# 21

# 1980s: Policies for Recovery

The third century of industrial society dawned in a world afflicted with total uncertainty. All reference points had been destroyed by the worst global recession since the 1930s. Paradoxically, the dominant economic strategy was destined to re-create, to the last detail, the devastating pre-war conditions. The Reagan-Thatcher determination to balance the budgets and burn inflation out of the system to restore the value of currencies, if successful, would re-establish the final feature of that unhappy era, in which high unemployment and poverty co-existed with a stable and even declining level of prices.

Today, as in the 1930s, there is no coherent rescue plan. Some global nightmare, such as the threat of another world war, might induce the feverish activity that would pull the great industries back into full employment, but would it be rational to wait for such an eventuality?[1] The price would be too high, in any event, as it was when Adolf Hitler and Emperor Hirohito came to the economic rescue of the world in the 1930s and unleashed a holocaust the like of which was never before experienced by mankind.

In this chapter, we describe a humane and practical programme for economic recovery which would also ensure sustained growth beyond yet another 18-year cycle and cataclysmic collapse at the turn into the 21st century. The problem can be crystallised by considering the ways in which the level of business profits can be raised.

Profits can be raised by improving productivity, or by reducing the share paid out as wages, salaries or rental income, or some combination of these alternatives. The idea that rental income should be reduced has not been a policy option. In Britain, the government's Property Advisory Group claimed to have perceived a drop in the share of income going to landowners,[2] but the Cabinet's policies were designed to undermine any such tendency (see Chapter 20). Policies were intended to increase productivity and reduce wages.

The 'shake-out' of 30m. people into unemployment in the OECD countries by the early 1980s did result in a small increase in productivity.[3]

But this was not expected to make any significant difference for any of the economies except the few (especially Japan and Germany) that have traditionally invested heavily in new capital and in research and development. The gains in output per manhour did not realise sufficient *additional* income for entrepreneurs to enable them to reinvest out of internal funds. Against the gains in *per capita* productivity through de-manning, however, have to be set the cost of the lost output through unemployment and the extra burden on taxpayers who were obliged to finance additional state welfare programmes.

Slight gains in productivity were also achieved through changes in work-practices which were successfully forced upon trades unions. The balance of power on the shopfloor shifted in favour of employers as the dole queues lengthened. Some employers felt confident enough to take unilateral action. Where agreements were secured, these were underpinned by the coercive threat of redundancies. Perhaps the most dramatic challenge to union power was President Reagan's dismissal of 11,500 air traffic controllers who went on strike in 1981. This effectively destroyed their union. But again, while there may have been marginal improvements in output, these were minimal short-term gains against which we would have to offset the losses that were threatened by increasingly resentful workforces, many of which can be expected to take revenge when circumstances eventually shift back in their favour.

In sum, then, profit levels and investment could not expect to benefit to any significant degree by the productivity advances that were realised in the trough of the recession. While this caused some dismay, it was not considered the only recipe for improved profits. For conventional wisdom linked profits with the movement in wages, an association which in anything but the very short term is a fallacious one. In view of the confusion even among senior economic advisors, it would be as well to re-examine some of the elementary principles of the capitalist system before proceeding to an account of our solution.

The profit motive is at the heart of the Western economy. Its function is a dual one. First, the prospect of accumulating profits generates entrepreneurial activity: it compels the businessman to consider how best to satisfy consumer preferences. Second, profits provide the funds for the re-investment that enables entrepreneurs to expand their operations. This investment financed out of internal funds expands output, holds down prices and increases employment. The pursuit of profits, then, is an honourable one, individually gratifying and socially beneficial insofar as the price mechanism correctly directs the attention of the wealth-creators towards the needs of the consuming public.

The global crisis of the 1980s is monitored by the insufficiency of profits.

Unless a formula can be devised to re-establish a growth trend in profits, unemployment will continue to rise. *A reappraisal of why profits have slumped must be at the centre of any attempt at fresh policy formation*, yet the debate is not illuminated by an appreciation of the full historical facts.

Why are profits so low? On September 24, 1981, Mrs Thatcher's chief economic advisor, Professor Terry Burns, addressed America's National Association of Business Economists in Washington DC. In his speech he made the following statement:

> The rate of return to industrial and commercial companies fell from around 8%, to 2-3%, during the 1970s. This fall in profitability has been concentrated on manufacturing. There is *no easy explanation* of why profit margins have deteriorated so badly. The *most identifiable factor appears* to be the bargaining strength of UK labour relative to employers in part deriving from the high unionised portion of the labour force, the legal privileges of UK trade unions and the vulnerability of monopoly nationised industries to high wage demands.

