflation — it makes the debts they have incurred on their factories easier to pay off, there is plenty of money about to buy their goods, and they get 'windfall' profits by increases in the value of their

stocks. Wage-earners are not so happy with inflation as it takes time for their rises to catch up with the prices in the shops.

Fixed incomes

People on fixed incomes are desperately unhappy about inflation since prices go up but their incomes do not, so they get poorer. The fixed-incomers like *de*flation, when prices go down but their incomes stay put; the wage-earners, too, like deflation — except that many of their number get thrown out of work as demand for goods slackens; the business community hates deflation because debts weigh heavily and there is no money coming in to pay them, or give the businessmen their profits. Farmers, householders, builders, stock-exchange dealers, bankers, hire-purchase firms, everyone has a different view of whether inflation or deflation is a good thing. But they all agree that savage deflation (which brings widespread unemployment) and runaway inflation (when money loses all meaning) are thoroughly bad. The art of government interference in the economy of the country is to steer the proper course between the two.

Foreign influence

But can any government decide its own course when we are in debt to foreign bankers? Supposing the government should decide to treble retirement pensions, build a hundred major hospitals, double the number of universities in five years, increase all welfare benefits 100% and build a theatre in every town. It is likely that there would be a major run on the pound, on the assumption that all this extravagance would make a period of wild inflation in Britain, since there would be no comparable increase in goods manufactured to set it off in our equation.

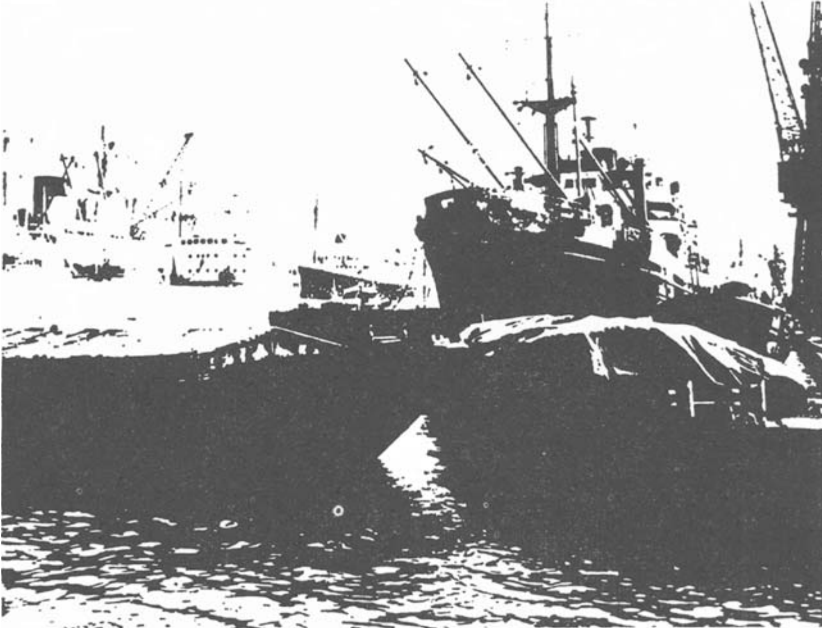
The pound would be worth less, foreigners would not buy it, foreign bankers would not support the Bank of England, and the pound would be devalued. Our imports would cost more and, with so much non-productive effort at home, our exports could never increase enough to make up for their new cheapness and we would become much poorer. Like it or not, we have to carry out government policies broadly acceptable to foreign bankers and governments as 'businesslike'.

In bygone days there were many different currencies in Britain but the State had to intervene to make a nationwide sound currency. Nowadays, the international financial world is in a similar position of not wanting a rotten currency anywhere. There is a saying 'bad money drives out good' and one bad currency may undermine a good deal of international trade.

Are we in Britain trying to do the impossible? With our small country and its relatively small home market, are we too ambitious in thinking we can export to countries like the United States where industries have a vast home market to make their goods cheaper to produce? Are we fooled because our huge empire gave us a 'soft' market to penetrate when raw materials were cheap and all under the Union Jack? Must we take a fresh look at ourselves and see what is to be done to prevent our slipping into an economic backwater?

Many people think the huge home market will only come to us if we 'join Europe' — by getting into the European Common Market.

