



### **ONE: Financial Reform**

Separate retail from casino banking. Only retail banking qualifies for taxpayer support. Establish a network of Region-based Industrial Investment Agencies; the Project itself, thoroughly researched and with ongoing monitoring, provides the investment security. Project-based Investment can create jobs, expand and improve industry, and finance public infrastructure – without adding to the deficit.

### **TWO: Millionaires and Unemployment**

A Fair Day's Pay. A single standard system of Job Evaluation provides a fair and stable relationship between work and reward. This works through to prices when coupled with profit ceiling. Spinoffs: expansion to full employment without inflation, and your money buys more each year not less. Yes, really. Work Evaluation: the Science of Social Justice.

### **THREE: Better Government – less cost**

Governments have become secretive, arrogant, oversized, inefficient, and costly. “The People” must demand: independently audited, transparently clear accounting published in full detail on the internet; ruthless elimination of any and all projects, departments and expenditures which do not contribute obviously and directly to good governance; then subject what remains to rigorous productivity assessment. Accountability, productivity. Industry does it; why not government?

# ONE: Financial Reform

## Project-Secured Investment for a Productive Economy

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The Formula for National Prosperity is simple:

EVERYBODY WORKING

EVERYBODY WORKING PRODUCTIVELY

Yes it's possible. Here. Right now.

Job-creation requires capital – in sufficient quantity and with guaranteed longterm financial reliability to ensure a business is properly set up, and able to maintain the highest international standards in design, production and marketing. Our current banking system does not provide this.

The fact is simply stated: banks are private institutions whose function is to make money for their directors and shareholders. Serving the needs of the nation's economy is not their prime concern. In fact quite the contrary. Bankers tend to shrink from involvement in an economy suffering downturn or recession. As bank loans are reduced or refused many a business has found bitter truth in the old saying that 'banks lend you an umbrella when it's sunny, and take it away when it rains'.

A network of Region-based Industrial Investment Agencies can spread growth across the nation, creating jobs and providing the wherewithal for existing companies to increase their competitiveness, as well as for infrastructural improvements. Investment targeted regionally can bring industry and growth to traditionally backward areas.

### PROMOTING INDUSTRIAL DEVELOPMENT

#### Project Secured Investment

Traditional banking practice requires pre-existing assets as security, and loans carry no long-term commitment. Industrial Investment Agencies can avoid these two limitations by securing their loans on the industrial or commercial project itself, thoroughly researched and costed, and by making a long-term commitment based on an intimate involvement with the business or project through on-going monitoring. This facilitates the creation of new business and new jobs, as well as providing secure finance with which existing business can maximize quality and productivity. Regional orientation ensures even development across the nation.

Unlike government grants and incentives, development through repayable investment does not swell the deficits of indebted governments.

By setting up multiple Industrial Investment Agencies to operate at regional level, focusing on regional and local needs, the benefits can be spread widely and uniformly, avoiding the usual geographical pockets of non- or under-development. Local infrastructure can also be financed.

Many of today's successful businesses grew over many years and a long hard climb, starting with minimal capital, operating on a shoestring, and reinvesting every penny of profit. Industrial Investment Agencies can provide sufficient capital for a good business venture to start at full operation, properly equipped for maximum productivity.

Indeed, by conditionally requiring the highest standards of product and service quality, Industrial Investment Agencies can increase competitiveness, and the high level of productivity which creates real and lasting prosperity.

The Industrial Investment Agencies (IDAs) would require minimal initial capitalization, since each project, thoroughly vetted from design to production, management and sales, continuously monitored, together with its fixed assets, becomes the loan collateral.

The IDAs rely for their security on thorough research of loan projects in which they are invested, on expert advice and assistance where necessary, and on a close working and constructive follow-up partnership with the loan recipient, backed by an ongoing flow of performance data.

Thus the business itself, its assets and its ongoing performance, becomes the security. Asset and investment are in balance. Security becomes "equity plus" – equity with the additional security of on-going monitoring.

Is this "sound banking practice"? Traditional banking practice relies on secure assets to cover its liabilities, but experience in 2008-9 has shown that the 'liabilities' involved in complex hi-tech trading cannot accurately be estimated; and as for banks' assets, government bonds, once considered as 'gold-plated' are now in many cases being seriously downgraded. These changed circumstances call for a fundamental review of both banks' and governments' "assets". What indeed, is "security"?

The first major banking crisis of our current century was caused by a combination of banks' gambling activities and a burst property balloon. Banks were rescued by governments. Though governments were reluctantly compelled to become the "bankers of last resort", at least governments were, at that time, relatively sound in their own finances.

The second major banking crisis, following hard on its predecessor and centered on Europe, was caused by the steady downgrading of government debt with an increasing risk of default. European governments talked airily of pumping capital into banks... "to insulate them from default on their government bonds". No one apparently noticed the glaring contradiction of governments insulating banks from the risk of government default.