The power of unions, then — through their ability to increase that portion of GNP paid out in wages and salaries — was assigned the chief role in the process leading to 'a sharp fall in real rates of return upon companies'.

The statement by Prof. Burns has two phrases which have been italicized. The concession that there was 'no easy explanation' was an honest admission of ignorance. The British Government's chief economic advisor felt obliged to fall back on *appearances* in his search for an answer to the historical problem of the collapse of profits; and the 'most identifiable factor' *appeared* to be the bargaining strength of trade unions. After two centuries of refinements to the economic theories of Adam Smith, and despite at least three decades of complicated model building with the aid of computer technology, the Western world's leading politicians rely on impressionistic evidence to formulate the policies which determine the welfare of hundreds of millions of people.

The Burns impression is one that has not been substantiated. Nor can it be correct. The slump in profits struck simultaneously: market economies that are highly planned, with detailed annual agreements on the apportionment of the national product between labour and capital (e.g. Sweden); a country in which 'company' unions are noted for their collaboration with managements (Japan); countries with a union structure, the strengths of which — across the economy — are doubtful, to say the least (USA); and a country which, in the popular view at any rate, has a destructive trade union system (UK).

But the *belief* that unionised employees were responsible for the decline in profits was sufficient to enable policy-makers to propose that the value of non-property incomes should be reduced in the 1980s. This was accomplished by reducing income transfers (such as pensions and other state welfare benefits, such as food stamps in the US); by the use of intimidation in wage bargaining, backed up by the threat of redundancy; and through the covert use of inflation, which reduced the real value of wages and salaries.[4]

In the United States, the cold figures reveal the success of this configuration of policies. In 1980, over 29m. people were classified as living below the poverty line, a staggering 13% of the population and an increase of 3.2m. over 1979.[5] But it was not just the families at the lowest income levels that suffered. The median family income in 1980 was $21,020, which was 5.5% lower in real terms than the previous year. This was the largest decline since World War II, and a drop of $1,330 over the 1973 median income ($22,350).[6]

The sustained attack on the living standards of families since the collapse of 1974 was foolhardy in the extreme, for it deflated the economy. The result was a decrease in the demand for the goods and services at a time when the economy desperately needed an increase in consumption. Profits did not benefit at all. After-tax profits of non-financial corporations in the US, for example, were down to 4%, the lowest level since 1948 (except for 1974, the beginning of the recession when the rate was 2.6%). What, then, needs to be done?

The problem is to expand the opportunities for labour and capital to produce the goods and services that are demanded by consumers. To try to do so by reducing wages is absurd, for two reasons. First, this does not work. We have seen that the share of the value of national output paid in wages and salaries is constant over a long time. This remains true (averaging roughly 50% in the manufacturing sector) under varying conditions.

> That this should be so in all principal industrial countries is an impressive indication of the strength of the operative underlying economic forces in spite of the wide variety of technology, size of operation and industrial structure. In this respect, the experience of economies as different in structure and management as those of the USA and USSR, Britain and Hungary shows a remarkable similarity.[7]

Secondly, one of the major initial problems is to increase *effective* demand — the public has to have the money with which to buy new goods and services and this can be obtained by them only by prior production. The short-term effect of any kind of wage-suppressing incomes policy is to cut immediate consumption, and therefore discourage production.

The rational strategy is to reduce rents and the buying price of land in locations where firms might start up or expand; and reduce taxes on wages and interest, to stimulate new capital formation and higher productivity. This is the policy that meets the diagnosis of the world's problems by the

Organisation for Economic Co-operation and Development, the influential mouthpiece for the industrialised world:

> The reasons for the protracted deterioration in the employment situation in many countries are complex, and not fully understood. But it would seem that a range of structural factors have been important in various countries, including significant and perhaps growing inflexibility in labour and product markets, the emergence of major imbalances in the share of aggregate income, and a shift in the tax burden to employment and investment. (*Economic Outlook*, Paris: OECD, July 1982, p. 6)

Land value taxation, this one pivotal policy, has the direct effect of loosening the rigidities in the markets (by increasing opportunities and compelling competition); it changes the share of aggregate income in favour of wages (to boost consumption) and interest (to stimulate investment); and it permits a reduction in the tax burden on employees and investors. There is no one other policy for challenging the problems that confront the West in such a comprehensive way.

