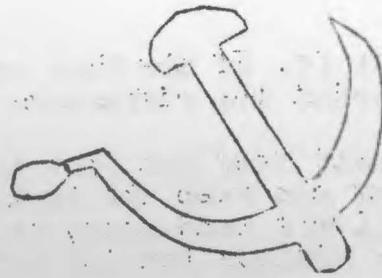


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MONETARISM, HOW SAFE ARE YOUR SAVINGS?

Sir Harold Wilson's committee of inquiry into financial institutions has just proposed that the building societies should compete amongst themselves to obtain funds to lend to house-buyers. Money is in short supply so this would tend to force up interest rates.

At present, the building societies all act together. This imposes a moral obligation on the societies to bail out any society which cannot pay out to its investors as required. If the societies really competed with each other, those who were more cautious could hardly be expected to bail out the more reckless. This seems, therefore, a good time to study just how safe is an investment in a building society.

First, though, it is necessary to explain monetarism.

Business firms and individuals borrow money from the banks. The banks try and borrow money from other business firms and individuals at a lower rate of interest.

What the banks cannot borrow in this way they have to borrow from the Bank of England, the Government's official banker.

The Bank of England can borrow the money it requires in two ways.

1.) It can ask people to lend it money by putting cash into National Savings, Government Stock, Premium Bonds, etc. or 2.) It can print pound notes. Adding to the number of pound notes in circulation without adding to the amount of goods available to be purchased reduces the value of those pound notes. Printing money amounts to borrowing a bit of everybody's wages and savings without asking them first.

Monetarism amounts to no more and no less than cutting back on the printing of pound notes. The idea being that, if the Bank of England does not print any more pound notes, those notes already in circulation will retain their value.

But the Bank of England has a duty to supply the banks with money

if they want it. If the Bank of England has not the cash available it has to print the difference in pound notes.

The Government does not want to print the difference. So the only way the Bank can keep the banks from borrowing from it is to say that it will not lend money to them at less than 17% per annum. This is known as Minimum Lending Rate.

Rather than pay this the banks try and borrow money from the public at 15%. In order to compete with the banks the building societies also offer 15% to investors (10½% after tax at 30%). Hence the high interest rates.

Of course, if people could be sure that the pound would really buy as many goods in a year's time as it does today, they would be willing to take much less interest on their money.

The main thing is that very little extra cash is now being printed, except to replace worn-out notes. The same old money is being competed for by all would-be borrowers.

A firm has to pay wages and salaries before it can produce and sell goods. In many cases the money for the wages and salaries has to be borrowed from the banks. The banks will be paid back when the goods are sold. Suppose the firm's workers get a 20% rise in pay. The firm will have to borrow 20% more. But, overall, the banks have no more cash for lending. They will thus have only two choices. Either to have a close look at the firm and say that they don't think it is a good prospect for an increased overdraft; or else to tell the firm that it can have the money at a higher rate of interest than before. Either way, some firms will be choked off. Perhaps they will go bankrupt straightaway. Perhaps they will be forced to increase their prices and go bankrupt later on if their customers don't want to pay higher prices. If a firm goes bankrupt many of its workers get the sack.

This has led to the belief that monetarism plus high wage increases means the dole queue for some workers. Well, it can mean that, of course.

But banks lend for other purposes besides wages and salaries. Financing office blocks and shopping developments, for example. The rents on these properties are high but, even so, very often amount to less than 5% of the valuation. Property owners and developers can be in the position of having borrowed money at 20% on the strength of an office block on which they are only getting 5%. The secret is getting the property revalued every year on current costs and borrowing even more money on the strength of the increased valuation.

All this has worked marvellously in the past. Nobody has looked too hard at the actual rents being paid except to assume that they can be raised at regular intervals. But, if an office block costs £1,000,000 to build today, it is quite reasonable, with 20% inflation, to assume

that it will cost 20% more to build next year and can then be revalued at £1,200,000. What a tax-free investment!