Government bonds were once considered the gold-plated assets of banks' reserves. But with government debts now ranging from unmanageable, through downgrading to ultimate default... Industrial Investment Agencies, with their loans firmly secured on the assets and ongoing monitoring of thoroughly researched industrial and infrastructural projects, stand out as being a very much sounder prospect. Industrial Development Investment is in fact an old-established, well tried, tested and proven concept whose time for revival on a major scale is now more than overdue.

## Investment in Infrastructure

Industrial Investment Agencies can also finance infrastructure improvements, creating jobs without adding to the overall deficit, as several examples and studies have indicated.

Industrial Investment Agencies would operate in exactly the same way as the already-established Tax Increment Financing (TIF), an effective investment tool for a city to create jobs and promote economic development. Finance is provided in the form of an investment loan to be repaid through an uplift in taxes resulting from infrastructure improvements. The City of Chicago estimates that TIF funds have created and generated more than \$12 billion increase in property values throughout the City since its inception in 1984. Chicago now has 158 such zones, covering 29% of its land and 13% of its property by value.

The Core Cities Group is a network of eight of England's major regional cities. They form the economic and urban cores of wider surrounding territories, the city regions. In 2008 the Core Cities Group published a report with international accountants PricewaterhouseCoopers, *Unlocking City Growth*. In it they look at a similar model also based on tax increment financing – investing to provide major infrastructure, repayable from an uplift in business taxes. Applying the model to four live case studies, the report demonstrates that increases of between 50% and 80% can be achieved in housing, jobs and economic output.

Industrial Investment Agencies may be seen as a follow-on from Britain's Regional Development Agencies (RDAs). They too based their financial assistance on their own thorough research and analysis of project details, costs and anticipated returns. The Industrial Investment Agencies however, would be providing repayable investment, rather than handing out deficit-swelling grants.

Individual homes can also benefit from investment loans, for example to install double-glazing or roof insulation, work which itself provides further employment. Such loans would qualify as investments, being repayable from savings derived by the borrower through lower energy bills.

Industrial Investment Agencies, through Regional Housing Corporations, can also provide lowcost financing for new housing, for rental or lease "at-cost". The Housing Corporations would acquire "grey" ex-industrial, or unused agricultural land at its current price, rather than the inflated "with planning permission" price for the construction of quality, environmentally attractive cluster housing, yet built using techniques of fast-track mass-production.

Availability of at-cost housing would make it possible once again for young families to afford that most basic of all needs: a decent home in pleasant surroundings.

A major element in the economic and financial disaster of 2008-9 was the phenomenal rise and catastrophic fall in house prices which also made a major contribution to the Great Banking Crisis. A pool of lowcost rental housing would provide an "anchor" to slow down the next housing bubble.

Industrial Investment Agencies can begin immediately to create securely financed jobs and industries with genuine, repayable investment loans, avoiding the need for deficit-increasing grants.

## Some Historical and Current Examples

The concept of providing, through whatever financial vehicle, secure finance for commerce, industry and infrastructure is by no means new.

Napoleon III became President and self-styled Emperor of France in December 1852. Industrialization and scientific discovery were already gaining pace in Europe with every indication of continuing potential for growth. This in turn required that banking should promote industry and infrastructure, in contrast to the existing banking system in France which was almost exclusively, and very conservatively managed under Baron James de Rothschild.

Under the direction of the Pereire brothers and the patronage of Napoleon, the newly established *Crédit Foncier* and *Crédit Mobilier* financed and promoted investment in the expansion of the textile, chemical, steel and metallurgical industries, and the modernization of agriculture. The rail network was increased from 3,000km in 1852 to 18,000km in 1870, and the complete renovation of Paris between 1853 and 1870 was undertaken by the Seine prefect, Baron Georges-Eugène Haussmann. The addition of further large banks focusing specifically on industry ensured strong economic growth and industrial development.

In 1818 the Swedish government surprised Europe by offering 160,000 Taler to Westphalia as reparation for damages incurred during the Napoleonic Wars. This money was decreed the property of all Westphalia by its President, and the Westphalian *Hilfskasse*, or “Assistance Bank” was established to develop the region’s economy and pay for public-works projects.

Impressed by its success, the king of Prussia ordered that a similar bank be created in the Rhineland in 1847. Both banks later became *Landesbanken* (Regional Banks), and were instrumental in making the Rhine-Westphalia region one of the most productive industrial areas in Europe.

In the post-WW2 years, the *Landesbanken* again played a major role in the creation of Germany’s “Economic Miracle”, in particular through the provision of secure on-going finance to the German “*Mittelstand*” (small and medium-sized companies) in their respective regions. With 3 million mid-sized businesses the *Mittelstand* industries now employ more than 70% of German workers and contribute roughly half the country’s GDP.

Founded in Basque Spain in 1956, the Mondragon Cooperative group clearly illustrates an ongoing relationship between investment finance and recipient business. The Workers’ Bank provides development investment, offers technical and financial advice for business startup, then monitors production, quality, and financial performance in a process of ongoing cooperation and partnership.

This also assumes longterm commitment, ensuring finance for secure long-range planning and productivity investment, together with research and development into new-generation products and services in conjunction with apprenticeships and higher education which are also sponsored by the Cooperative.