18 International money



The $175\frac{1}{2}$ million population European Economic Community (E.E.C.), or Common Market, is at present in a lot of trouble. The six partners: France, West Germany, Italy, Belgium, Holland, and Luxembourg, have to be unanimous about moves towards integration, but the Treaty of Rome (which established the Community in 1957) sees the organisation turning into a unitary block in which decisions are taken by democratic voting (though in fact 'weighted' in favour of the bigger countries) with the 'losers' agreeing to the will of the majority. President de Gaulle, with his concept of the greatness of nationality, and especially French nationality, will not agree and so maintains what is in effect a power of veto over further progress towards integration.

The Treaty of Rome did not set up this Community just to have common tariffs and economic dependence, one country upon another. It envisaged the ultimate political integration of all the countries into a United States of Europe. Such a dream is *not* shared by President de Gaulle.

Strangely, it was this same President de Gaulle who in 1963 vetoed the (rather late) application of Britain to join the Market — a Britain that until then had been scared off by the ultimate goal of political union. Britain had produced a rival economic organisation – the (including us) 100 million population European Free Trade Association — which had common *internal* tariffs but individual external ones (so that Britain, for instance, could continue her special relationship with the Commonwealth) and *no* ultimate aim of political union. The countries of the Outer Seven, as it became called, were Austria, Britain, Denmark, Norway, Portugal, Sweden, and Switzerland. Finland joined later, as an 'associate', and Austria began looking more to the Common Market.

A shake-up

In 1966 Britain again opened negotiations to join the Market. France remained the key. If President de Gaulle shows willingness to have us in, should we 'cease being an island'? In exchange for the huge 'home' market for our goods we would have to shake ourselves up a bit. The cheap food which we have had from our Commonwealth for years would go up in price and our own industries hitherto protected by tariffs — virtually taxes paid by foreigners — would have to stand against competition from the Continent. Also our agriculture would need special measures. In agriculture-based nations it is the industries that are heavily protected against foreigners by tariffs and quotas (limits on imports). In industrial nations it is the farmers who are most protected, or subsidised, to ensure that their standards of living are comparable with those of the town workers. Some of the sharpest rows in the Common Market have been between cheap French agriculture and the highly-subsidised agriculture of other members of the Market, particularly West German. Perhaps the toughest question Britain would have to negotiate also would be agriculture.

Is the Commonwealth not a realistic alternative to Europe as far as Britain is concerned? Trade among the members of the Commonwealth is mainly in sterling (Canada is the big exception and drains away a lot of our dollar-wealth by selling us — for dollars — far more than she buys from us) but even the rest of the Commonwealth is not what it was, from a purely economic point of view. Once we were in the lucky position of selling industrial goods to half the world and buying primary products — food and raw materials — at attractive prices from them. But now, with

independence, much of the Commonwealth does not want to remain as bargain-rate suppliers to the better-off parts of the world. They want to break through into affluence themselves and the only way they see of doing it is to industrialise.

Overseas capital

To build up industries emerging Commonwealth countries must protect themselves against overseas industrial imports — *our* industrial exports. Many of the new nations have new ideas of where to look for the trade and aid desperately needed to raise their standards of living. To manufacture, three things are needed — labour, materials (including land), and capital. To many developing countries the most difficult to find is the last — capital, the money to buy machinery, to buy experts and 'know-how', and to buy time to wait for the production lines to pay off in a rise in the standard of living.

Sometimes we supply this capital, but no country wants to follow a loan by allowing a flood of imports to come in to soak up the new money so that only a heavy debt and some luxury goods are left at the end of a few years. Already, in some countries, the burden of interest and repayments on loans is tremendously heavy — on average they spend a tenth of their foreign exchange earnings on this. Even Britain, no poor nation, is finding hers crippling. Paradoxically, Britain also finds lending money burdensome for the interest may not come back for years and we must balance the whole loan — in foreign currency — by current exports.

But some people see the Treaty of Rome as being 'inward-looking' and aggravating the division of the world into rich and poor. They say that the European Economic Community, by building protectionist tariffs around itself, is letting the rest of the world fall back. Outside primary producers are in a poor bargaining position with such a huge customer, and Europe can merely pass on any economic problems to the weaker nations — can export its poverty, in fact, instead of playing its part in encouraging international trade and so international prosperity.

Britain's peculiar position as banker to the sterling world is also given as a reason for caution about joining Europe; but others say that the position of banker is a dubious honour and one which in any case we might be able to do better if we were not hovering so often on the edge of bankruptcy ourselves.

Political union

But through all the talk about economics, the one big decision that has to be taken before Britain makes any final move into Europe is: do we approve the ultimate aim of *political* union? For that is what 'going into Europe' means. Can we visualise ultimately being *governed* from Rome, or Paris? Would we, like the individual states of the United States of America, put up with federal troops sent to make us carry out a government order?

