

THE RE-ELECTION of Margaret Thatcher's Conservative government will surely mark a watershed in British economic history. After forty years in its enervating grip, the country has been jerked away from Keynesianism, the economic doctrine that employs "demand management" — a pseudo-scientific mask for government-inflicted inflation — as the basic ingredient of its recipe for full employment.

In the two decades following World War II, Keynesianism took root in many non-communist societies and seemed to produce results. So much so that, as late as 1971 Richard Nixon, an ultra-conservative Republican president of the USA, a country once the supreme paradigm of unfettered private enterprise, could declare to his fellow countrymen: "We are all Keynesian now."

But in Britain, the pillars of Keynesianism were already crumbling. The Heath government, faced with unemployment rising to 800,000 and beyond, embarked on a frenzy of money creation¹ which, after the government's fall, produced inflation of 25 per cent and, far from reducing unemployment, boosted it to nearly 1.5m. It was at last becoming clear that "demand management" was effective, at best, only in the short run.

BRITISH socialist politicians (when out of office) and officials of the TUC still call for "reflation" and promise the Keynesian millenium. But in office, they have few illusions, as is demonstrated by the words of James Callaghan in September 1976:

"We used to think that you could just spend your way out of a recession and increase employment by cutting taxes and boosting government spending. I tell you, in all candour, that that option no longer exists; and that insofar as it ever did exist, it only worked by injecting bigger doses of inflation into the economy followed by higher levels of unemployment as the next step. That is the history of the past twenty years."²

Margaret Thatcher is right to bring Keynesianism to an end in Britain. But the vital question that arises is: what takes its place?

In Britain, inflation is down to 5 per cent (from 17.4 per cent in 1979) but unemployment, at 3.2m, has more than doubled since the Conservatives came to power. The experience of the pre-



● Margaret Thatcher

Alternative strategy — the quest goes on . . .

BOOK REVIEW

by Bert Brookes

Keynesian early Thirties, when policies similar to those of Mrs. Thatcher to-day were powerless to prevent unemployment rising to 2.6m, gives no ground for expecting monetary rectitude alone to do much to cut down to-day's huge pyramid of enforced idleness.

The simple fact is that, in the Eighties, just as in the Thirties, something additional to Mrs. Thatcher's good house-keeping is needed before full employment can once again fall within the sights of government.

One man with something to say on this subject is Bill Jordan, a lecturer at Exeter University. He explains his ideas in his book *Automatic Poverty*.³ Mr. Jordan is a socialist, but this does not stop him addressing his book to ordinary people "faced with a choice between the discredited Keynesian model of economic management and abrasive and reactionary monetary policies." He claims that his book offers "an alternative way of understanding the issues."

Quoting some useful statistics, Mr. Jordan focusses on what he sees as the immediate cause of the present economic malaise in Britain. Since the mid-60s, productivity in Britain has been steadily increasing under the influence of technological change. But the effect has been to reduce costs, to reduce the workforce, not to expand production. Between 1966 and 1980, the gross output of the production industries increased, albeit erratically, by about 11 per cent. But over roughly the same period, output *per person* increased by 41 per cent, from an index of 87.4 to 128.8.

But technological progress — whether we call it industrialisation, mechanisation, mass production or automation — has been marching on now for centuries. Why, in Britain, should the developments of the last decade or so have produced economic near-stagnation instead of growth?

Regrettably, Mr. Jordan produces nothing of any substance in answer to this question. He quotes David Ricardo who warned, in his *Principles of Political Economy and Taxation*,⁴ about the excessively rapid introduction of mechanical processes of production. But although the author undertakes to consider whether, if this has happened in Britain, it is a short-run problem or an important long-term trend, he fails to reach any worth-while conclusion.

He contents himself with merely rehearsing a number of factors which appear to him to have some bearing on Britain's economic situation: we have run out of cheap industrial labour which used

to come from a growing population and a steady exodus from agriculture; our exports, our rate of industrialisation, our industrial efficiency have all been declining since as far back as 1870; our economic failure since 1960 can be seen as "a direct consequence of our success in the nineteenth century."

HAVING NOTED Mr. Jordan's inability to explain the genesis of Britain's economic stagnation it would, perhaps, be unreasonable to expect him to suggest how the condition might be cured. And, indeed, he makes no attempt to do so.

He proceeds to what appears to be the real purpose of his book — to review the economic and social policies of British governments since 1964 (with the emphasis on the social) and to suggest that it is social policies which, in the future, will be the salvation of the British manual worker as more and more he is forced into idleness by the juggernaut progress of modern technology.

According to Mr. Jordan's gloomy prognosis, rapid economic growth is unlikely to occur again Britain. But the automation of production will be unstoppable, thus yielding "inevitable reductions in employment and incomes from wages." In these circumstances, the only medium through which "the results of technological change can be made benign" is through the power of the state to provide social welfare.

In Mr. Jordan's brave new world, "as the value of new machinery increases and labour costs are saved, so should the weekly amounts paid by the State to all those who have only their labour to sell." He envisages the "universal distribution of a weekly social dividend to be paid to all citizens." In short, "State benefits would gradually replace earnings from wages and salaries at exactly the same rate as machines replaced workers."

