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EDITORIAL

Pause Plus 10 Per Cent

MR. SELWYN LLOYD'S July 25 "Little Budget" was very much the mixture as before. His principal measures were to restrict credit by raising Bank Rate from 5 to 7 per cent. and requiring the banks to make special deposits with the Bank of England, and to increase indirect taxation. Additionally he has introduced a "wage freeze", suspended the house purchase scheme and drawn heavily on the International Monetary Fund.

The new taxes will yield a further £210 million in a full year and the credit restrictions will enable the Government to borrow money which otherwise private businesses and private people would borrow. Together with the I.M.F. loan, it will help to restore overseas confidence in sterling.

This is one way of dealing with the inflationary situation for which the Government alone is wholly to blame. Inflation is a condition in which, because state spending exceeds income from tax revenues, the Government resorts to the printing press to bridge the gap. That enables it to pre-empt a greater share of total production than otherwise it could command. This is the meanest, cruellest, most dishonest and dangerous of all forms of taxation, and no price is too high to pay to stop it.

The better and right way to stop inflation is to cut Government expenditure drastically until it balances with, or is less than the tax revenue. That is what businesses and private people have to do. Such a course requires political courage; until it had succeeded, and thereby stabilised the cost of living it would not be popular. But the Government has the power and, in any event, whatever it does, or fails to do, it is going to be unpopular and some people are going to be hurt.

At the same time import duties should be abolished. That would reduce prices all round, to the benefit alike of the Government and the state industries which, together, are large importers, and more particularly to manufacturers and the general body of consumers. Wages would buy more and, with inflation ended, the senseless round of wage increases would cease. Industry would become more efficient and more competitive, and exports would improve. Some industries and firms would probably fail, and their employees would lose their jobs, but others would prosper and expand, and take up the slack. Retraining facilities, removal grants and other special short-term special assistance could be made available, to make the transition from high protection to free trade as painless as possible.

If it is argued that insuperable political considerations make it impossible to abandon protection overnight, there is no room why a start should not be made in the right direction. Instead, however, the Chancellor has gone in the opposite direction and increased protection.

Using the so-called "economic regulator" for which he asked in his April Budget, Mr. Lloyd has raised by one-tenth all existing rates of customs and excise duties and purchase taxes. At whatever rate it is imposed, such taxation always hits the poorest hardest, distorts production, and raises prices by an amount greatly in excess of what the Exchequer requires. The 10 per cent. surcharge will obviously make matters worse. For instance, it adds £36 million to manufacturers' and traders' annual motor fuel bill and that is going to affect the price of just about everything.

Increasing protection is hardly calculated to encourage firms to become more competitive and it may well stimulate investment and employment in hot house enterprises which were better never started. And yet

the Chancellor spoke of the need for the economy to be more competitive, saying that there was much room on both sides of industry for radical changes in outlook and methods. "This will be assisted, in my view, by the reductions in tariffs which should come from current negotiations," he added. Presumably this was a reference to the international tariff-haggling going on in Switzerland under the auspices of G.A.T.T.

On Government expenditure the Chancellor made the right Tory noises. He spoke feelingly of the need to bring it under control and of the steps he had taken and would take. But, he emphasised, "these are not cuts on this year's figures; they are part of the process of containing future expenditure." He is reconciled to its continuous growth but is anxious if he can, to slow down the rate of increase. "I intend to do my utmost to keep this increase to a level not more than 2½ per cent. in real terms . . . that is to say, about £125 million above the estimates for 1961-62." Further comment would be superfluous.

Mr. Lloyd sought to justify his wages "pause" policy by brandishing a few figures which, try as we may, we simply cannot understand and firmly believe are the veriest nonsense. "We are cashing in ahead of production", he told the Commons, seeming to refer to the British people as a whole though how that could be he did not explain, and "there must be a pause until productivity has caught up." It might have been Mr. Micawber speaking:

"There have been periods of my life when it has been requisite that I should pause, until certain expected events should turn up..."

This wages pause, said Mr. Lloyd, was certainly not a lasting solution to the problem of rising prices. Agreeing, we go so far as to doubt whether that is its purpose. It is intended, surely, to keep Government expenditure from rising as much as would otherwise be the case, and so to reduce the pressure for still more inflation or further taxation or both. To that extent it may be justified though greater economies could be affected with more justice if the Government were to cease distributing subsidy largesse to special interests. The "pause" will bear with unfair severity on people employed by the state, nationalised industries and local authorities. In the main they are not the most highly paid members of the community and generally they are the last to receive the as-you-were wage increases which continuing inflation makes necessary. It would be better, for instance, to wind up the Egg, Potato and Tomato and Cucumber Boards for a start, and to use some of the many millions of pounds so saved to attract men and women of the highest calibre into the teaching profession, instead of seeking national solvency by cheeseparing on teachers' salaries.

Course Set For Europe

WE deplore the Prime Minister's decision, endorsed on August 3 by both Houses of Parliament, to seek British membership of the European Common Market. Mr. Macmillan's speech is extensively reported on another page. Its most remarkable feature was the muted admission, suitably clothed in politician's language, that the protectionist policy has been a disaster. It has blunted the efficiency of British industry by affording it "perhaps too much shelter" from foreign competition. The logic of that, surely, is that we should return with all deliberate speed to our traditional "open ports" policy.

The already agreed time table for reducing and finally removing all barriers against imports from the E.F.T.A. could be applied to imports, foodstuffs as well as manufactures, from the Six and the rest of the world, including, of course, countries in the Soviet bloc. As a consequence, Imperial Preference would also be progressively whittled away but our market would remain open to Commonwealth exporters.

The Prime Minister gave no reason why this course should not be followed. He pretends that such a possibility does not exist. So did every M.P. who spoke in the debate. He pretends that for Britain to stay outside the Common Market would be dangerous isolationism. This is humbug and the reverse of truth. Any country or group of countries surrounded by a tariff wall is isolationist by very definition. If we were to join the Six we should thereby cut ourselves off from the rest of the world, no matter what special terms were negotiated with regard to our Commonwealth and E.F.T.A. partners.

Mr. Macmillan handled the truth carelessly when he implied that our agricultural system — organised to provide a good life for the rural population — has been consciously chosen by the British people. It has been foisted on them by the two protectionist parties which, under an unjust electoral system, take turns at mismanaging the nation's affairs, and which believe, rightly or wrongly, that only by bribing the farmers can political power be secured or retained. The Prime Minister went out of his way to assure farmers that, far from being sacrificed on the altar of Western European unity, they can look forward confidently to receiving even more favourable treatment if we join the Six. This is glad tidings for those who own farmland—though for the 50 million who needs must eat it is cold comfort indeed.

The Prime Minister was at pains to remind the House that the Common Market is an economic community, not a defence alliance or a foreign policy community. Yet he put forward political considerations—the new division of Western Europe and the deterioration of the general European situation—as a principal reason why we should apply for membership. In view of British and European member-