This sort of situation may be many, many years away, but total union is the direction that Western Europe was moving towards when it set up the Treaty of Rome. Should we help it on? Or stay on the sidelines even if it means tariffs being levied on our goods and a gradual decline in our standard of living? If total union is the ultimate aim, should we try to go in soon, to help form it in the way we think wise?

One of the primary aims of the economic union of Europe was to make those old enemies France and Germany so interdependent that they could never go to war again. If a country's economy is bound up with another (steel from one side of the frontier, coal from another; heavy industry from one side, wheat from another) then common interests will ensure common tolerance of each other. Yet we have seen that gradually in this modern world, with the exports of one side of the world becoming the imports of the other, we are all becoming interdependent. Famine in the south must be prevented by the north, or the north will have no markets for its exports; crop failures in the east mean no currency to pay for manufactured goods from the west. Too much money in the modern State's kitty is almost as serious as too little and every State is anxious to see economic stability at least in its own quarter of the world and often even on the other side of the world.

International money

The equivalent to our equation of buying and selling within the country works for trade between nations too. If one nation hogs all the money then there is less 'buying currency' circulating and so less international trade. Any nation exporting more than it imports is expected to invest the excess money abroad, to keep international trade going. Without such co-

operation the international monetary system would collapse for there would be no 'international' money to be spent.

In international trade, when two countries exchange goods, the foreign exchanges see to it that the traders are each paid in their own currencies. It is only the excess — the difference between one set of contracts and another — that is settled in gold, dollars, sterling, or whatever 'international currency' is used. But once a shortage of international money became serious, countries would have to fall back on 'barter' agreements, in which exactly-balanced values of goods were imported and exported.

Barter

Before money was invented, that was how individuals traded. They exchanged a canoe for a cow, a spear for a skin. But as life got complicated and men concentrated on one trade each (specialisation) they found it difficult to exchange goods. It was expecting a lot to find someone who wanted a cow just as you wanted to buy a canoe. So men invented a 'medium of exchange', something into which the cow could be turned while the search for the canoe went on, something which could be used as a 'store of wealth' while saving up for a big purchase; in short, men invented money.

Similarly, with international trade, barter between two countries was fine as long as their specialities were complementary — industry and agriculture for instance. But things do not work out that way in modern life where most countries have a mixed bag of imports and exports. Hence (country) *A* trades with (country) *B* which trades with *C* which trades with *D*. But *A* imports from *C* and *D*, and *B* imports from *D* alone, and *C* imports from *A*, and *D* imports from no one but carries all the trade in its merchant fleet and runs an international banking system. To keep this 'multilateral' trade going (as distinct from 'bilateral' trade between only two countries) international money is vital.

A shortage of such money (known as a shortage of 'international liquidity') is comparable to a shortage of money within, say, Britain. Here we would counter it by the banks' lending more money ('creating money out of credit'), but who is to create money internationally? Sometimes it is the International Monetary Fund — a sort of co-operative bank set up by the richer nations but now including eighty-eight countries. The fund

lends foreign currencies even to Britain, which once would have been the automatic choice for raising money to lend to others. Nowadays, Britain, though still an international banker, has to watch all the time against a run on the pound which is similar in effect to a run on the banks in the local High Street. As we know, *they* have only got a percentage of our money in their vaults. As the international financiers know, Britain has only a percentage of their money in the Bank of England.

International bank

The International Monetary Fund, though it has some stern critics, may prove the forerunner of a truly international bank for rich and poor nations alike, and so do for international trade what our local banks have done for national trade — provide capital which is used for creating greater real wealth. (There is another international bank, the International Bank for Reconstruction and Development, but that is for specific long-term loans for major projects.) The 'High Street' banking system is based on credit and the word credit is derived from the Latin word *credere*, to believe or have faith in. Perhaps the members of the international community are moving towards the time when they, too, will have sufficient faith in each other and can have as useful and commonplace a way of raising capital. It is possible that they are moving that way now, not by conscious political decisions but by blind economic ones.

When cattle, wheat, shells, rice, canoes, or wives were acceptable currency, the world had a unity which it has not had since. Life has become so complicated that we demand meat from New Zealand, tea from India, oranges from Israel, binoculars from Germany, petrol from Kuwait, and dozens and dozens of other imports from many countries in the course of a single day.

