All Up With The E.P.U.

And Not A Day Too Soon

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THE European Payments Union, now being dismantled, is one of the disastrous post-war economic gimmicks. It was devised ineffectually to plug the yawning gaps, the inconsistencies and fallacies, the monetary malaise, and the destruction of incalculable profitable commerce, caused by the fantastic Rules of the International Monetary Fund. The scheme was rushed through the Commons in about five minutes.

From a period vastly ante-dating the discovery of America by Columbus, European countries transferred money from country to country by manual coin exchange, by the subtle and flexible mechanism of the Bill of Exchange, the activities and the accounts-current of merchants, the " Nostro " and " Vostro " accounts of banking houses, and free foreign exchange markets existing in London, Amsterdam, Hamburg, Milan, Geneva, etc. When Napoleon invaded Russia, he was chagrined to find Russian merchants using Bank of England notes as if they were gold.

Into this ancient and widespread system came strange theories and unworkable devices thought out in Cambridge and Harvard, in Schools of Economics and Treasuries where the mention of that powerful and flexible link between countries and currencies—the Free Market—was heresy and taboo. Participation in the methods which had been proved by centuries of experience became an indictable offence.

The ill-working and half-baked schemes of the I.M.F. created, inevitably, dollar-distress and dollar-worship in dozens of countries. Into this artificial confusion came first Marshall Aid, and then, after a series of bickering and blundering conferences at stratospheric level, came the European Payments Union. A brand new, and perfectly impossible unit, of .888671 oz. of fine gold, was devised: a unit which existed neither on earth, nor in the waters under the earth. Whether it had some being on the hills, in the clouds, in inter-lunar or inter-planetary space, we cannot say. But this provided the precarious basis on which pirouetted this truly disastrous scheme. By this device, Central Banks cheated each other at the end of each monthly settlement period, or were cheated. The non-existant, 6-place decimal fantasy was superimposed on a Great Britain where no-one could manufacture even a 22-carat ring or legally and automatically possess a single gold sovereign. The whole framework of the E.P.U. had, ab initio, lost touch with the realities of the Market.

Within sixteen months of the inception of the E.P.U., the import blocks imposed almost over-night by Mr. Butler, in order to "save" the pound, initiated a three-year period of increasing prices and diminishing foreign trade. Germany, buying in every cheap world market, was making the Mark more valuable, even though she had a temporary deficit with the E.P.U. For she had a comfortable concomitant surplus of good solid merchandise and equipment, a real and valuable spring-board of infinite advantage.

Thus, every export from Germany to an over-valued French franc country and an overvalued British Sterling country was given a boost of about 15 per cent. The approximate overvaluation of the franc and sterling, and the payment of 75 per cent deficits in dollars and gold, brought about this anomaly.

Little wonder that Germany made "miraculous" progress and Mr. Butler had to go cap in hand to what had been a broken, beaten and bisected country, hand over £30 million in gold on account and promise the remainder on the "never-never".

Sir Stafford Cripps hailed the scheme as the greatest diplomatic triumph. However, by pledging to pay interest at 2 per cent per annum on deficits, Britain has paid about $100 million under this heading, not one cent of which would have been paid had centuries-old wisdom, and the technique evolved in the City of London, been followed.

Let us briefly sketch the high-lights of this unlamented E.P.U. taken from the Financial Times and other semi-official sources.

August, 1950. The E.P.U. contains certain fundamental defects.

December, 1951. American officials are of the melancholy opinion that the predominant pressures in the months ahead will be toward more, not less, restrictionism.

November, 1951. Mr. Butler's shattering import cuts reduced the trade between France and the Sterling Area by about 25 per cent—a misfortune from which France has never recovered, and for which she will long suffer. And worse still, the slashing enthusiasm of Mr. Butler spread like wildfire to Australia, New Zealand, South Africa and particularly Pakistan, with staggering political repercussions in the last-named country and a general bedevilment of our trade since then, with the first-named countries.

January, 1953. United Kingdom deficit cumulatively £323,334,643—roughly £300 per second day and night since inception.

September, 1954. World Bank Annual Report. Prof. Dr. Ludwig Erhard's statement showed in banner headlines in the Financial & Commercial Chronicle, of New York: WE MUST ABOLISH EXCHANGE CONTROL. English papers did not copy or even mention this.

