PUBLIC WORKS and INFLATION

By A. J. CARTER

In this series of articles, A. J. Carter, in analysing the economics of employment, discloses the inadequacies and falsities in the current approach to this vital problem. In our next issue we shall publish the sixth and final instalment.

These thoughtful and well-reasoned essays have already given rise to commendation from readers and we are glad to announce that they will be reprinted as a booklet after the final instalment has appeared. — (Ed.)

DURING the great depression unemployment became immense. Economists had their various theories, but they did not understand the real causes of the slump. Something had to be done, and Keynes came up with the idea of increased spending on public works, the assumption being that money paid out by the government to workers would, by giving them purchasing power, create a renewed demand and so get the wheels of industry turning again. The government spending was to be financed, not by taxation, but by inflation, which would cause rising prices and so stimulate industry.

Inflation has been practised by governments continually. During the ten years of Conservative rule from 1951 to 1960 the fiduciary note issue increased by £900 million—from £1,450 million to £2,350 million, that is, by approximately 62 per cent. Yet on April 5, 1963 at Cardiff the then Prime Minister himself, Mr. Harold Macmillan, declared that "from the point of view of the nation, savings are the only sound foundation on which great capital development can be based. For, if you are not to resort to inflationary borrowing, and in the long run the printing press, then it is the volume of increased savings which alone permits increased investment both public and private . . ."

The deficit in the 1963 Budget — now cunningly called the borrowing requirement — was £687 million, a sum large enough to make it virtually certain that further heavy inflation must have occurred during the financial year 1963-4.

The reason why inflation is so popular with governments is that it enables public expenditure to take place without apparently reducing private expenditure at all; but only clever-clever minds could think themselves into believing that society can get something for nothing in this way. Individuals may get something for nothing, but only to the extent that others get nothing for something: if a man wins £1 in a sweep, forty people (including the winner) have lost 6d. each. For every debit there is a credit; sections of society may gain or lose, but over society as a whole the books must balance.

Assuming that productivity is constant, the effect of an increase in the supply of money is to reduce the value of the monetary unit; and the increased spending power of the government, because it has a greater amount of money in *quantity,* is exactly offset by the reduced spending power of the public because it has a smaller amount of money in *worth.* Many fine roads may be built from the proceeds of inflation, but the value of the pound would drop to 19s. 11d. Inflation taxes people as effectively as income tax, but it is not, like income tax, open and obvious; it is subtle and deceitful. The roads can be easily seen, but the decline in the purchasing power of the pound is much less obvious. It is a very pretty trick, like producing a rabbit out of a hat. But the rabbit in the hat is not a new rabbit; there is a rabbit less elsewhere.

When the public finally gets a little wise to the trick and realises that the value of its money is falling, the blame is put on the wage earner, that wicked fellow who, struggling to make ends meet and faced with price increases due to inflation, dares to ask for more! The wage earner is as blameless as Oliver Twist. It may or may not be true that real wages are increasing — that a majority (not all) of the workers have managed to climb ahead of the rising cost of living — but it is nonsense to talk of Britain as an affluent society: this is a fairy story which would not be believed by anybody unless he were deluded by the effects of inflation. It is as if Oliver Twist were told that he could in future have two bowls of gruel but that the bowls would be little more than half their present size. Mr. Bumble would no doubt consider this a magnanimous gesture on his part, and Oliver himself might be taken in for a time.

It is argued that the existence of more luxury goods is an indication that wage earners in general are well off, but there are many people — especially old age pensioners — who do not know even this kind of prosperity (fixed incomes are eroded by inflation). The families who do are usually those who live in subsidised housing and in which both husband and wife are at work. The combined income of husband and wife often yields a surplus over immediate needs and it is from this surplus that consumer goods are bought, but the reason why the rent has to be artificially low and the wife is forced to work is that the husband's wage is wholly inadequate to house or even support his family. An abundance of motor cars and washing machines is thus not a sign of affluence but a sign of poverty. It is a state of affairs in which the dignity of man and the cohesion of family life have of necessity to be exchanged for an excessive interest in material comfort.

