

**K**EEPING "unwelcome" imports out of a country is by no means an exclusively British practice. With the exception of Hong Kong, almost every government in the world provides its domestic industry with some measure of protection and support. In the years before the First World War, the most usual forms of protection were the tariff and the subsidy; the latter was usually described as a bounty. During the years that followed the war, a whole range of devices to favour domestic industries were introduced. Among them, and still in use, are *the tariff, the quota, health and safety regulations, exchange control, under-valuing the domestic currency, bureaucratic import regulations and government purchasing policies.*

Some of these protective measures are ostensibly introduced for reasons other than the protection of domestic producers. The government, it will be explained, is concerned only with the protection of consumers from their folly and ignorance. One does not have to entertain doubts as to the validity of the reasons given for these measures to know that the effects will frequently be highly protective for the domestic producers. Special interests seeking a monopoly of the home market often wish to hide their protectionist sentiments behind a sophisticated smokescreen of euphemism and obfuscation. Perish the thought that they should be seeking protection; *fair trade* (whatever that might mean) yes! Protection? Not at all! Here is how the aforementioned protected measures operate:

**The Tariff** – This takes the form of either an *ad valorem* duty placed on the value of the import, or a *levy* on the quantity of the imported item, which may be based on either the weight or the volume. Of all the protective measures it is the least pernicious and may provide the government with substantial revenue; however, to the extent that it protects, it provides less government revenue, and to the extent that it provides substantial government revenue its protective value is diminished. There is a fallacious notion that the duty is borne by the foreigner. This no doubt attractive theory is hardly ever true, unless the foreign producer happens to be a monopoly supplier who finds, through the law of diminishing returns, that he cannot pass on the duty and is, therefore, forced to absorb it if he is to continue supplying the same quantity of the protected product. In the vast majority of cases the *importer* pays the duty and passes it on to the final consumer. The market continues to function at a higher price level, with domestic producers adjusting their own prices to around the new level at which the imported products are now selling. As a device for protecting home producers, the tariff is a fairly blunt instrument blurring the distinction between tariffs for revenue (tea, coffee, tobacco etc.) and tariffs for protective purposes only. Both are relied upon to augment government income.

**The Quota** – This device, though crude, is considerably more effective than the old fashioned tariff. When unaccompanied by a tariff (that is, when the quota is allowed in duty free), the foreign producer can charge higher prices for supplying less, as under the quota system only a fixed quantity of the affected goods is allowed in during a specified period. Those lucky foreign producers who enjoy access to the quota-protected market can now exchange less goods for more goods. Put another way, the U.K., for example, will be giving much more of her own production in exchange for a lot less of other countries' production. Adopting the most charitable view of what is in the best

# 'Fair' trade – but not free trade!

**WORLD BANK** economists, in their recent Development Report, warn the industrialised nations against adopting a protectionist strategy in the face of the current recession. The rich nations, they say, must promote trade – "the principal means of promoting economic efficiency and growth" – by increasing imports from the developing countries. **NICK BILITCH** reports on the devices used to block the international movement of goods.

interest of a nation's economic well-being, it is hard to visualise a country becoming prosperous when it has placed itself in the invidious position of charging itself more in order to receive less!

**Exchange Control\*** – When rigorously applied, this means of controlling imports is among the most sinister and effective ways of protecting domestic producers from foreign competition. All foreign exchange earned by exporters has to be handed to the government in exchange for domestic currency, the government deciding the rate of exchange. Citizens requiring to import foreign goods have to apply to their own government for the necessary foreign exchange – again at a rate of exchange determined by the government. This power of granting or refusing foreign exchange enables the government to decide what may be imported, and in what quantities. The level of imports permitted can be controlled by the government down to the last nut and bolt. It also gives the government the power to determine to what extent their citizens can travel abroad, (short of physically preventing them from doing so, as in totalitarian countries).