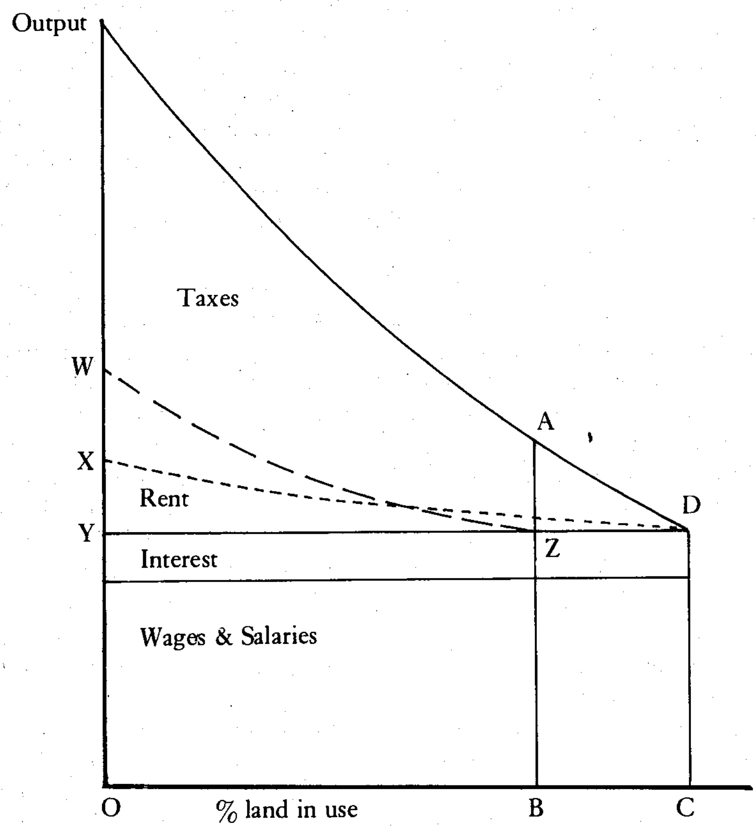
We present our model in the belief that the general despondency that afflicts the West — the acceptance of high unemployment and low growth rates for many years to come — is unwarranted. The impact of land value taxation is schematically illustrated in Diagram 21:I. The key assumption here is that, ultimately, taxes are at the expense of that surplus called economic rent (the value over and above the costs of labour and capital: see pp. 203-7). In the diagram, then, the returns to labour and capital are shown net of taxes, and everything above the line YD is economic rent. Government revenue derived by the current tax system is that part of the rent above the line WZ, leaving landowners the portion WYZ for their income.

The first point to notice is that the present taxation contributes directly to the artificial restriction on the amount of land made available by the owners (OB rather than OC). This happens because the aggregate rental income is reduced throughout the economy, making some land 'marginal' — that is, it does not yield any rent to the owners. The reason is that the taxable capacity (AZD) of those firms which could occupy the land BC as commercially viable concerns, would be exhausted by existing taxes, leaving them unable to pay the landowners rent.

Why, then, under the prevailing tax structure, should the landowner put his holdings to use, even if unemployed labour needs it? Sites in our major cities as well as the poor agricultural land in the far-flung foothills testify to the fiscal foolishness of taxes imposed directly on labour and capital, which are then passed on in the form of higher consumer prices. Thus, the potential output denied to the economy is represented in the diagram by the

DIAGRAM 21:I

*The impact of taxation on the economy*




area ABCD. Lost government revenue (assuming a 100% tax on annual land values) is represented by the amount AZD.

A change to land value taxation at a rate of, say, 80% (represented on the diagram by the line XD), turns 'marginal' land (BC) into rent-yielding sites. This would result from a carrot-and-stick impact on owners. First, because they would retain 20% of the rental value of this land, they would have a reason for putting it to use. Secondly, however, because they would be obliged to pay 80% of rental income as a tax, they would be *pressured* into releasing land surplus to requirements onto the market. The overall consequence would be a restructuring of land use and values. Ultimately, towns would become more compact, and so on. In the short-term, rents in populated areas would come down and people would have an easier task when they set out to establish new enterprises. Output and consumption would rise, and unemployment would diminish. Firms which, *under the present tax system*, are not viable, would now find themselves making sufficient income to pay the ruling rates of wages, interest and rent (this is vital for firms competing in the export markets, as we shall see below), without requiring public subsidies.[8] Under competitive conditions, wage and interest rates would still be determined by their marginal products; but since the opportunities for productive employment would increase, the competition for labour and capital would rise, with a consequent beneficial effect for wages and interest.