For a book that promised "an alternative way of understanding the issues," *Automatic Poverty* is a heavy disappointment. The monstrous apparatus of State charity that he advocates can hardly be accepted as a rational solution to Britain's economic problem. *No industrial country, certainly not one with the potential of Great Britain, could possibly resign itself to the permanent and total welfare support of a major section of its population.*

In reaching his desperate conclusion, Mr. Jordan seems to close his mind to the fact that it is in *lower prices*, not in handouts from the State, that the population in general should benefit from industrial progress. At no point does he do any real detective work to identify the

Cont. on p.79, col. 3

HONG KONG

Cont. from page 69

THIS SYSTEM has proved to be of immense value over the years in smoothing the way for large reclamation and development schemes which destroyed old established villages and their associated agriculture, whilst enabling the villagers to retain a stake in the new environment.

The great majority of Letters B have been given up in exchange for land in new towns now fully developed in accordance with lease conditions.

Many Letters B however remain in private hands and have become in effect "land futures".

They give their owners (Letters B being freely negotiable) the right to acquire land of a net area at a value assessed at the date of the letter.

This presents some difficult valuation problems, particularly in respect of land which was part of the sea and not even reclaimed, let alone provided with services or surrounded by other development at the date in question!

The value of any particular Letter B fluctuates according to the land market and serves to illustrate in rather graphic form what is happening in respect of the 'real' land which provides the backing for the letter.

This is also another factor extending the area of speculation.

Letters B originally restricted the land to be granted to the same district as that of the land surrendered. Later, this restriction was removed and land in any part of the New Territories (not in the ceded area of Hong Kong Island and Kowloon) could be granted in exchange.

Thus, since fluctuations in land value are not uniform over the whole of the New Territories, holders of Letters B need to look for land when the change in value from the date of the letter is greater than elsewhere. Any one new grant may well involve surrender of a considerable number of Letter B of various dates to make up the area of land required.

Thus the system requires much 'professional' input to obtain the best bargain and is subject to very lengthy negotiations in the tea houses of the New Territories before any transaction is finalised.

THE LETTER B system has been criticised as establishing a series of open ended IOUs in land which may never be redeemed - leading to speculation in land futures.

Such criticism is rather superficial.

It is surely better to allow speculation in land IOUs than in land itself.

● The Letters B provide a market in land futures without delaying the development of land itself. Once the land is taken in exchange, it has to be developed to a specified level within a limited period of months as a condition of the grant. If not, it is forfeit to the Crown.

● Secondly the system has cleared the way, politically, for the redevelopment of much of the New Territories in the interests of the Colony as a whole and with the co-operation of the existing occupiers which might otherwise have been difficult to obtain.

It has also given many of the original villagers a real stake in the new world.

Some concern has been expressed about the increasing value of outstanding Letters B and the ability of the Government to provide sufficient land in exchange to meet demand.

This again is somewhat superficial.

As regards the price commanded by Letters B, this clearly goes up and down according to the market and it is entirely a matter for the holders to decide when to cash in for land. The Government is to provide the area of land to meet the demand established by the figures in Letters B; there is no financial problem as far as the Government is concerned since every exchange involves the applicant in the payment of a premium.

Nevertheless the time may be approaching when the system may cease to have the appeal that it once had.

With fluctuations in land values - and these recur at irregular intervals in the volatile Hong Kong market - the values of Letters B also oscillate and can be a source of loss to the unwary.

Government - ever wary of its financial reputation - is sensitive to such losses since they can be presented as something arising from Government's Letter B system - a system of IOU's which sometimes deprive an owner of his anticipated compensation.

Thus Government may revert to direct monetary compensation, but this will present problems in valuation since the Letter B system has led to distorted agricultural land values.

Purchase of outstanding Letters B is a possibility, but it may well be difficult to agree terms and some Letters B are likely to be around the market for some years yet.

One may ask what effect land value taxation would have had on such a system.

In practice, provided LVT could have been maintained at up-to-the-minute valuations in the rapidly developing situation, it would have simplified the acquisition of land for new towns and Letters B may not have been necessary.

Had they been issued, however - and since the Letter B is an entitlement to land at a fixed price (i.e. a "land future") - it would itself be subject to the land value tax.

A convenient way for a government to increase its tax base!

Quest: cont. from p.77

road-blocks that obstruct this process and uncover the root cause of Britain's stagnation.

In one near-analytical paragraph he refers to the fall in the share of national income that will go to wages and the consequent increase in the share going to the "institutions which own the machinery that replaces labour." But he does not pursue the analysis and ask himself how the inevitable competition among the machinery makers would affect the situation and whether there was not some other group - perhaps those who own the land the machinery stands on - who might, in fact, be taking the lion's share of the benefit brought by the new technology.

He might then have pursued the possibility that a country's system of land tenure (especially where the price of land is kept high by being held idle for safe investment) might have something to do with the failure of industry to expand to absorb those workers displaced by the new machinery.

Until Mr. Jordan has made an effort on these lines to track down the reason for Britain's stagnation, he is in no position to propose a remedy, especially one which would be not so much a solution as an act of humiliating surrender.

REFERENCES

1. The money supply (M3) increased by 60 per cent in the two years 1972-73.
2. Labour Party conference, September 1976.
3. Bill Jordan, *Automatic Poverty*, Routledge & Kegan Paul, 1981.
4. "I am convinced that the substitution of machinery for human labour is often very injurious to the interests of the class of labourers." David Ricardo, *Principles of Political Economy and Taxation* (1817), Chapter 31. Everyman Edition, Dent, 1912, p.264.

TRIBAL CONFLICT

LAND hunger was the cause of the mass slaughter in Assam earlier this year.

Every square mile of Assam's cultivated land supports 1,600 people. Next door, in Bangladesh, a square mile has to support nearly twice this number.

And it was fears arising from this pressure on natural resources that led to the inter-tribal conflict that left over 1,000 Bengali Moslems dead - because they were regarded as land-grabbing intruders.