Introduced into the U.K. as a wartime measure, exchange control continued to operate until quite recently, when the present Chancellor, Sir Geoffrey Howe, abolished it. The fact that in the past it has frequently been liberally interpreted has not prevented massive frauds being perpetrated where evasion on a grand scale has provided the law-breaker with some mouth-watering profits. Under exchange control, rationed foreign currencies have attracted a substantial premium. This exaction, sometimes as much as 40 per cent of the internationally determined exchange value as between British and leading foreign currencies, was a standing invitation for the financially fleet of foot to evade the exchange control regulations. All-in-all, a pernicious arrangement, giving governments immense power in determining how its

\*For a recent account of Exchange Control as it has operated in the U.K. since the Emergency Powers (Defence) Act of 1939, and the Exchange Control Act, 1947, see I.E.A. Research Monograph 33, by Robert Miller and John B. Wood (1979).

citizens spend their money. As a means of controlling the economy, it has enabled governments to cut across tariffs, quotas and other old-fashioned restrictions on trade, by bringing all foreign transactions under the aegis of government control – the ultimate goal of all good collectivist regimes.

**Revaluation** – This piece of fiscal chicanery is usually accompanied by campaigns such as “Exporting is Fun”. You arbitrarily reduce the exchange value of your currency to a level which is lower than it would otherwise be if it had been left to the market to determine. You then sell more because your exports are rendered cheaper, and import less because the foreigners’ goods have now become dearer.

What kind of benefit this is supposed to represent is not always clear, unless one subscribes to the school of economic non-thought that it is better to give than to receive. After the initial flurry of cheap exports, what usually happens is that exporters find that exporting is not as profitable as it was thought to be. At the same time, dearer imports, by pushing up domestic prices, inevitably attract the home producer. Why export unprofitably, when you can sell your production at home at elevated prices?

The switch to the domestic market, however, soon runs out of steam – the higher prices leading to a demand for higher wages. This frequently obliges the government to debase the currency to offset a domestic depression. The end result is inflation. But the fiction that government regulation of the economy can produce instant and lasting prosperity by playing Lady Bountiful with the money supply to produce full employment, unlimited goodies and social services at little or no cost to anyone is another story.

**Purchasing Policies** – Where governments are responsible for 50 per cent or more of the national income, a very fruitful area for government protection of native industry exists. Central and local government, the armed forces, the nationalised industries heavily dependent upon government subsidies, the National Health Service, are just some of the more important areas of government spending, where favouring domestic producers can be seen to be an effective source of protection. Far from seeing that the taxpayer gets value for his (or her) sequestered income, the government bows to the lobbying and bullying of special interests who are a constant source of intimidation urging governments to place business with domestic producers. Full employment policies will provide an irresistible temptation to solve any “unacceptable” unemployment by ensuring that all government spending favours the home producer, rather than the foreigner. The taxpayer is all too readily hoodwinked into believing that the government is killing two birds with one stone – that is, spending his (the taxpayer’s) money wisely, while at the same time providing his neighbour with profitable employment.

The reality of the situation is very different. Patronising the corner store may be an act of charity but the town centre supermarket may well provide you with a better buy. Charity may well begin at home; economic well-being frequently means doing business with a producer who may be thousands of miles away from your doorstep. This is equally true whether the government is the buyer or it is some anonymous individual exercising free choice in his best interest as he sees it.

## Planning : challenged by the planners!

**S**INCE 1947, land use planning allocation policies and supporting regulatory and financial measures have been implemented to constrain growth in some areas and encourage it in others.

Growth restraint policies have been drawn up within a framework of restricting development in green belts, areas of outstanding natural beauty and on high quality farmland. In the South East, England’s most densely populated and economically buoyant region, the dispersal of population and industry from the capital has been encouraged. But the political tide has turned. Rising unemployment, continuing urban decay and social problems in inner London have led to policy reviews.

The Government’s attitude to development in the South East now includes policies for the economic revival of London’s Docklands and other depressed areas. Approved structure plans provide for growth to be concentrated, with tight restraint elsewhere. According to the Standard Conference on London and South East Regional Planning there are four land policy categories: growth promotion areas; gradual or phased growth areas; low growth areas; and no growth areas.