The group now employs 85,000 workers with a turnover of 15 Billion Euros.

In the USA, the Bank of North Dakota (BND) is a state-owned bank dedicated to promoting commerce, industry and agriculture. BND offers numerous low-interest loan programs in collaboration with a lead lender to meet the financing needs of any qualifying new or expanding business. The Bank provides financing to stimulate economic development in the State for both business and agriculture.

Now India's second largest bank, ICICI Bank Limited was incorporated in 1955 as the Industrial Credit and Investment Corporation of India Limited at the initiative of the World Bank, the Government of India and representatives of Indian industry, with the object of creating an industrial development institution to provide medium-term and long-term project financing for Indian businesses.

The concept of loans based on, and secured by a project itself, backed by continuous monitoring is basic, and simple. It can create jobs, economic expansion and productivity anywhere without increasing government debt.

Industrial Investment Agencies can spread growth across the regions, creating jobs and providing the wherewithal for existing companies to increase their competitiveness. And the benefits will stretch into the future as a thriving, broadly based economy sends a positive signal to young people providing the prospect of a challenging, well-paid job as the sure reward of education.

The Formula for National Prosperity is very simple:

**EVERYBODY WORKING**

**EVERYBODY WORKING PRODUCTIVELY.**

Dedicated, Project-secured Development Investment can make it happen.

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## TWO: Millionaires and Unemployment

Gross and growing inequality of income has surfaced as yet another after-shock from the recent financial upheavals. Bankers and financiers gained notoriety as they drew huge bonuses for their near-destruction of our entire economic structure – after the taxpayers had bailed them out.

But the bankers aren't the only ones. In 2010, according to U.S. Census Data, the top fifth of Americans, who earn more than \$100,000 a year, received 49 percent of all income in the U.S., while the bottom 20 percent received just 3 percent. The U.S. also has the greatest disparity between rich and poor among Western industrialized nations, though a 2011 OECD report notes that, over the two decades prior to the onset of the global financial crisis, the gap between rich and poor widened in most nations.

Is inequality a problem? No, not if it is the result of hard work, of training and education, acceptance of responsibility and simple success at what you do. But inequality of remuneration and consequent living standards IS a problem when it is widely perceived that there is no just and fair relationship between work and reward.

“A fair day's pay for a fair day's work” – a fine-sounding slogan but hardly a reality today. The vast majority of working people slog away in factories and offices for the best part of their lives with nothing but a meager pension at the end of it – and even that may be in doubt. At the other end of the scale, the “fat cats” walk away with millions for having done little but presiding over a company's – or even the entire banking system's – demise. While this is causing growing, and justifiable resentment, the problem is very much deeper and more fundamental.

The absence of any defined relationship between work and reward may be widely perceived as a failure of social justice, but it has effects far beyond those immediately apparent. One such effect is that we will never, ever achieve full employment – real full employment in the sense that anyone and everyone who wants one can get a productive, rewarding and challenging job.

### Money and Unemployment

Despite the negative human and economic effects of unemployment, and the desirability of full productive use of all economic resources, the ability to expand an economy to full capacity cannot presently be realized, for as the economy expands to near-full employment, the danger of inflation causes the Central Bank to put the brakes on.

The fundamental problem is that our money has no defined value. Sound impossible? Well, what IS a Pound Sterling worth? Or a Euro, a Dollar? How do you define its value?

The answer is that money has real meaning in terms of what you earn (wages), and what you can buy with what you earn (prices). But both wages and prices are open to continuing dispute, and lack any form of definition or stability. None of the world's currencies has any stable, clearly defined value, and all are subject to a continuing upward movement known as inflation.

Inflation is not the complex esoteric phenomenon economists would have us believe. It is simply a matter of human greed – our natural desire to get more reward for the same work.

Inflation is an increase in price without a corresponding increase in value. If the price goes up for a better product that costs more to make, that is not inflation. But if a producer asks more tomorrow for the same product he sold for less yesterday, that is inflation.

Similarly with wages. More money for more or harder work is not inflation. Inflation is more money for doing exactly the same work.

In today's economies, the level of economic activity directly affects inflation.

When the economy is sluggish, producers and retailers find difficulty in moving their goods; they respond by introducing price reductions, incentives and special offers. But as the economy expands and consumer demand expands, prices can be increased without losing sales.

Similarly with wages. Employees are naturally reluctant to demand more money, or threaten strike action, in a time of high unemployment with a lineup of job applicants outside the door. But when the economy approaches near-full employment and staff are hard to find, now's the time to demand that raise you've been wanting!

Wages, prices and inflation increase as the economy expands and unemployment is reduced. This is the dominant feature of a free market economy, and balancing the two highly desirable but conflicting goals of full employment and zero inflation or stable money is the key to national economic management today.

The economy is slack and inflation is low. So the Government and/or the Central Bank expands the economy by lowering interest rates. But when near-capacity is reached in the more prosperous regions, inflation begins to rise, and the Central Bank attempts to control inflation by slowing down the economy with increased interest rates, thereby maintaining a level of permanent unemployment.