The overall losers would be those hoarding land. Although additional land would now yield an income, a land value tax set at a deterrent level would reduce the income received by this class. In the diagram, the retained income (XYD) would be less than the former income (WYZ). But since the land owner *per se* contributes nothing to the process of wealth creation, his loss is not something to be lamented.

But the economic woes of the world cannot be conveniently cured by a few swift diagrammatic strokes on the theoretical economist's blackboard. Are we proposing a programme which is practical in *political* as well as economic terms? Democratic governments have four or five years in which to show results before they have to seek a new lease of life from the voters. How do we begin the enormous task of valuing land (minus unexhausted capital improvements upon it), and shifting taxes off labour and its products, within a tolerable period of time?

A complete transformation cannot be implemented within five years, although it might well be possible to do so through self-assessment (with suitable corrective adjustments at a later date). The change, however, could be comfortably achieved within the normal span of a two-term administration —eight to ten years. The first stage has to accomplish two tasks simultaneously: reduce unemployment, and equip the tax authorities with the capacity to value land and re-structure the fiscal system. This can be done by transforming the pay-as-you-earn tax into a corporate liability.[9] In Britain, the consolidation of this employee-based income tax into a corporate impost would reduce the total number of annual assessments from 24m. to 1m. with the following advantages:

(1) Simplification of the tax records would result in smaller company wages departments; and a large army of accountants and lawyers would be released for more productive employment.

(2) Productivity would rise. Because employees would negotiate earnings on a take-home basis, the crucial connection between effort and reward

would encourage more productive work-practices, which would in turn translate into higher real earnings.

(3) There would no longer be a need to pay earnings in the form of perks (expenses, company cars and the like) to avoid income tax. And the need for the tax-evading 'black economy' would also be eliminated, having a marked effect on public morality.

The initial influence of this strategy would be a measurable movement in output and domestic consumption, felt even before the tax burden was shifted away from the corporate sector and onto land values. The next most powerful effect, however, would be to expand exports, which are crucial for the regeneration of a sluggish economy. And countries which were quickest off the mark in transforming the tax structure would have a competitive edge over their rivals. The United States and Australia, for example, would be well placed to set the pace because — for existing property tax purposes — the value of land is already assessed separately from the value of buildings. It would therefore be a relatively simple exercise to up-date the values to current market levels, and shift the whole of the tax incidence onto land; whereas in Britain, for example, real property is assessed as a whole for tax purposes (and vacant sites are not valued at all, since they are not taxed).

That the initial edge would be enjoyed by the US, in particular, is not a bad thing. Even now, most of the weaker economies rely on a boom in the biggest of the capitalist economies for their own recovery. Those countries that then followed closely in restructuring their tax system would gain an advantage in the export markets. The truth of this can be illuminated by a look at Japanese fiscal policy.

The ratio of tax and national insurance contributions to national income in Japan in about 2% lower than in the US and over 15% less than most European countries. Personal taxes are lighter than any other major country except France. Furthermore, the share of output paid as wages to employees has been lower than in her competitor countries. (Loftus records an average ratio of wages to value added of 0.37 for 20 manufacturing industries in Japan compared with 0.49 for all countries[10].) We can derive two important lessons from this.

First, pricing. Lower gross wages translate into a competitive advantage in international trade. The legendary success of Japanese penetration into the European and North American markets bears witness to this. The Japanese success in the car markets in the 1970s was built on a ratio of wages and salaries to value added of 0.35 in the 1960s, compared with a ratio of 0.51 in the US and 0.61 in the UK.

And what of taxes? In the twenty years since the postwar cycle in land values began in 1955, individual income tax exemptions were increased in

TABLE 21:I

*Economic performance and public sector finances in seven OECD countries, 1980*

| | Gross domestic product[1] | As percent of gross domestic product | | | | | Unemployment[2] 1982 |
|---|---|---|---|---|---|---|---|
| | | Gross fixed capital formation | Gross saving | Government final consumption expenditure | Current disbursements of government | Current receipts of government | |
| United States | -0.1 | 18.2 | 18.3 | 18.1 | 31.7 | 32.7 | 10.1 |
| Japan | 4.4 | 32.0 | 31.5 | 10.0 | 25.4 | 28.2 | 2.3 |
| Germany | 1.9 | 23.6 | 23.1 | 20.4 | 41.2 | 42.8 | 8.2 |
| France | 1.2 | 21.6 | 21.7 | 15.3 | 43.1 | 45.4 | 8.6 |
| United Kingdom | -1.4 | 17.8 | 19.2 | 21.5 | 41.7 | 40.4 | 12.7 |
| Italy | 4.0 | 20.0 | 22.3 | 16.1 | 41.1 | 37.5 | 10.4 |
| Canada | -0.1 | 23.1 | 21.5 | 19.5 | 37.7 | 37.1 | 12.2 |