The detailed implementation of these policies is in the hands of local district councils who are responsible for detailed land allocations. A recent report<sup>1</sup> questions the ability and determination of the districts to effectively administer the policies in restraint areas and also states that “the emphasis on large growth areas in the regional strategy was probably unfortunate, since with limited development and a limited ability and commitment to restrain it outside the growth areas, the strategy in practice is neither efficient or conservationist...”

The authors also point out that “speculative pressures to convert land to urban use will continue producing deterioration of urban fringe land... Land and property prices in areas favoured for development will remain relatively high, with problems for those looking for low cost accommodation whether firms or people.”

These words come from a publication prepared within a Town Planning Education Department! It is refreshing to note we now have planners challenging planners in the continuous search for viable policies.

**T**URNING TO a related theme, the search for low cost site for housing, another interesting document has come my way.<sup>2</sup> This valuable piece of research is concerned with the cost consequences of land allocation policies and examines factors which contribute to the final price of housing in terms of costs to developers and the community.

The most illuminating part of the study reports on a project undertaken for Tamworth District some 14 miles from Birmingham where the planning problem was to allocate land for 1,800 new homes at a density of about ten houses or 40 persons per acre. Using a technique called Threshold Analysis some ten land parcels were examined and costs calculated for meeting site conditions, services, related school costs, sewage pumping and land acquisition. Using the figures in the report, I have the following findings to declare:

- The costs of providing services ranged from nothing to 59% of total site acquisition and preparation costs. Where service provision was most expensive, land acquisition costs were lowest.
- The cost of primary school provision in relation to each home site ranged from 7% to 19% of total site preparation and land costs.
- Looking at the total public infrastructure and acquisition costs, land price ranged from 34% to 91%. The unit land price per house at the time of the study ranged from £1,800 to £3,600.
- From the total cash outlay point of view (land acquisition plus service costs) the three least costly sites had land value elements of 80-88%.

This kind of research is valuable. First, planning decisions can be made more rational, and this is particularly important where housing is being paid for from the public purse. Secondly, the relevant factors of public service costs are clearly identified in advance of decision making; land costs are set out and a data base line is established.

I have frequently argued that planning decisions should be made in the light of economic considerations and it is therefore pleasing to learn that I am not alone in this cause.

This research is now to be extended to a redevelopment situation in an urban area. I look forward to seeing the results. The relationship between land prices and servicing costs is certainly a fruitful field of study. If the collection of more data of this kind leads to a gradual realisation that the service costs could be financed through site value taxation and that such taxation would also result in a lowering of land prices, the effort will be all the more worthwhile!

1. *The Implementation of Selective Restraint Policy—Approaches to land release for local needs in the South East*, P. Healey, S. Evans and S. Terry. Working Paper No 45, Oxford Polytechnic Department of Town Planning.
2. *Low Cost Sites for Public Housing*, Edited by B. J. Simpson and V. R. Clements, Joint Unit for Research on the Urban Environment, University of Aston, Birmingham. Project sponsored by The Nuffield Foundation, £3.00.

**Report by PETER HUDSON**

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**Import and Health & Safety Regulations** – Under these two headings a veritable Alice-in-Wonderland world of pitfalls for the unwary importer exists; so much so, that importers may cease to bother to import when faced with a maze of requirements that may end in costing them more in time, effort and money than any profit from the imports could possibly justify.

It is frequently difficult to know which of the many regulations exist to safeguard the buying public, and which are designed to frustrate importers so that domestic producers might benefit. The number of such regulations is legion, and it is a knowledgeable and skilful importer who does not run foul of the authorities. Frequently mis-

chievous, often irrelevant, these regulations provide governments with a handy weapon for frustrating imports which they wish to keep out, but against which they shrink from candidly issuing an exclusion order which might lay them open to the charge of indulging in bare-faced protectionism. The U.S. and Japan are past masters at this form of "sneaky" protection; the practice is by no means unknown in France and the U.K. Several books could be written on the subject of bureaucratic interference in trade. They would have baffled many a skilled medieval mataphysician, such is the casuistry they contain.