Recession or inflation? Our economic managers have two choices. Expand the economy to full employment and we get inflation. Or reduce inflation, by slowing down economic activity, creating unemployment and recession. The art of economic management as currently practiced lies in attempting to compromise between the two.

Apart from fiscal dishonesty and irresponsibility (printing money to gold-plate the presidential palace, or "quantitative easing" in the current economically correct jargon), inflation is not a monetary, but a social factor. It's simple human nature. In hard times people behave themselves. But when things get easier, producers put prices up for the same product or service, and employees demand more money for the same amount of work.

The underlying economic factor which makes this situation possible is that pay and prices are settled by a form of disputation. The price is as much as the producer can get, or as little as the consumer is willing to pay. Similarly, the wage is as much as the employee can get, or as little as the employer can get away with.

This process is commonly known as free collective bargaining. But it is inherently unstable and subject to continuous upward pressure fuelled by the simple human desire for more.

While the desire for more wealth and prosperity both personally and nationally is a very reasonable one, an economy and its participants should seek to increase their personal and collective prosperity by becoming more productive, by producing more and better goods with less labour, not by demanding more money for the same work or the same product.

The process of establishing pay, profits and prices by disputation results in friction, industrial disputes, loss of productivity, inflation, and permanent under-employment. It represents a facet of anarchy, in that it is a process of settling differences by unregulated dispute rather than by a system of debated and agreed guidelines and regulation. Its damaging effects on the economy and prosperity are substantial and far-reaching.

In addition to the negative economic effects, there is a growing social dissatisfaction with the increasingly visible discrepancy between work and reward.

**Full Employment. Zero Inflation.  
And a Fair Day's Pay. Is it so impossible?**

Free Collective Bargaining on the wage, or pay side combined with totally unregulated market pricing is the key factor which prevents expansion to full employment. What, if any, are the alternative options?

A potential solution to this problem already exists, and needs only to be applied on a standardized national scale in order to bring stability – and social justice, that essential precondition of stability – to the economy.

For many years, a number of government agencies and corporations large and small, have been using a system of job evaluation to evaluate the work contributed by each employee. Each job is analyzed, and its essential characteristics and demands, such as training, responsibility, working conditions and physical/mental effort involved, are measured on a series of common scales. The job “value” is then directly related to remuneration. In this way, pay is fair, both in relation to the work done, and in relation to the pay and the work of others.

Currently there are several such systems in use, well tried and working successfully. All we need do is analyze and compare their different features to establish a single standard. This would become in effect a national standard of value for measuring the work element contained in a product or service, so that pay becomes a true reflection of the work required of a job. Society already measures apples and milk; it could hardly get along otherwise. Yet of all the commodities traded every day, work is the most important, and work is the one commodity we don't measure.

A national standard would provide a point of reference, of justice indeed. Everyone would know how much they should get for the work they do, without hassle or argument or strike.

Labour evaluation can ensure remuneration stabilization. This process can be carried through to price stabilization.

A factory's, or a business's total costs consist of three elements. First, the cost of bought-in raw materials and components; second, the direct labour added in the factory; and third, the costs of capital write-off, overheads and finance.

These are the costs of making a product, of supplying a service. From these costs a Unit Production Cost can be calculated for each product or service supplied. If this Unit Production Cost then becomes the Selling Price, there would be a direct and fair relationship between cost and price, and therefore between pay and purchasing power.

But the Unit Production Cost is not normally equated with the Selling Price. The difference between the two is commonly referred to as the net profit. How is the net profit currently disposed of?

The prior destination for profits has traditionally been the investors, or shareholders. But today this is changing, reflecting in turn a new perception of the need to create a greater sense of teamwork.

Investment is vital, as also is the equipment it provides; but the machine is no longer the exclusive source of productivity and indeed its operation can be rendered useless without the intelligent participation of the workforce. The reality today, becoming ever more widely recognized, is that the people who work in an enterprise are equally vital: their inventiveness, their enterprise and initiative, their attention to the job in hand, their commitment to quality, their extra thought and effort... these are the factors which if encouraged and harnessed can turn investment into productivity and prosperity, and which can turn a company's fortunes. Thus an annual workforce bonus reflecting performance of the company may also be included.

Apart from investor dividends and employee bonuses, the other major destination for the disposal of company profit is re-investment, either in research and equipment or increased working capital. The advantage is that in-house or self-generated investment comes without future servicing cost or commitment to repay.

There is one more claimant to a share in the profits, and that is the customer. Profits have to come from somewhere – or someone. In fact it is the customer who pays the price and generates the profit; with this view a further claim on profits would come from the consumer, demanding lower prices.

The stabilization of prices would require the establishment of public policy for profit distribution. This could take the practical form, first, of an overall profit ceiling.

Of the profit made, broad percentage bands could be established and gradually stabilized, distributing profit according to a pre-set formula as between co-workers at all levels, investors, and the internal needs of capital for reserves and re-investment.

