

# Looking Deeper

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**M**OST of the discussion nowadays on economic policies is irrelevant—or should be made irrelevant. The alternatives presented are: unemployment and recession but with a balanced budget and balanced trade, or full employment, inflation and unbalanced trade.

Full employment policies of our generation have been seen to work, but at the cost of monetary inflation, which in turn leads to the price-wage spiral, exploitation of the creditor, adverse balance of payments, with consequent devaluation, and finally an undemocratic and unworkable prices and incomes policy.

Keynes reasoned that the community's expenditure on consumption and investment goods determines the level of economic activity, and he argued that the cause of slumps and unemployment is too little investment. His remedy was to increase it via inflation, deficit financing, debasement of the currency—call it what you will.

It is the government's attempt to compromise between unemployment and the evils that flow from attempts to remedy it that has been responsible for the stop-go policies and recurrent crises.

To rid ourselves of both unemployment and inflation we must look deeper into causes; we must start further back than Keynes did, for he treated effects—the reluctance to invest and spend—as though they were initiatory causes. Our aim should be to achieve naturally what full employment policies achieve artificially, and this can be done by giving entrepreneurs the maximum possible freedom and encouragement to utilize the factors of production, land, labour and capital, to their fullest capacity.

The main barrier to efficient land use is that land is treated for investment as though it were capital; thus it pays to invest in land and hold it for speculation, anticipating increased rewards as good as, if not superior to, the rewards from capital investment. This holds up production and makes land more difficult and more expensive to acquire. Investment in capital, on the contrary, stimulates production and employment.

If taxation were lifted from the rewards of capital and put onto the rent of land, irrespective of use, both land and capital would be more fruitful, for taxation of capital inhibits production while taxation of land rent promotes it. At present we tax the earnings of capital up to the hilt and leave land as such untaxed. For example, both our present rating system and the new betterment levy act as a deterrent to the development and improvement of land.

Further, we should put an end to tariff protection, quotas, marketing boards, subsidies, S.E.T. and the numerous other impediments to our productive system. We need to open up opportunities for competition and initiative, not stifle or feather-bed them.

One does not need to draft a "plan" for national full employment and national recovery, but if we free land, free trade and free men we shall have gone a long way towards solving economic problems that should never have been permitted to arise. This is the alternative to messing about with the economy and regarding Keynesianism and neo-Keynesianism as the last word in economic thinking. Certainly, following policies based on these ideas has got us nowhere—the problem still persists.

## *Basic Weakness in the Economy*

**"UNLESS** the Government recognises that its present policies are based on a faulty diagnosis of the basic cause of our economic malaise, and is prepared to make the necessary changes, there is little hope for recovery in the coming months." This warning was given to the members of the Rotary Club of London by Edward Holloway, Secretary of the Economic Research Council, which sponsored the Programme for National Recovery, signed by nineteen leading industrialists, economists and writers in July last year.

Referring to the Budget, Mr. Holloway said: "There is little in this to show that those in charge of our affairs are seized of the basic weakness in the economy; in fact, they continue with an even more stringent imposition of policies which have shown themselves in the past three years to be ineffectual.

"Government policies over the years have attempted to deal with inflation by policies of freeze and squeeze, by attempts to exercise direct control over incomes and prices, by high bank rate and all the orthodox methods of control. The present Government has merely accentuated these, and the result has been that the erosion in the purchasing power of money has been greater in the past three years than in any three-year period since 1954. The increase in money supply—the basic cause of inflation—has been 6.4 per cent in 1965, 6.2 per cent in 1966, and 8 per cent, in 1967, while the increase in gross domestic product over the same years has been 3.1 per cent, 1.7 per cent, and 1.6 per cent. Here is the root cause of the problem. Yet Mr. Harold Lever recently stated in the House of Commons that "so many of the factors governing money supply are wholly outside the Government's control."

"The failure of this government—and indeed of previous administrations—has been to identify the source of inflation. By concentrating attention on the growth of money incomes, they have fastened on an effect and not a cause . . . Soaring public expenditure has weakened confidence everywhere in the stability of the pound. It is therefore of vital importance that our public finances should be brought under strict control by Parliament."