**THESE, THEN**, are some of the major ways in which international trade is hampered. So widespread is intervention by government in world trade that one sometimes wonders why they do not put a stop to all international transactions if it requires so much effort and ingenuity in frustrating it. When all is said and done, for what purpose do we trade with the people of other nations? One of the best answers to that question I have come across, was from a speech in 1925 by the late Lord Hugh Cecil:

"Of course, the only purpose of having foreign trade is to have things sent here more cheaply than we can produce them ourselves. We do not want foreign trade for any other purpose. The idea that you can make everything just as easily yourself at a cheaper rate, apart from being practically unattainable under the conditions of production abroad, is not desirable. What we want from foreign countries are the cheap things which they make cheaply in exchange for the cheap things we make cheaply. A mutual exchange of cheapness is the purpose of foreign trade."

Judging by the antics of Governments and domestic producers, the object of trade is to make everything as expensive as human arrangement can devise. What should be a matter of abundance through cheapness is cynically turned into dearth through scarcity. But this is not through ignorance; protectionists and governments are too well informed. It is only the ignorance of the exploited that sustains such illogical and unethical behaviour.

Where producers seek to persuade government that protection is vital to their continuing existence, which, they will claim, is "in the national interest" (however this may be defined), the case for such restriction on foreign competition should be the subject of the most rigorous public scrutiny. It is so easy for privilege, inefficiency and corruption to shelter and spread roots under a protectionist banner. The whole history of the restriction of international competition has seen the rise of the kind of bureaucratic incompetence which called forth the invective of Adam Smith in the 18th century.

The case for free trade does not rest on the unique circumstances experienced by Britain during the 19th century; its basic truths are timeless. Nations that ignore the principle of competitive efficiency and the territorial division of labour in seeking to appease sectional interests are descending the slippery slope where political uncertainty and economic danger lurk. They also exacerbate those national animosities that are never very far from the surface, and which the unscrupulous are ever ready to exploit. Protection plays on our fears and encourages hostility against the foreigner, who, it is frequently alleged, is the ever-present architect of our misfortunes. Free trade, on the other hand, is optimistic, inviting the foreigner to offer us his services and wares without fear or favour. What fairer kind of trade is one entitled to ask for than that?

## Building chief calls for swift action to boost housing land

**TOWARDS** the end of last year, Donald Moody, President of the House Builders' Federation warned that certain areas of Britain could be faced with shortages of new housing for sale if the problem of land availability was not tackled by the Government and local authorities, writes *Peter Hudson*.

The H.B.F. claimed, following an examination of forty-six structure plans in England, that thirty-six planned a cut-back in projected house building rates. In numerical terms the new plans cater for an annual target of housebuilding of some 205,000 homes a year while the combined private and public rate of house building averaged 250,000 in the period 1974-78.

The 1977 Housing Policy Review estimated that an average of 300,000 new homes a year would be required in the 1980s. There was therefore a need for swift action to allocate more land for development.

This argument, between house builders, the government and the local planning authorities has been going on for many years. In the past the parties involved have consistently shouted at each other and disagreed on the interpretation of statistics. Now there are signs that the combatants in this war of postures are finally getting together to produce some reliable data which all sides can accept as realistic.

A RECENT study in the Greater Manchester Area carried out jointly by the Department of the Environment, the local authorities and the Housebuilders' Federation\* came to some interesting conclusions. It emerged that only 75% of the area originally thought by local planning authorities to be available for private housebuilding was agreed as being suitable for immediate use. This included a number of sites identified by the builders but not on the councils' original lists.

Originally the councils estimated that between 1978-81 some 2,800 acres had been allocated for housing to produce 25,000 homes at a rate of 7,300 a year. Following discussion it was agreed that only 2,100 acres were actually available to produce 19,000 homes at a rate of 5,600 a year.

Mr. Heseltine, Secretary of State for the Environment, has now urged all local authorities to examine the situation in their areas with a view to taking appropriate action if there appears to be a shortage of land allocated for housing. This should settle a confrontation that was recognised officially as long ago as 1970 with the publication of a Circular on land availability.

*\*Study of the Availability of Private House-Building Land in Greater Manchester 1978-81, Joint report by the DoE and the House-Builders' Federation, 1979.*