As they do today, government revenue departments would continue to require that companies prepare in timely fashion properly audited annual accounts. Company profits would be examined in order to ensure that they are apportioned according to a consensus formula which respects the claims and contributions of consumers, investors, co-workers, and the future security of the business itself.

It should be noted that price stabilization effected in this way, through annual account regulation, would permit the same degree of latitude in pricing “deals” and special offers. But the profit ceiling would ensure an ultimate price stability.

Pay and price evaluation and stabilization would provide guidelines ensuring fair exchange between employer and employee, as well as between producer and consumer, without the need to argue or strike. Pay and Price Evaluation is the Science of Social Justice.

Guidelines for pay evaluation coupled with profit limitations would replace dispute with rules, and would move to stabilize pay and prices even in times of economic expansion. In such circumstances it would be possible to expand the economy steadily to full employment and hold it there indefinitely without fear of inflation. The results would be seen in full employment, monetary stability, and a high level of productive efficiency and thus prosperity.

## Back to gold?

Many economists and observers have long been aware that money has no defined value. A response has been the suggestion of returning to commodity-based money, like gold or silver. But the limitations of such rigid restrictions have already been experienced. Credit needs to be available, and to expand, in direct relation to the economic activity it has to support, lubricate and finance. It requires a flexibility which commodities cannot supply.

In any case, precious metals themselves fluctuate in value, if for example a major new source of gold is discovered, its “value” relative to other commodities will necessarily fall. And in times of uncertainty and financial instability, gold simply becomes an investment vehicle, a hoped-for hedge against inflation and currency weaknesses.

But in the search for monetary stability and “something solid” on which to base it, we have constantly overlooked the most basic commodity of all: human labour. Everything comes back to labour. It’s the only thing we’re trading. Indeed, the price of gold itself is ultimately defined in terms of labour: the amount of labour involved in exploration, location, mining and processing.

Labour is the one single commodity on which all else is based, in terms of which all else is measured and defined. It is the ultimate commodity on which to base our monetary unit.

## Deflation

Inflation as a permanent feature of every world currency is a denial of one of the basic purposes of money known to every first-year economics student from the first day: money should act as a store of value. Yet a currency which loses – at the very best – 3% of its value every year is about as effective a store of value, as a bucket with a hole in it.

The longterm effect of productivity maximization combined with a labour-based monetary system is negative inflation. This becomes a completely normal, natural process. As productivity increases, the labour-content decreases, and it becomes possible for goods and services to be produced and offered at lower prices, thus progressively lowering the cost of living.

This has already happened in the field of computers and other electronics. Buy a computer today, and it is almost guaranteed that in three months' time the price will be lower for a faster machine with more storage space on its hard drive.

This in turn means that as we get older we can look forward to increased purchasing power for our savings. A wild dream? No. This is as it should be, the normal course of events. We should be increasing productivity, producing more and better at less cost. And with a stable monetary unit, increased productivity involving less labour is reflected in lower prices. Currently we are forced to rely on pension schemes defined in terms of inflating currency, and government schemes which are already heading for deep deficit. So we console ourselves with inflated home prices, ignoring the warnings that bust can follow boom.

Money which increases in value over the years... an ideal which most "ordinary folks" with ordinary common sense would heartily applaud. And yet our economists regard deflation with absolute horror. Do they know something the rest of us don't?

There are two issues involved.

The first is that economists are contradicting themselves. Check the first chapter, indeed in the first few lines of any first year economics textbook, and there it is: "money is useful as a medium of exchange, and a store of value." And yet no one, economist, financial advisor, banker... indeed no one at all would ever suggest putting currency coins and notes under the mattress and hoping that by the time you retire they'll be worth anything. We can all remember "how things used to be", and the older you get, the more you see the rapidity with which money – the economists' store of value remember – is losing its value.

Indeed the word "inflation" is hardly an appropriate term. "Depreciation" would be a lot more accurate. Instead of talking of "3% inflation this year", it would be more realistic to speak of "a 3% depreciation in the purchasing power of our currency". Inflation is a word with a good connotation; it means "bigger", and that in turn has to be good. But "Depreciation" reflects reality: our currency is slowly deteriorating in real value – and by the time you need to spend your pension savings, your money will only be worth half what it is now. Likewise, instead of "deflation" we should talk of currency "appreciation". Much more encouraging!

So once again, why do economists dread deflation?

The answer is simple: inflation reduces the value of debts. If you owe £1,000 and pay it back in three years, its value will have fallen. It will be easier for you as the debtor to pay it back because your wages/salary will (hopefully) have increased.

This is particularly significant – and useful – for debt-ridden governments, which issue five-year bonds, happy in the knowledge that with a currency deteriorating in value by 3%-5% the real debt will be that much lower in five years when repayment time comes up.

Inflation – a depreciating currency which steadily loses value – is an incentive to borrow and spend now, pay back later. Conversely, an appreciating currency which steadily gains in value and purchasing power, encourages saving, which in turn has a number of spin-off consequences. A nation which saves has more money available for investment. And when people can be confident that their money is naturally increasing in value, they will be less inclined to seek refuge in dubious investment schemes.