Tax-free, inflation-proof, investments are hard to come by. So, for many years, everyone has wanted to get into property. The effect has been to push property prices up way ahead even of the rate of inflation. The meteoric rise has been based, not on the rents, but on the expectations. This is a classic situation for a crash when money becomes tight.

For many years builders have held house-buyers to ransom. A collapse of the property market, together with the cut-back in public spending, would force them to be more competitive. House prices would come down.

A building society has lent, say, £20,000, on the security of a house. If the borrower can get a similar house for, say £10,000, there is no reason why he should not tell the building society to keep his house and move elsewhere himself. He will certainly be reluctant to meet his repayments; and the society will, obviously, be reluctant to foreclose.

Building society investors are, nearly all, shareholders in the society. If the society goes down, their savings go down with it.

THE SOUTH WALES MINERS' GALA, JUNE 7th 1980

The Gala is organised by the South Wales Area of the National Union of Mineworkers. The idea is that the miners from the different lodges (union branches) march through Cardiff with their families preceded by the lodge banner and a band. The bands are mostly not connected with the lodges. They are there to take part in a subsequent prize competition. Some of them get paid as well.

The bands were there in 1980. So, occasionally, were the banners. Then an average of about 20 people per lodge, mostly women, children and pensioners. Then 50 yards of space where the miners should have been. Then another band, etc.

Members of the Communist Party and sympathisers have long run the South Wales Area of the NUM. Lodge meetings have often been reduced to a vehicle for pushing through CP approved resolutions. The mining industry is a 100% closed shop. The miner does not have the opportunity to ask what he is getting for his union dues. The lack of real contact between leaders and rank and file was reflected in the vote of the miners against coming out in solidarity with the steelworkers.

This lack of contact was also reflected on Gala Day. A leadership which is not even able to persuade miners to come out and enjoy themselves will not be very effective in the much more difficult task

of building up a movement against closures.

"Communist" leadership, the closed shop! Some Tories foam at the mouth over this. Others, the smarter ones like Prior, see to what an ineffective position CP leadership and the union dues check-off have brought the organised working class, and are quite happy that it should continue.

POINT OF NO RETURN?

The resolution welcoming "the re-establishment of friendly relations between the Communist parties of Italy and China" was defeated at the People's Press Printing Society (Morning Star) annual general meeting by 67 votes to 4, on the advice of the Management Committee. Typical of those present was Sylvia Bolger, who regretted that Russia had not been able "to march into Chile and Indonesia as well".

Latest daily sales of the Star are down from 34,427 last year to 33,952. Of these, 14,463 go abroad. Guess where.

ULTRA-LEFTISM IN THE UNITED STATES

Last month we were pleased to receive a visit from comrades of the Proletarian Unity League of the USA.

The anti-revisionist movement is bigger in the USA than here. But there is the same reluctance on the part of the ultra-left led groups to achieve unity of all Marxist-Leninists by patient discussion. The tendency on the part of an ultra-left group to call itself "the single leading centre" is not confined to Britain. The PUL show how this tendency can only lead to splits, ineffectiveness and the alienation of the working class.

Their main work on the subject is a book of 253 pages, published in 1977 (and therefore slightly overtaken by events in places) called "2, 3, Many Parties of a New Type? Against the Ultra-left Line". Price \$2.75 plus postage from United Labor Press, PO Box 1744, Manhattanville PO, New York NY 10027. On Page 238, PUL predicts the results of ultra-leftism. "Finally aware that reality does not conform to their wishes, that they do not march in the vanguard of the working class movement, and that revolution, like prosperity, is not just around the corner, petit-bourgeois elements and fellow-travelers will desert the communist banner. Misled by these subjectivist analyses, by boasting and lies, many honest comrades, in whom Marxism-Leninism has perhaps not taken deep root, will also drop out, temporarily lying low and nursing their wounds".

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