LAND & LIBERTY

NOVEMBER & DECEMBER, 1977

"HOLD ON! THAT IS ONE OF THE CAUSES OF HIS ILLNESS, NOT THE CURE."

Time for Economic Ghost-laying

BRITAIN'S economic experiences over the past decade alone have demonstrated that the concept of Keynesian demand management as an instrument to achieve a comfortable balance between inflation and unemployment is false. We are all (or nearly all) monetarists now, we are told.

But are we? Chancellor Healey, under pressure from the International Monetary Fund, acknowledged that a large and growing public sector borrowing requirement was a threat to economic stability. He was instructed to reduce it and reduce it he did, so well in fact that he undershot the allotted target. Meanwhile the economy stagnated, with unemployment historically high, while the rate of price increases began to slow down, although prices are still on average 16 per cent higher than they were a year ago.

The outcome was predictable—an almost unanimous agreement among the experts that the time was right for a "mild reflation." Mr Healey, mindful of an approaching election, produced an appropriate budget — reflationary, but not so much so that it could

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

NOVEMBER & DECEMBER, 1977 — ISS No. 0023-7574
Established: JUNE, 1894 — *Annual Subscription*:
Nos. 1,002 & 1,003 — *U.K. and Sterling Area*: £3.00
VOL. LXXXIV — *U.S.A. and Canada*: $5
Managing Editor V. H. BLUNDELL — *Editor* R. B. LINLEY

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be called economically irresponsible, was the verdict.

The content of the budget has been well documented and analysed in the Press. But it has not been publicly noted that this budget, like its predecessors, effectively demonstrates that our economy is still being managed on neo-Keynesian principles. (After all, we do still have a large borrowing requirement and, to the extent that Mr. Healey's proposals have widened the gap between tax revenue and government expenditure, new money must ultimately make up the difference.)

This is perfectly understandable. A Labour government could not be expected to sit back and watch the unemployment figures climb. Mr. Healey took the only action he thought appropriate—a touch of the throttle. In his next budget, when an election will be looming large, we can expect his foot more closely to approach the floor.

So it seems that the point of balance between unemployment and inflation is to get higher and higher—on both counts.

Why then is it that while lip-service is paid to monetarist principles, they are conveniently forgotten when the crunch comes in the field of practical politics?

A partial answer is that once inflation has a hold it becomes progressively less effective in temporarily reducing unemployment. More than this, it contributes its own measure of the original disease. There is therefore a strong inducement to administer increasing doses of the drug. When a government tries to kick the habit, painful withdrawal symptoms appear.

But what if we had a government with the will to see the monetarist policy through? We should eventually have a stable currency. We should also have what monetarists call the natural rate of unemployment. Add to this the crippling effects of our disincentive taxation system and where are we? Back where the Keynesians came in.

Current economic orthodoxy is in disarray. Keynes is discredited while at the same time governments are driven to his methods. Monetarism would return us to the pre-Keynesian era without solving the problem Keynes set out to deal with. It is clearly time for a fundamental re-examination of economic policy.

Assume that we attain the pre-Keynesian situation. We have the so-called "natural unemployment" rate bolstered by the effects of taxation upon production. But surely no rate of unemployment can be called natural if men want work, people want goods and services, employers want profits and the natural resources are available. We know that the first three conditions are fulfilled, but frequently natural resources—land—are not available.

There is one method of raising public revenue that encourages the availability of natural resources and at the same time *does not* discourage production and employment, thus removing both sources of "pre-Keynesian" unemployment. The method is site-value taxation in substitution for existing taxation.

It is high time that the economic principles underlying this measure took their rightful place in the great economic and political debate.

Carving up the Oil Revenues

PAUL KNIGHT

A PROPOSAL to convert the North Sea oil "bonanza" into a national dividend for everyone in the UK is advanced by Samuel Brittan in an article in the *Financial Times,* October 13. The dividend would arise from an allocated share in the North Sea enterprise and such shares could be capitalised and sold on the market if the holder so wished.

Mr. Brittan's starting point is an interesting one. It is that "North Sea oil is an income earning asset held by the Government in custodianship on behalf of the citizens of this country. It is like a publicly owned investment trust in which every family holds a stake." The immediate thoughts that this statement sparks off have been admirably expressed in a letter from Mr. N. H. Slater which was published in the *Financial Times* October 24 and is reprinted below.

In a preface to his explanation of how the scheme would work, Mr. Brittan warns of the dangers of financing tax cuts with the printing of more money which could still occur despite the "pseudo-monetarist climate of opinion."

If the tax cuts are to remain and more monetary inflation not resorted to, North Sea oil revenues will have to finance any further large net additions to public expenditure, says Mr. Brittan, and these revenues are expected to rise to £3,000,000,000 in 1980-81 and to perhaps £4,000,000,000 in the early 1980's. This latter figure at 1977 prices, works out to £220 per annum per household and the "dividend" would then have a capital value (at a 10 per cent yield) of £2,200.

Mr. Brittan has devised a number of ways in which these "North Sea Certificates" could be distributed but basically they would be distributed "as a right" to every household. It follows from this scheme to take oil revenues out of the Government's hands, (and thus remove the temptation to renegue on promised tax cuts) that individuals would be able to sell or otherwise dispose of their certificates as they thought fit—and of course to pledge them for a loan if desired.

Mr. Brittan anticipates some objections to the scheme and answers them fairly well. The two main ones are: "the politicians would never wear it" and "people could not be trusted to use their holdings wisely, but would sell them quickly to engage in a spending spree."

The latter objection is of interest because it is a clue to the inequity of the whole proposal. Mr. Brittan's answer to it is in effect "So what?" He argues that if people want to spend it all now, it is their privilege.

The all-important question that is neither put nor answered and which has a bearing on the disposability of a North Sea oil certificate is how would future generations fare?

Establishing equal rights to oil revenues is essentially the same as establishing equal rights to land revenues, (pure rent), since in economics the sea is classified a natural resource and comes under the basic classification "land" and in equity the community's claim to one is as ethically justifiable as to the other.

However, in almost every land reform scheme proposed and applied throughout the world, whether stemming from political expediency or from revolution real or threatened, *only the present generation is considered.*

The fatal flaw in distributing land rights among the population whether in the form of plots of land or of certificates is that it is regarded as the end of the problem. Nothing could be more dangerous than this assumption, for on the contrary, it would be sowing the seeds of precisely the same problem for the future.

The origins of land ownership include those where land became a marketable "commodity". The landless of today are told that they have no rights to land because the present owners bought their land or inherited from a forebear who bought it. (Let's leave aside the acquisition through force, fraud or patronage.)

When legal rights to oil revenues now, and for future times, have been disposed of once and for all—no matter how fairly—among the present generation, the rights of the unborn are violated. Explaining to an "oil-less" young man that the current oil revenues were shared out years before his time and that he should apply to his father or grandfather for his share would be as much a consolation to him as it would to a landless peasant who was told that his rights to land were disposed of by his ancestors.

Samuel Brittan's article has opened up a very important issue. But how many of his readers will be aware of it, when he himself appears not to have thought through the ethical consequences of sharing out oil revenues on a once-and-for-all basis, let alone note where his declaration of equal