## The Social Costs of Inequality

The absence of any defined relationship between work and reward results in a clear perception of social injustice. The current “remedy” consisting of a plethora of social services, only creates further distortions – and is extremely costly, as what might be termed the “guilty conscience effect” takes from the rich and hands out charity to the poor.

So we see in developed countries the explosive growth of welfare support and subsidies of all kinds from education and healthcare to state pensions. This has led to another unforeseen consequence: governance has become less concerned with law-making, and increasingly occupied with income-redistribution.

The process of taking from the rich and giving to the poor is highly complex and costly both in terms of administration and of fraud. Thus the total budgetary apportionment set aside for welfare does not equate with the total paid out in welfare: the administration costs of income redistribution have been variously estimated at anything up to 30% resulting in an over-staffed bureaucracy and an ever-increasing burden of taxation.

Another substantial result has been the introduction and growth of a new phenomenon: “social exclusion” in which a substantial proportion of the population is permanently reduced to the role of welfare recipients, lacking the education and skills necessary to contribute usefully to the nation’s, and their own personal economy. Different components of social exclusion influence each other, thus creating a spiral of insecurity, which ends in multiple deprivation.

Deprivation usually begins with unemployment, due either to economic conditions or lack of educational qualifications and skills. This in turn leads to a significant degradation in living standards and increased risk of poverty. Living in poverty creates additional difficulties in the search for employment and contributes to a long-term unemployment trap for many individuals. At the same time, unemployment and poverty inhibit participation in social activities.

The resultant income disparity and the growing wealth gap also has a serious and substantial effect on the overall health of society, from violence and illiteracy to mental illness and life expectancy. In areas of extreme deprivation, low or zero employment opportunities, substandard housing, and an uneducated youth population without prospects, violence can easily erupt.

The main impact of social exclusion however is the parallel exclusion of a potentially productive workforce from the nation’s economy, thereby causing a significant reduction in potential national productivity and prosperity.

In Victorian times the wealthy assuaged their guilt by providing libraries and public baths for the poor. We are still living in the Victorian era today: the rich are taxed to provide welfare for the poor.

Social Security in its widest possible sense is the goal of every well-governed society, and the only true “Social Security” is full employment, that utopian condition in which there is a rewarding job for everyone who wants one, with the guarantee of a fair day’s pay for a fair day’s work.

## Recession... and Recovery?

Quoted in an October 2011 interview on American Public Television, Howard University professor Roderick Harrison believes that a major underlying cause of growing income inequality is that the gains in productivity have been divided more towards corporate earnings and profits and less towards the workers and employees. “You have a gain in productivity. You’re producing more per worker. If that goes primarily to profits, which it has in recent decades, wages are not increasing due to that gain in productivity. The workers, the employees are not benefiting from it.

“This has a knock-on effect in that the suppressed incomes of lower- and middle-income people drives them to maintain their living standards by credit and borrowing. When debts become too risky in a climate of recession, people naturally try to wind-down their debts, so reducing consumer spending. And that’s part of the difficulty with climbing out of the recession.”

Professor Harrison continues: “I think the distribution of increases in productivity is the key. We have had great, substantial gains in productivity. If we maintain those gains, but distribute the benefits more widely across the work force, you would start to see a leveling out of incomes, a return to previous levels of less inequality. That would broaden the consumer base and give some strength to recovery.”

This view is supported by a 2011 Report from the International Monetary Fund, which studied a sample of countries around the world between 1950 and 2006. The study found that in countries with greater income inequality, such as Jordan and Cameroon, the economy more frequently plunged into deeper recessions, while economic growth lasted much longer in more equal societies. Indeed, greater levels of income equality corresponded more strongly to sustained economic growth than other economic factors, including lower debt levels, according to the report. “Sustainable economic reform,” the authors write, “is possible only when its benefits are widely shared.”

## Recession: the Bitter Medicine that doesn’t work.

In today’s economies, the level of economic activity directly affects inflation, which in turn triggers the classic management tool: increased interest rates. When the economy is booming and inflation is increasing, the standard economic wisdom dictates that the economy should be “cooled down” by increasing interest rates. This increases credit costs for consumers which reduces buying, thus prompting producers to reduce their prices and bring out the special offers. Wages down, prices down.

This is an economist’s solution, a solution provided by economists who have their degrees and university lectures to keep them busy. But real-world manufacturers see it differently. Most manufacturers rely on loans to some extent or another, to pay back capital investment or to cover daily credit fluctuations, so an increase in interest rates immediately increases their costs. And that’s not all.

Every factory has fixed costs: capital equipment write-off, rent of premises, local taxes, wages and social costs of essential workers. These costs must be paid every day, no matter if the factory is producing at full capacity, half capacity, or at a standstill. Fixed costs must still be paid out.

If the total monthly fixed costs is £50,000 and the factory is turning out 50,000 units a month, then the fixed-cost element per unit is £1. But if the factory is only turning out 25,000 units, then the fixed-cost element per unit is £2.