September, 1955. Mr. Ivar Rooth, Managing Director of the I.M.F., told the Pakistan Council of Economic Research that the Fund was considering the formation of a "Payments Union" for eastern countries. (In our

opinion a huge swarm of locusts would do considerably less damage.)

January, 1955. Great Britain, which in Liberal days lent to the whole world and borrowed from none, headed the deficit countries with 671.3 millions of units of DEFICIT. Germany had 956 millions SURPLUS.

June, 1956. United Kingdom owed 334 million units.

December, 1958. Ring down the Curtain on the E.P.U., fortunately before we had to sell Madame Tussauds or the Monument to pay our debts. The British Lion was then seen with a worried look licking its deficits, its bilateral "never-never" agreements, and determined, for some unearthly reason, to make handsome presents to foreigners holding External Sterling.

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Truly our bureaucrats move in a mysterious way, their wonders to perform, but it would be a far, far better thing if they left more of their responsibility to lie on the broad shoulders of the Free Market where Central Banks and individuals could settle their temporary surpluses and deficits swiftly, silently and efficiently, unbedevilled by that ignis fatuus of .888671 oz of fine gold.

Sic transit gloria sterlingorum ! ! !

Tax Spanners In The Works

Or, How Not To Assess Rates

A FORTUNE awaits the man who can design a factory that will rotate on its axis—if the Minister of Housing and Local Government accepts a majority recommendation in the Report of the five member Committee on the Rating of Plant and Machinery. The Committee (chairman, Sir Edward H. Ritson) was appointed by Mr. Henry Brooke in November 1957. Its task was to revise the thirty year old list of types of plant and machinery which should be liable to local rates.

The Committee held 26 meetings, visited three industrial premises, and drew up a Report which, with appendices, cost £1,605 to prepare. If local revenue were derived exclusively from the rental value of land, as it should be, these gentlemen would have been free to devote their time and energy to more useful activities.

The existing list was brought into being under the Plant and Machinery (Valuation for Rating) Order, 1927. This divides plant into four classes. The Ritson Committee have proposed that in Class 1 (items for the generation, storage, primary transformation or main transmission of power, and heating, lighting, ventilating, etc.) less electrical apparatus should be rated under the heading of "main transmission of power". This is because electrical power circuits have been rated more severely than any other form of power.

The list of items in Class II—passenger lifts and elevators—and Class III—railway and tramway lines and tracks—is left unaltered.

The Committee has revised the list in Class IV—items "in the nature of a building or structure"—which the passage of time has made out of date.

The local authority associations, professional institutions and industrial and trade associations which submitted written evidence argued that the list should be abandoned. They contended that any list would be necessarily incomplete, that it would become outdated by technological advance, and that because identical items of plant and machinery go by different names in different industries, some items escape rateability, thus creating injustice between different industries. Futhermore they claimed that it gave rise to uncertainty and confusion, and that it was a fruitful source of dispute and litigation.

These objections were based on long, practical experience by responsible bodies, and at first some members of the Committee found them formidable. But on examination it concluded that the arguments were not well founded, and that in any event its terms of reference did not empower it to recommend abolition. Members believed that a list has positive advantages in that it leads to a greater measure of certainty and thus affords less cause for dispute and litigation. Also if the list were abolished there would be a "real risk"—words worth noting—of an extension of rate liability to heavy machines, such as printing presses and rolling mills, which at present are exempt. Industrialists are anxious, naturally enough, to prevent an extension, and the whole tone of this section of the Report is in support of that attitude. The Committee recommended that its revised list should be periodically reviewed, and that such review might conveniently be timed to coincide with quinquennial revaluation.

The Committee unanimously rejected a number of proposals put to it. With the one exception that process plant should be exempted, these suggestions all sprang from the contention that only "massive" plant or machinery should be rated. Nevertheless, two members (Mr. Dulake and Mr. Pickworth) found great merit in the proposal to exempt (like tools of trade) all process plant and machinery.

Mr. Lyell alone of the five members accepted the case for exempting "plant which in the normal course of business is regarded as transferable and which is limited in weight, size and volume". The other four members thought there was substance to industry's complaint that there has been a rising tide of rateability during the past few years but that fears that this trend may continue were exaggerated. So as to afford industry "some reassurance" on this point, they offered a formula designed to keep small structures out of liability. In so doing they freely acknowledged that the test of size was a purely arbitrary one which may result in some litigation and uncertainty.

Sir Edward Ritson and Mr. Lyell could not accept a