Population

Yet, as we become more and more bound up in the economic affairs of the rest of the world, the biggest economic crisis of all is looming up. Every other second, night and day, a baby is born, somewhere in the world. Better

food (though often still pitifully little) and better medical treatment (though often still pitifully meagre) keep more people alive so that every year there are 65 million more mouths to feed than the year before.

We have to plan our lives more efficiently, to produce more food, to invent more machines, to think *now* what is to happen if — at the present rate — the world population is *doubled* by the end of the century. The money in our pockets is only of any use if it can be exchanged for something we want — food, clothing, or the fripperies of life. If there are twice the mouths to feed and no increase in the amount of food in the world, there lies catastrophe.

One solution may be widespread birth control and many schemes have been started all over the world; but it is a slow task of education and persuasion, and least likely to succeed in those countries where it is most urgently needed. The other solution is to become more efficient in finding and using natural resources of the world; in drawing still more sustenance from the absurdly thin surface of the earth that supports all life; from harvesting the seas; and from cudgelling our brains to produce yet more scientific and technological miracles.

We will be fighting to survive — the whole human race will be fighting to survive — in numbers never before approached on earth. It will be a tough struggle for us, let alone those who are to follow us.

Not long ago an administrator in Africa went to look at a forest of giant cedars devastated in a great storm.

'We must plant more cedars here,' he said.

'But they take 2,000 years to grow as large as these ones were.'

'Then we must plant them *at once*.'

Glossary

Bank Rate. The official rate of interest at which the Bank of England will discount first-class bills.

Barter. The direct exchange of one thing with another without the use of money.

Bear. A dealer or investor on the Stock Exchange who sells shares in the hope that prices will fall so that later he may buy them back at a lower price.

Bilateral Trade. The exchange of goods and services between two countries.

Bills of Exchange. Written requests from one person to another, signed by the writer, requiring the other party to pay a specified sum of money by a certain date.

Bull. A dealer or investor on the Stock Exchange who buys shares in the hope that the price will rise so that he may then sell them at the higher price.

Capital Gains Tax. A tax levied on the profits from the sale of any capital assets, such as stock-exchange securities.

Cash Ratio. The percentage of total deposits of the commercial banks which is kept in the form of cash. It is around 8% and includes their holdings at the Bank of England.

Cheap Money. A term to describe the situation when borrowing is relatively inexpensive because of low interest rates. Usually cheap money stimulates economic activity.

Clearing-Houses. An association of banks through which banks' mutual indebtedness is settled.

Convertible Currency. The money of a country that can be exchanged for foreign currencies.

Creating Credit. This occurs when a bank makes advances to customers in exchange for some security. The result is an increase in the total purchasing power in the community.

Credit Card. A card entitling the holder to obtain goods and services, at certain establishments, on credit.

Credit Squeeze. Government policy restricting the amount of lending allowed by banks and hire-purchase firms, thus causing demand to fall.

Current Account. A bank account where the customer can obtain cash on demand and make payments by cheque. No interest is payable on this account.

Dear Money. A policy of higher interest rates to discourage borrowing and which tends to slow down economic activity.

Deflation. A situation where the value of money is rising as the result of falling prices and where the output of goods and services exceeds the volume of purchasing power.

Deposit Account. An account at a bank, withdrawals from which usually require a period of notice. Interest is paid on the account, usually at around 2% below Bank Rate.

Dividend. Part of a company's profits which is distributed to the people holding shares in the company.

Endowment Assurance. Where the payment of premiums is for a certain number of years, the assured sum being paid on either the death of the assured or at the end of an agreed time.

Equities. A popular name for the ordinary shares of a Public Joint-Stock Company which is dealt with on the Stock Exchange.

Estate Duties. A direct tax on the property of a person who has died.

Euro-dollar. Private, as opposed to government, U.S. dollars held in European banks.

Feu. A perpetual lease at a fixed rent.

Floating Currency. A currency where the exchange rate is allowed to fluctuate according to the demand for, and the supply of, the currency.

Freehold. The absolute ownership of land.

Giro. A means of making an easy transfer of money, provided by the Post Office in addition to postal orders and so on.

Hard Currency. A currency which is in short supply in terms of the demand for it in international dealings. Usually it is a fairly stable currency.

Holding Company. A company holding sufficient shares in another company to allow it to control the latter's affairs.

Income Tax. A tax levied on all types of income. After allowances have been deducted, the tax is charged at progressively higher rates on the remainder.

