LAND & LIBERTY

MARCH & APRIL, 1977

Time for a New Script

LABOUR politicians are wearily rehearsing their lines for the third act of their incomes policy drama. Having failed to win a standing ovation for acts one and two, the Government, with a touching faith, urges that success will come with act three, if only the players will come to agreement as to who should play which part, and how.

This persistent belief in a pay policy is in the face of experience both at home and abroad, and of sound logical argument such as recently put forward by Samuel Brittan and Peter Lilley.* Experience and logic demonstrate that when an incomes policy either collapses or is phased out, employees with the power to do so, quickly make up lost ground and at best the long-term effect is nil. While the policy is in operation, the labour market is rendered inflexible to changing circumstances so that any special requirements for labour are no longer signalled by the natural wage-determining mechanisms. To the extent that the policy contains any flat-rate provisions, existing pay differentials are eroded, thus introducing further distortions.

Why then is the Government trying to trade price controls and income tax cuts for another year's

The Delusion of Incomes Policy, published by Maurice Temple Smith.

Land & Liberty

JOURNAL OF THE UNITED COMMITTEE FOR THE TAXATION OF LAND VALUES LTD.
177 VAUXHALL BRIDGE ROAD, LONDON. S.W.1
TELEPHONE 01 834 4266

MARCH & APRIL, 1977
Established: JUNE, 1894
Nos. 994 & 995
VOL. LXXXIV
Managing Editor
V. H. BLUNDELL

ISS No. 0023-7574
Annual Subscription:
U.K. and Sterling Area: £3.00
U.S.A. and Canada: $5
Editor
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Contents

pay restraint following on the end of stage two in July?

It seems that the hope still is that stage three will fulfil three objectives, namely:

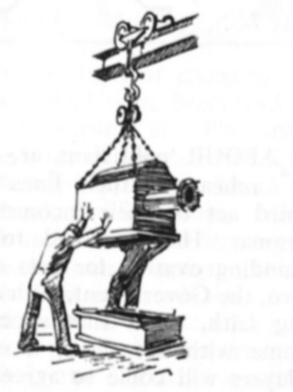
1) Reduce inflation;
2) Prevent the strong unions grabbing "more than their fair share" at the expense of the weak;
3) Reduce unemployment.

Nobody should have difficulty in observing that, in striving to attain these three objectives, the Government is once again trying to deal with effects instead of causes.

The first objective, the reduction of inflation, may be ultimately achieved only by the exercise of monetary discipline. To the extent that the Government has been obliged by the terms of the IMF loan to reduce the size of the Public Sector Borrowing Requirement, it might be hoped that the resulting reduction in the rate of increase of the money supply will, given time, bite into inflation. Were this part of a genuine attempt to achieve a long-term budgetary balance then, given the existence of strong unions and the momentum of their pay claims, it could be posited that a pay policy would ease the transition from accustomed inflation to a stable currency. There has been no avowal of intention to balance the budget.

The second objective—preventing the strong unions from exercising their monopoly powers at the expense of the rest of the community—would more logically be sought by removing their statutory powers to indulge in restrictive practices.

The third objective—the reduction or eradication of unemploy-



ment—cannot, if any semblance of economic freedom is to survive, be achieved by artificially attempting to share out those jobs that *are* available or by manufacturing jobs with the aid of public funds. A truly radical employment policy would increase job opportunities by dismantling the artificial barriers that tend to prevent the factors of production from freely combining and co-operating in the production of wealth. Such barriers are: taxation that falls upon employment and production; restrictive employment legislation; and a land tenure system that diverts economic rent away from the community fund and into private pockets.

Until we have a government prepared to stake its future upon such policies, Britain will be condemned to act out its old familiar drama.

THE PROTECTION RACKET—AN EEC GROWTH INDUSTRY

THE innately protectionist nature of the EEC surfaces more and more frequently. Press reports in early February indicated that the major European steel producers have pressed Viscount Davignon, commissioner for industrial matters, to obtain agreements from steel exporters to the EEC to reduce the volume of their sales. Such an agreement has already been reached with Japan.