By its effect on the availability and price of land, a tax on land values would greatly reduce the high cost of housing, which is one of the biggest causes of this hidden poverty. Inflation has the very opposite effect: by raising prices, it accentuates the problem of poverty. As Sir Alec Douglas-Home said at Crieff, Perthshire, October 30, 1963: "Keeping up the value of money in people's pockets is the secret of good living and happy homes."

The disadvantages of government borrowing and of inflation may now be summed up. Those of borrowing are three: that loans made to the government are not repaid; that public outlay is inflated by interest charges; and that borrowing, once begun, tends to continue, and ends in inflation. "You cannot establish sound security on borrowed money" said Abraham Lincoln; "You cannot keep out of trouble by spending more than you earn." (It should be noted that local authorities draw a proportion of their long-term borrowing needs from the Public Works Loan Board at government rates of interest. This proportion is now being increased over several years to 50 per cent; when this figure is reached, the cost of the increase to the Exchequer will be £500 million per annum.)

Inflation has many disadvantages. It is an insidious form of taxation; it reduces the purchasing power of the pound, and so creates confusion about monetary values; it raises the cost of living and hurts particularly those on fixed incomes; and it stimulates the demand for higher wages, which in turn leads to another rise in prices.

In addition, although inflation has been effective in preventing a full-scale depression, its supposed stimulation of industry has failed to check the kind of unemployment that was experienced in the winter of 1962-63. Moreover, if the cataclysms of slumps are due to the soaring of the value of land above the ability of labour and capital to pay, it seems likely that inflation has averted a depression only in a quite incidental way. Inflation benefits borrowers and harms lenders; similarly it benefits payers of rent and harms receivers of it. A fixed rent of £1,000 per annum which might have proved too onerous for the tenant to support may be bearable if, since the lease was entered into, £1,000 has become worth only £900 in real terms.

These facts, however, cannot have escaped the minds of landlords. In addition to calculating the average of the present site value and the estimated site value when the lease is due to expire, landlords must by now have begun to make an allowance for future depreciation in the value of money. This being so, the sole beneficial effect of inflation will soon be neutralised, and the inability of inflation to stop depressions and unemployment in the long run may then be demonstrated in a frightful catastrophe.

There is a further, final danger of inflation — that it will run out of control, as it did in Germany. Inflation can have short-term uses, as Keynes well recognised, but its end, as Lenin recognised but Keynes did not, is national collapse.

Inflation is a policy specially designed to secure full employment, but full employment is not necessarily an end in itself. Nor does "full employment" imply that nobody at all is out of work. In an advancing society there will be a flow of labour and capital from declining to growing industries. Men will be changing jobs not only voluntarily but as a result of redundancy, and there is bound to be some movement of population. (The persistent unemployment and the drain of population which have been experienced recently are utterly distorted forms of these natural changes.) Provided that work is readily obtainable, this kind of transitional unemployment — which is indispensable to the smooth running of the economy — raises few problems and is consistent with "full employment" in the usual sense of the term.

Some economists reckon that it is healthy for the economy if there is two per cent unemployment, and that this is equivalent to full employment, but the vital factor is not the percentage of men unemployed but the length of time that each man will be out of work. In present circumstances two per cent seems, in human terms, unduly high, but it is possible to imagine an economy changing so rapidly that although there is, say, four per cent unemployment, no one is out of work for longer than a few weeks. As long as those who are unemployed need not remain so for long, then, irrespective of their numbers, full employment may be said to exist.

It is not necessary to take special measures to create and maintain employment, for full employment is the inevitable corollary of full production. Mr. Antony Vickers writes in his book *Expansion or Explosion*:

"Strangely enough, few people seem able to imagine what it would be like if the resources of a nation were fully used in times of peace. Such a conception, although perfectly logical, is entirely different from the policy of 'full employment.' 'Full employment' can mean hidden unemployment, restriction of output, and a low standard of living. Full and effective *production* means that everyone who works can be usefully and efficiently employed, thus ensuring the highest standard of living and, what is generally forgotten, the fullest measure of personal satisfaction."