Inflation. A situation where there is a fall in the value of money due to rising prices and where the volume of purchasing power exceeds the output of goods and services.

Insurance Broker. An agent who puts people wishing to insure in touch with people who undertake insurance.

Interest. Payment by borrowers for the use of money over a period of time. It is usually expressed as a percentage.

Invisible Imports and Exports. Payments and receipts for various services, such as shipping, banking, etc., as distinct from 'visible' items which comprise payments and receipts for goods.

Jobber. A dealer on the Stock Exchange who buys and sells shares on his own account. He is usually a specialist in a particular section of the market.

Leasehold. The use of property or land for a specified number of years subject to the payment of an annual rent.

Liquidity. The ease with which assets can be turned into cash.

Money at Call. The lending by commercial banks to the Money Market. The terms of these loans is very short, sometimes even less than twenty-four hours.

Money Market. A group of financial institutions dealing in short-term lending and borrowing.

Mortgage. A loan raised with property given as security.

Multilateral Trade. When countries are free to trade with one another.

National Health Insurance. Every employed person contributes weekly towards this insurance and receives certain benefits for himself and family. The present scheme dates from 1946.

Option Mortgage. A scheme to give State aid to lower the interest on mortgages in exchange for surrendering the right to income tax relief on repayments.

Overdraft. The customer is permitted to draw cheques up to a certain limit which exceeds the funds in his account.

Premium. A periodical or fixed sum paid for certain insurance cover.

Prices and Incomes Board. An independent body set up by the government to inquire into rises in prices and incomes to see if they are in the national interest.

Productivity. The amount of production related to the amount of labour employed.

Purchase Tax. A tax levied at various rates on the wholesale value of certain commodities.

Quantity Equation. This explains the Quantity Theory of Money which demonstrates that any increase in the quantity of money or its circulation must lead to a change in the number of transactions or the price level.

Rateable Value. The property value upon which rates are based, which is equal to the net annual value of the rent the property could earn.

Rates. Taxes levied by local authorities on property to help finance local public services and amenities.

Restrictive Practices. Actions by employer or employee which limit output and protect or make profit or wages higher than they would otherwise be.

Road Fund. A fund into which all the proceeds of taxes on motor vehicles was paid. Since 1937 the receipts from motor taxation have been regarded as general government revenue and can be used for any purpose.

Security. (1) A stock-exchange investment.
(2) Property pledged as collateral against a loan.

Selective Employment Tax. A tax paid by employers according to the number of people they employ. Certain employers are exempt and others obtain a 'premium', or extra payment, when their tax is returned to them.

Selling Short. The practice of selling a security that is not owned but temporarily borrowed, in order to make delivery. It is practised when it is hoped that security prices will fall.

Soft Currency. A currency which is in plentiful supply on the foreign exchange market.

Special Deposits. Amounts required by the Bank of England, on the instructions of the government, from the commercial banks, so preventing their using it as part of their cash ratio.

Standing Order. Arrangements which customers make with their banks for regular payments to a third party.

Sterling Area. Consists of countries that have linked their currencies to the British pound sterling.

Stockbroker. An agent on the Stock Exchange who buys and sells from Jobbers on behalf of members of the public.

Surtax. An additional high-income tax payable on all earned incomes above £5,000 a year.

Take-over Bid. An offer by one company for the shares of another company which it wishes to control.

Taxes, Direct. Taxes which are levied directly upon the taxpayer, the burden of which cannot easily be shifted, e.g. income tax.

Taxes, Indirect. These are levied indirectly, through third parties, e.g. the duties on beer and spirits, and purchase tax on a wide range of goods.

Travellers' Cheques. A draft payable on sight issued by banks in various denominations to customers who have paid for them. They are usually exchanged for foreign currency by people on holiday or business.

Underwriter. A person who joins with others to insure a risk by writing his name under the insurance policy.

Unit Trust. A financial institution which raises money by the sale of its own shares, which is then invested in a wide range of stock exchange securities. It is a method whereby the small investor can spread his risk.

Wage Councils. Independent bodies, set up by the Minister of Labour, comprising independent persons and equal numbers of employers and employees in industries where the normal arrangements for collective bargaining are inadequate. They recommend wages and other conditions of employment.

Whole Life Assurance. Where the payments of the insurance premiums are normally continued up to death.

Wildcat Strikes. The withholding of labour by men without the backing of their union and which is, therefore, 'unofficial'.

Yield. The percentage return on shares, obtained by multiplying the nominal value of the share by its dividend divided by its market price.

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