Some member countries, particularly France, are seeking the imposition of quotas and duties upon steel imports in order to avert a price-cutting war within Europe.

British interests are making their own contribution to EEC protectionism. Two weeks after the above reports, Michael Meacher, Trade Under-Secretary, said in Parliament that the Community was to begin surveillance of imports of hand-woven fabrics, and he promised that action would be taken if imports this year looked as though they would exceed certain limits. "We are determined," he said, "to secure international agreements for textiles, and protection from low-cost imports." The developing countries and the United States would, he warned, be against the British proposals, but the level of import penetration had become unacceptable to the Government.

The imports are clearly not unacceptable to the British purchasers of them, but as usual their interests are ignored. And will Mr. Meacher in future be seen to cry crocodile tears for the hand-weavers in the developing countries pushed further into poverty through a denial of a market for their products? Should we succour them with aid and then refuse trade?

Trade is not, of course, a question of fairness or unfairness. It is a matter of common sense that all parties are enriched if freely allowed to buy and sell in the best market.

* * *

WE might regard existing food prices in Britain as high, but they still have quite a way to go before equalling Common Market levels (as they eventually must under the Common Agricultural Policy) according to a report published in the *Sunday Times* recently.

Three vegetable growers have formed a company to sell Lancashire salad vegetables to Western Europe, and are encouraged by their initial success. "Shipping the lettuce was a nightmare task," one of them said, but "very ordinary prices on the Continent are so much higher than in Britain that our stuff is very attractive indeed."

Good for their business, of course, but pity the poor consumer when our prices are brought into line with the EEC.

* * *

THE Consumer Association recently issued a warning that forthcoming increases in food prices could add up to twenty per cent to family food bills. The Association identified five factors likely to lead to such an increase: the raising of our food prices to the full EEC level; the drought; phasing out of food subsidies; the falling value of the pound; the EEC's annual price-fixing.

It will be noticed that of these, only one—the drought—is a natural cause (the subsidies should not have been there in the first place). The others could be avoided by pursuing a policy of purchasing in the world's cheapest markets with a non-debased currency.

GOOD NEWS FROM DENMARK

Knud Tholstrup reports:

THE minority government of Anker Jorgensen, Socialdemokratiet (Labour), had to call an election on February 15 and gained twelve new seats, from fifty-three to sixty-five, in the new parliament, which consists of 175 plus two from Greenland and two from the Faroe Islands. Anker Jorgensen is continuing with his minority government with aid from some of the smaller parties. At the last election two years ago, the Georgeists, Retsforbundet (Justice Party), lost their five seats when they polled less than the two per cent limit of total votes. Now they have won back the position, gaining 3.3 per cent of the votes, and six seats.

Land speculation has been one of the main issues in the election campaign, as half of the parties promised to do something about rising land values, which indicates that Retsforbundet's continuing propaganda has borne fruit. There is to be a new valuation this year, expected to show a 100 per cent increase over four years, from 100 billion DKr. in 1973 to 200 billion today (equal to £20 billion). This average increase of 25 billion DKr. per year equals more than ten per cent of the GNP.

Farm land sells at a price reflecting what it can yield above the rate of interest, and building land in suburban areas costs an average of £2 per sq. ft., in some places a good deal more, in others less.

Land values rose "only" 83 billion DKr.—from 17 to 100 billion—from 1960 to 1973. The inflation rate last year was 13 per cent, against eight per cent in 1975, but is expected to be considerably lower this year. Retsforbundet is sure that a halt to land speculation by the re-establishment of land-value tax, thus diverting money from land purchase to investment in production, would almost stop inflation and bring the interest rate down to half of the present rate of about 15 per cent. But it might be too optimistic to believe that the six members are able to have influence enough to achieve so much.