Full employment, after all, can be attained by digging holes and filling them in again, or by bombing cities and rebuilding them. The progress of civilisation consists in reducing toil, not in manufacturing it.

Full production will be achieved naturally in any society in which the desires of its members have not been finally satisfied, provided there are free conditions. There is no meanness in the bounty of nature; nor is there any inadequacy in the capability of man to support himself — if there were, the species would long ago have died out. Moreover, the division of labour, the use of capital and the accumulated knowledge of many generations vastly multiplies the capacity of man to produce. If there is a lack of production, and a consequent lack of employment, it is because somewhere between the resources of nature and the willingness of men to work to provide for their own needs there is a barrier. This barrier is the holding of nature in private ownership as if it were a commodity, a system that creates obstacles in two ways. First, and of greater apparent significance in a complex economy, it inflates the rent of land beyond the ability of labour and capital to pay; and secondly it denies the right of physical access to land which, though it seems of less importance in an industrial than in an agricultural economy, is still in any country the ultimate guarantee against extreme poverty and starvation.

Full production can be achieved by the individual efforts of millions of people — those who work by hand or by brain, and those who lend capital to assist that work. The task of government is not to plan full production but to remove the barriers that hold it back. The first and greatest barrier is the private ownership of land, for unless men have access to land no production at all can take place. Other barriers are the taxes that fall on production; monopolies and restrictive practices; and interferences with trade, both internal and international. When government refuses to fulfil its duty to remove these barriers, and so to uphold the freedom and equal opportunity of all men, evils result that can be alleviated only by a great deal of government action of the wrong kind.

The truth is that in allowing the private appropriation of land we establish a situation in society in direct opposition to the recommendation of nature. In defying the natural pattern we create for ourselves a host of unnecessary problems, and in attempting to solve these problems piecemeal we use remedies that create worse problems still. As the evils become more pronounced, the inevitable emphasis is on state action to cure them, a path which must in the end destroy the vitality and capacity for fulfilment of the individuals for whose service alone the state is brought into existence.

THE STRAINING OF THE FEW

(With apologies to William Shakespeare in this Quater-Centenary Year)

To be or not to be: that is the question:
Whether 'tis ordained in the nature o' things to suffer
The slings and arrows of outrageous systems,
Or to take action against anomalies,
And by opposing, end them?—To urge; to teach:
No more? And, by opinion, to say we end
The heart-ache, and the thousand gross assessments
That we are heir to? 'tis a consummation
Devoutly to be wish'd. To shout? to rave?
To foam?: perchance to scream?: ay, there's the rub;
For by our screams such ridicule may come
To tempt to shuffle off this mortal toil.
So let us pause (and pay): there's the respect
Nurtured by patience in so long a strife;
And we must bear the whips and scorns of time,
The oppressor's wrong, the opponent's contumely,
The pangs of despis'd lecture, the law's delay,
The insolence of office, and the spurns;
The rejection slip so oft love's labour earns.
Never shall we ourselves our quietus make
With bare lament: We shall these fardels bear,
And grunt and sweat unto a weary class,
And with th' eternal hope some ray of light
May find its way into the minds of doubt.
So, to the undiscover'd country, from whose bourn
None but the selfish e'er wish to return;
They would that we should bear those ills we have,
Not fly to others (that they know not of);
Their "conscience" does make cowards of them all;
And thus the native hue of resolution
Is sicklied o'er with the pale cast of self-interest,
And this enterprise of great pith and moment,
With this regard, their currents turn away,
And lose the name of action.—Soft you, now!
All is not lost, and we are not alone;
Persistent drops of water weareth stone!

ROBERT MILLER

A NEW BOOKLET

THE Robert Schalkenbach Foundation has published *Progreso y Miseria*, super-condensed into twelve pages, in Spanish, by James L. Busey, professor of economics at the University of Colorado. It sells at 15c. or ten for $1.

Another publication is *The Pittsburgh Graded Tax Plan*—its effect on the city's redevelopment—(in English) by Percy R. Williams, 72-page paperback edition, 75c.