

## MONETARY POLICY

### Bank denies it bows to "pagan images"

46% of firms expect to sack part of their workforce, and 16% expect to close altogether. This will frighten foreign investors, whose capital is necessary if the Mexican authorities are to be able to maintain a semblance of political stability.

But it will get worse, thanks to the failure of philosophy. The Mexican authorities are told that, to rescue the economy, they will have to sacrifice people's living standards - 20% of whom already live below the poverty line.

The finance ministry has begun to raise taxes and cut spending, in a strategy that will deepen the crisis. The overriding concern of the government is to reassure international financiers by shoring up the exchange rates and stock exchange indices. But the reciprocal of financial success - if it is achieved - will be a deepening of social discontent and political instability.

The ruling Partido Institucional Revolucionario has been in power since 1929, when Emilio Zapata fought for freedom. In recent years, Mexico has weakened the land rights of the peasants in the belief that this was progress to "modernity". If there is to be prosperity and justice in Mexico, the government will have to re-examine the meaning of "Land and Liberty".

#### GEORGE & DEMOCRACY IN THE BRITISH ISLES

Dorothy and Will Lissner  
(Editors)

A collection of reports by economists, historians and specialists in other social sciences, establishing the significance of Henry George's campaign in England, Scotland, Wales and Ireland in the 1880s, in which he advocated democracy based on his ideas and those of Paine, Jefferson, Thoreau and others.

Obtainable from:  
Land and Liberty Press,  
177 Vauxhall Bridge Road,  
London SW1V 1EU. Price £6.75.

THE BANK of England, which is responsible for Britain's monetary policy, is campaigning to defend its performance.

Rupert Pennant-Rea, speaking just before he resigned as Deputy-Governor, defended the bank's concern with policies that stress the need to curb inflation. He said that misconceptions made the bank look irrational - "bowing before pagan images while real life goes on elsewhere".

But, he says, the bank does not place overriding weight on financial markets. And to prove it, he analysed the bank's latest Inflation Report. Out of a total of 241 paragraphs, the tally broke down as follows:

Costs and prices	83
Real economy	114
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He told Manchester bankers on February 23: "In practice, we look at many more than a dozen indicators - and so we should, because we would be foolish to ignore anything that might shed light on the outlook for inflation".

Unfortunately, the bank is not able to track the price of land, because no such indicator exists. That was the reason why economists - including those at the Bank of England and the Treasury - were hopelessly misinformed about trends in the late 1980s.

The land boom began in 1986. It

drove the economy in directions that were not visible to the policy-makers, who thought the economy was buoyant - until it started to crash-dive in 1990. Their analysis was not helped by the inflation indices, of which there are a variety - three of which are illustrated in the graph below.

In the past 15 years, governments have redefined inflation to suit their political aspirations. Until the 1970s, everything was included in the Retail Price Index. Then the Labour government excluded the price of food, the volatility of which made the inflation figures look bad.

Premier Thatcher then devised the Tax and Prices Index: popular with ministers when taxes were going down, but unhelpful when taxes started to rise.

Nigel Lawson then objected to the Retail Price Index because it included mortgage interest rates - which, under his chancellorship, were rising. Thus was born the RPI(X), which excluded mortgages!

Now, the Tory government has shifted to the RPI(Y), which also excludes indirect taxes - which have risen under John Major's premiership.

Experts continue to disagree over whether the cost of housing should be included in indices on inflation.

Pagan or not, the symbols that are used for inflation are good for those who have faith in the skills of the monetary authorities. But they are of little use to social scientists.