The simple fact is that unit production cost is minimized when output is at maximum. At anything less than maximum, unit production cost progressively rises as output falls.

Current economic orthodoxy states that increasing interest rates reduces inflation by reducing consumer spending and lowering prices. But in fact the combination of increased interest rates and lower output actually *increases* production costs.

Certainly recession demands that producers reduce their prices simply in order to try and maintain a minimum sales level. But the combination of rising production costs and lower prices places enormous pressure on manufacturers which simply cannot be held indefinitely. So yes, recession can act to force a general reduction in prices, but only for a limited time and at a cost of collateral damage to industry. If the recession is prolonged, producers will be compelled to increase their prices or go out of business. So we find the “baffling” (to economists) situation where interest rates are at rock bottom, yet inflation begins to rise. And as soon as the first signs of recovery appear on the horizon manufacturers can’t wait to increase their prices yet further simply in order to bolster up their battered finances.

The plain fact is that the so-called “economic cycle” of boom-recession-boom (with the occasional “bust”) is damaging to industry, largely ineffective, and it’s no way to run an economy. In addition, the constant aura of pervading uncertainty discourages longterm industrial investment by manufacturers who long ago learned never to trust a boom because it probably won’t last.

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The introduction of PPP, Pay, Profit and Price Evaluation is clearly not something that can be imposed overnight. Rather, it would be established as a medium-term strategy, one which can be introduced gradually through almost imperceptible steps.

The first step would be the establishment of a National Standard for Work- and Job-Evaluation, being a reflection of the best features of systems already in use. Politically non-controversial, and non-binding. Yet if it were clear and simple to comprehend, it would no doubt soon form the basis of wage negotiations.

Second, a debate on the proceeds of profits is long overdue, and social pressure is increasingly demanding that some meaningful relativity between the various contestants be established.

Third, the advantages in terms of social and monetary stability should be continually stressed. There is now a widespread feeling that the absence of real relationship between work and reward can no longer be tolerated. It is a call which should be seriously addressed.

And critics should ask themselves whether the alternative – of boom and bust, on-going uncertainty for business and industry, and money which fails to serve as a store of value – is really any better.

## THREE: Better Government – less cost

### Debt and Decline

Governments are among the most wasteful, the least productive of any organization yet devised by man. Although this is now becoming apparent to an increasingly disillusioned public, the criticism is not as harsh as it may sound, and is certainly not intended as a reflection on individual elected members or government servants. It is simply an observation of human nature. If we're not under pressure, it's easy to let things slip.

Throughout private sector business and industry, managements are under constant pressure to remain competitive. They cannot afford to let quality slip, to miss an opportunity to improve productivity, or to fill a new market need. No one accepts pressure through choice. The need arises only because competition can overtake a business, even cause its demise.

Monopolies do not suffer such pressures, so it is easy for service standards to stagnate or fall back. Yet there is an escape route for dissatisfied customers: you can always opt out. If your electricity supplier really annoys you, close the account and light your home with oil lamps. Inconvenient perhaps, but the option remains, for though a monopoly supplier, your power company cannot require you to use its services. It is not an *enforced* monopoly.

It is in this respect that Government stands alone. Government is not only a monopoly, it is unique in being an enforced monopoly, there is no option to reject it, and refusal to pay its taxes will land you in prison.

The simple result is that taxes and debts slide slowly upwards, services remain stagnant or decline, and government departments proliferate. Periodically government finances reach a level of indebtedness which requires urgent and drastic action if disaster is to be averted. When this happens, governments give us two choices: higher taxes, or lower standards of service. Or most probably, both.

So “programmed” are the good citizens, so constantly fed with these two options as being the only options, we never think of expecting government to meet, and to subject itself to, the same standards existing throughout the “real” world of commerce.

Unknown in government circles is the “P” word – Productivity – the concept of striving continuously to give a better service at less cost, a concept taken for granted throughout the business world. So the burden of government, its size and its cost, steadily increases.

## Confronting the “P” word

Quality, Productivity, and Service –  
three words not normally associated with Government today.

If these ideals are to be applied effectively, the function of Government must first be precisely defined; we cannot measure the productivity of a service without first defining its purpose.

The need for, and the purpose of government can be defined by the adverse effects of its absence. Society needs government, law and order to provide protection from robbery, violence and the excesses of individual power, from dishonesty and deception in commerce and industry, to resolve conflicting demands on the natural resources and to prevent pollution and destruction of the shared environment.

The provision of Law is the essential “core function” of Government: the formulation of Law and its Enforcement, or more specifically, those Legislative, Protective and Constitutional Services essential to and directly related to the protection of Liberty.

However governments now undertake additional services, and the current activities of Government fall into three broad categories: Laws, Infrastructure, and Welfare.

If Government is to exercise its regulatory function without bias it cannot own or operate any non-political services or industries, including Infrastructure and Essential Services which must be operated autonomously, outside Government, but with Government’s strict supervision.

