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PUBLIC WORKS AND SLUMPS

IT SEEMS to be commonly accepted that another slump in industry will before long be upon us and it is held as the duty of the State to start planning in advance public works, the execution of which will counteract the depression and provide new employment so soon as the tide turns and normal production slackens down. It is pointed out that any amount of work urgently needs doing. There is serious housing shortage; there are slums to be cleared: afforestation should be undertaken: arterial roads should be built: land should be reclaimed, railways electrified and central water supplies should be available on a national scale. These and a hundred other useful schemes stand waiting and, if undertaken by the State, or with State aid, would not only enrich the nation but stimulate business and provide added employment when the slump comes.

Notwithstanding its prevalence even in the highest circles we venture to subject this view to examination. Does Government expenditure on public works really stimulate industry and employment as a whole or mitigate slumps? We seem to remember there is nothing new in this proposal and that when tried, as it so often has been tried, it has in the long run failed to realize the end in view. It has almost always ended in disappointment. Did not our own Government quite recently, after pouring out its millions, publicly recant and wash its hands of the whole affair? We conceive the reason for these failures to be that when Governments spend money on public works they get it out of the taxpayers' pockets. They are once again performing the trick so shrewdly and humorously exposed one hundred years ago by Frederick Bastiat in *Things Seen and Things Not Seen*. What is "seen" here is the State employing and paying wages to men on their works. We see these men at work and jump to the conclusion that this is extra employment and extra wages above what there would be were the works not undertaken. What is "not seen" is those other men thrown out of work by the lessened demand for their services on the part of the general taxpayer into whose pockets the State has thrust its hands. It is not realized that in measure as the State pays men to build roads, etc., the taxpayer from whom the money is taken is forced to curtail his purchases of food, clothing and other things. More men build roads and fewer make clothes. So on balance there is no greater industry and no mitigation of the slump. That the Government's expenditure may be useful and productive is no excuse, for equally pro-

ductive might have been that of the taxpayer's from whom the money is taken.

Though this seems beyond question it may be objected that the Government need not take any money from the taxpayer: it may finance its works by loan, as in fact it now mostly does. But this in no way alters the final result. Subscribers to Government loans have to withdraw their money from some industry or investment where it now may be performing service quite as useful as when loaned to the Government. Or they have to withdraw it from the bank where it lies on deposit and is being used by the bank to finance industry. Whichever course they take the money when loaned to the Government is only transferred from one use to another—from some private enterprise to some Government enterprise. No new money or purchasing power appears and therefore no added industry. Peter is still being robbed to pay Paul.

It may still be objected that the subscriber need not sell any investment or trench on his bank deposit as he may have money saved and waiting investment. But again the situation is not altered, for the subscriber would, in any event, have invested his saved money before long in some private enterprise or else have used it to meet ordinary current expenditure. In either case his money would have been used productively. He now abstains from such uses, invests in the Government loan, and the Government uses his money to pay men on some public work. Thus once more there is only transference of purchasing power; no addition to production nor employment.

If what has been said were untrue and if Governments, merely by their borrowings could add to the sum total of industry and employment why do they not borrow indefinitely? Is it that they know Nemesis awaits them when their loans come to be redeemed and that in the end the burden must in any case fall on the taxpayer already staggering under his load? Surely the simple truth is that the more Governments spend the more they must borrow and tax, and that the more they borrow and tax the less is left to private people to develop industry in general.

This is in no way to question the desirability or necessity of public works in themselves. It is quite true that many of the public works contemplated are urgently needed and it may well be asked why they should not be proceeded with. But it is just as true that millions in this country have insufficient food and clothing and it may equally well be demanded why they should continue to suffer for want of these things.

Why do we still await needed public works and why do people remain underfed? It can but be that in both cases purchasing power is lacking. Nowadays, with powers of production as they are, there is no limit to what either State or private enterprise might accomplish. Between them they have producing power at command sufficient to carry through all the public works required and in addition to grow the food, manufacture the clothes and build the houses now so urgently needed. That is not where the shoe pinches. The trouble comes, both to Governments and to private enterprise, when they try to find purchasers for their products. People simply cannot afford to buy. Purchasing power is lacking. At bottom, like almost all social problems, it is a poverty problem, and can only

be solved through increase in purchasing power which means increase in the earnings of the common working man. With adequate purchasing power in the hands of the people public works would quickly proceed just as all would be well fed, clothed and housed.

Therefore the test question must be: does construction of public works, financed by taxation either current or future, place additional purchasing power in the hands of the people? If our analysis is correct it does not and cannot. Public works are a necessary and desirable accompaniment of civilized society but we must not expect from them the impossible. They must be judged solely by their usefulness to the community, not by their ability to provide during construction better business or to mitigate slumps.

All of which would seem to establish the conclusion that if we wish to get to the root of the matter: to raise the wage level and increase purchasing power, we must find some other way than pouring out the taxpayers' money on public works. We must find some other way than this of financing them. And such a way lies ready awaiting us. Appropriate change in our fiscal system would attain the end in view. To-day we raise revenue by imposing taxation on the products of private industry or by burdening them with debt. The great majority of the taxes we now levy act in restraint of productive industry, penalize enterprise and raise the cost of living. The "Cure-Unemployment-through-Public Works" people should examine the workings of our fiscal machine, and inquire how far it is responsible for restricted buying power. Factories, houses, shops, businesses, are all the victims of the present punitive system. No sooner is any productive trade or undertaking embarked upon than the parties responsible become targets to be shot at and so effective is this in reducing production and raising prices that the system might well seem specially designed for those very purposes.

The pity is that there is no need to raise public revenue in this way. We are driven to it only because of refusal to avail ourselves of society's natural revenue—the economic rent of land which is due to society because it owes its existence to society and should be used to finance services (including construction of public works) from which all of us benefit alike. Were this great communal fund turned into the public treasury through adequate taxation of land values, with corresponding repeal of present repressive taxation, money would be available for public works, the raising of which would actually stimulate production and enterprise instead of obstructing them as is now the case. To raise revenue by appropriating land rent to public service does not add to cost of production as present taxation does. So far from harassing industry and enterprise the effect is powerfully to stimulate them for it presses into use at lower price all land in growing industrial areas now speculatively withheld or half used, opening out on all hands new opportunities for productive work. With penal taxation removed and natural resources set free there could be no limit to the resulting demand for labour and nothing could prevent such all-round rise in the wage level as would provide purchasing power, the want of which is the basic cause of present economic troubles.

W. R. L.

LABOUR'S AGRICULTURAL POLICY

IN A lengthy leading article the *Daily Herald* (19th January) expounds what it considers to be the proper policy to be adopted for agriculture. The objective is to make certain that "the efficient farmer is sure of a fair return, the labourer sure of a living wage, and the consumer sure of a plentiful supply of good, cheap food."

But the *Daily Herald* also postulates that we must determine "what is the minimum proportion that must be home produced for national safety." This is a requirement of a very different character, for the clear implication of it is that we must make some economic sacrifice in order that more food should be grown in this country during peace time in order to ensure that more food is grown in war time. It is impossible to support this argument by any kind of economic reasoning, and it is difficult to support it by any other reasoning. If it should prove to be impossible to keep the channels of trade open during war time, then it is clear that the population of this country would be deprived of many essential articles including many foodstuffs which are not produced in this country and many others which are not and are never likely to be produced here in sufficient volume to supply the needs of the people.

In its extreme reaction from a pacifist policy, the Labour Party runs the risk of throwing itself into the arms of the protectionists, who have always been fond of quoting Adam Smith's dictum that "defence, however, is more important than opulence." The experience of the last great war, as well as of others, has demonstrated that the reverse is true—that opulence affords the best means of procuring weapons both of defence and offence. The blockade of the Central Powers had as much to do with their downfall, as directly military measures.

Although it postulates that some minimum proportion of food must be grown at home in order to serve purposes of national defence, the *Daily Herald* has no suggestion to make as to the principles upon which that should be determined. It therefore falls back upon the convenient resource of those who have no principle to guide them: a permanent Agricultural Commission must be set up, responsible to Parliament "and charged with the job of drawing up a national agricultural plan." Here, again, the Labour Party would throw itself into the hands of the vested interests. The history of the Import Duties Advisory Committee, so lucidly sketched in a recent leading article in the *Manchester Guardian*, shows that when Parliament abdicates its functions, sectional and selfish interests inevitably prevail. There can be no such thing as scientific protectionism whether it be done by tariffs, or by import boards as the Labour Party propose, because the whole thing is uneconomic and unscientific.

The *Daily Herald* bases its policy upon the same assertion as the Government does its, that "there are not many branches of British agriculture which could withstand world competition," and that "this compels assistance even at the cost of purely economic welfare." The only difference is that the *Daily Herald* proposes to give the assistance by "paying subsidies from direct taxation." All that can be said in favour of this is that if subsidies are to be given it is better that they