With the purpose and function of Government clearly defined, it becomes much easier to apply strict financial and administrative disciplines to ensure that Government fulfils its own core functions as efficiently and as cost-effectively as possible with continuously rising productivity, public disclosure and accountability. Clear job descriptions and benchmarks for each department allow for accurate assessment of performance.

Many existing government departments and programs would inevitably be abandoned as being non-essential, while each of those remaining would be required to state clearly what it is doing, what it is costing, and the extent to which it is fulfilling its stated objectives productively.

Government is a service to its consumers and as such should be subject to the strictest possible commercial disciplines; its performance should be at least as good as and preferably better than the Private Sector. Any Commercial Legislation relating to accounting, standards, productivity or quality of Private Sector business and commerce should immediately and automatically apply to any and all functions of Government.

Such and similar measures would no doubt reduce taxes and increase service quality quite rapidly. But how will they come about? Discipline and regulation are required in large measure, but no institution, least of all Government, can be trusted to discipline itself.

## Governing Government

Over the past twenty years just about every part of the world economy has been transformed by technology and new ideas, yet no sector anywhere has changed less than government.

Government accounts, for a start, are totally meaningless to anyone conversant with company accounting procedures. What pass for accounts are vague estimates, fudged by transfers between departments, and budgets set as targets which are never adhered to.

The remedies are fourfold.

One: commission a major firm of internationally recognized accountants to put government's accounts on a standard business footing. Then put every detail online, down to the last penny (if you dare). Transparency is the first line of defence against waste.

Two: separate-off infrastructure administration and the major welfare services of education, healthcare and pensions so that each can then be reviewed individually.

Three: ruthlessly eliminate the grants, projects, pseudo-government appendages... anything not directly essential to the good governance of the nation. Be ready to question the current usefulness of departments set up long ago and hanging on out of tradition and nostalgia – or simply lack of serious questioning.

Four: subject what remains to an outside professional time-and-motion study. Identify the objectives of each department, institute a measure of its success or failure, then ensure that it meets and exceeds its targets with the maximum efficiency and the minimum of expenditure through continuous monitoring.

## Outside Backup

The people's assurance of Good Government can best be secured by independent outside agencies, a prime example being total freedom of the press and all forms of communication media with every encouragement for them to research and publicize all acts of government.

Good Government can also be reinforced by the use of independent outside (private sector) agencies for use in checking government accounts, assessing government departmental productivity and the remunerations of government staff, as well as full transparency, honesty and possible corruption. A clear current example can be seen in the independent Bond Rating Agencies which rate the credit-worthiness of governments, thus directly influencing the interest rates governments are obliged to pay on new debt issues and indirectly forcing remedial measures. Transparency International (TI) also independently assesses corruption in government, as well as in construction and other government contracting.

Sensing an injury to their pride and limitation on their freedom of action, governments may well claim that being subject to such outside agencies creates a conflict with democratic principles.

To the contrary. Requiring that government must account for every penny taken and spent, by ensuring that government and its dependent infrastructural and social services deliver the best possible product at the lowest possible cost, and by ensuring that government does not pay itself more than its private-sector equivalents, is entirely compatible with the interests of “the people” who must pay the cost and who if specifically consulted would no doubt enthusiastically approve. And the more agencies of whatever kind or source checking up on every aspect of governance, the better government will be.

While the Magna Carta is revered and respected as being the ‘grand-daddy’ of constitutions, and while it is studied, analyzed, and to a large degree copied, a fact rarely considered is that the *Magna Carta* was ‘consumer-driven’.

The King did not write a constitution in which a few crumbs of monarchical self-discipline graciously thrown to the public were greatly outweighed by his own rights and privileges. It was the barons, nobles and clergy who, as objects of the king’s whims and the taxpayers who funded them, drew up the Great Charter and compelled the King by force of arms to agree to it.

The motivation to improve government efficiency and standards of business conduct is unlikely to come from inside government itself, and even if it does, the disciplines thus created are likely to be more cosmetic than real. Governments frequently pay lip-service to improving productivity and financial discipline, but seldom make any real changes. Self discipline is a noble ideal, but it rarely if ever comes about.

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### **ONE: Financial Reform**

Separate retail from casino banking. Only retail banking qualifies for taxpayer support. Establish a network of Region-based Industrial Investment Agencies; the Project itself, thoroughly researched and with ongoing monitoring, provides the investment security. Project-based Investment can create jobs, expand and improve industry, and finance public infrastructure – without adding to the deficit.

### **TWO: Millionaires and Unemployment**

A Fair Day’s Pay. A single standard system of Job Evaluation provides a fair and stable relationship between work and reward. This works through to prices when coupled with profit ceiling. Spinoffs: expansion to full employment without inflation, and your money buys more each year not less. Yes, really. Work Evaluation: the Science of Social Justice.

### **THREE: Better Government – less cost**

Governments have become secretive, arrogant, oversized, inefficient, and costly. “The People” must demand: independently audited, transparently clear accounting published in full detail on the internet; ruthless elimination of any and all projects, departments and expenditures which do not contribute obviously and directly to good governance; then subject what remains to rigorous productivity assessment. Accountability, productivity. Industry does it; why not government?