1 Growth of real GDP at market prices, percentage change.
2 Percent of total labour force; data for August or September 1982.
*Source: Economic Outlook*, Paris: OECD, July 1982, pp. 142-153.

every year but three, individual income tax rates were reduced eleven times, and corporate tax rates were reduced six times. Supported by such a benign policy towards incomes, it is not surprising that Japanese workers were encouraged to work harder and better. Thus, a change to a policy of lower taxes would increase productivity (and therefore reduce the unit costs of labour) and decrease prices, leading to an additional competitive advantage in the world markets. An ailing car manufacturer like British Leyland, therefore, which survived into the 1980s only because hundreds of millions of pounds of taxpayers' money was poured into it (to offset the high UK taxes), would in these circumstances no longer be classified as a 'marginal' company. It would once again become an economically viable enterprise, able to meet all its costs of production without public subsidies.

The tax-effect on prices, competitiveness and employment can be appreciated by noting the findings of Hermione Parker, who revealed that in 1982 about 7.5m. people in Britain were suffering from 'tax-induced poverty'. And working from Department of Health and Social Security figures, she concluded that in almost every case the means-tested benefits payable to 1m. employees were necessary only because gross earnings were whittled away by income taxes and national insurance contributions.[11] This was a gift to Britain's competitors in the world markets, because prices had to be high enough to recover the total labour costs to employers (net wages plus employment-related taxes). And the bureaucracy was unnecessarily preoccupied with taxing away income and paying it back to the same people in the form of 'benefits'. The progressive elimination of these taxes would permit a reduction in prices (thereby raising real living standards) and a cut in the size of the bureaucracy to no-one's disappointment.

The next insight concerns land values. Since the shares received by labour and the public sector in Japan are lower than in competitor countries, we would expect a larger surplus to be captured by land monopolists. We believe this to be the case. The comparative data required to prove this is hard to come by, unfortunately.[12] Nonetheless, the thesis can be supported by facts such as the following. In the first half of the postwar cycle in land values (1956 to 1966), land prices increased by 6% in the USA, and by a staggering 19.9% in Japan.[13] As for wage earners, land as a proportion of the cost of a single family home was generally 20% to 40% in the large cities of the US; in Tokyo, in the 1970s, it reached 60% to 70% (and this was for an average plot of only 150-200 sq. metres, compared to 900 sq. metres in the US).

Japan's lower taxes and government spending (see Table 21:I), and lower wage rates, have as their reciprocal higher land values. The failure to neutralise the rent effect through land value taxation meant that Japan was vulnerable to the logic of the 18-year cycles, as we saw in Chapters 11 and 12. But although growth of the domestic economy was distorted (imagine what she would have achieved if the land monopolists had not been allowed to constrain economic activity), Japan was able to mitigate these effects through the competitive advantage that followed from her lower wages and income taxes.[14] Thus, after a decade of global recession, Japan's economy is racked by rents and land prices which would be insupportable but for her ability to outperform her competitors. Although she has lost the overwhelming lead that she enjoyed in the 1960s and 1970s, she is still able to keep the growing rate of unemployment below the levels of her competitors. The price of doing so, however, is the worst housed workforce in the industrialised world.

So we see that a shift to lower taxes, unless it is accompanied by a simultaneous increase in a tax on land values, merely translates into riches for the land monopolists and misery for the workers. But a switch to land value taxation, in addition to neutralising the effects of land monopoly, would expand the tax base itself. This is a major consideration for a country like Japan, where a great deal of public money needs to be spent on infrastructural investments if the living environment is to be made tolerable for her citizens.

We are, then, proposing a strategy for building our way out of the recession of the 1980s in a literal sense: the house-building industry would play a central role in this programme. The relevance of this leading sector approach can be understood when we note that in the US in June 1982 the highest levels of unemployment were in construction, where it rose to 19.2%, followed by agriculture (16.3%). We presume that few people would challenge the direct dependence on land of these sectors.

But while we have seen that the house-building cycle in the past has been crucial to the trends in the economy as a whole, in 1980 there was a crude surplus of houses in the USA of about 9.6m. How can this sector hope to be the trend-setter in a 'boot-straps' approach to pulling the economy out of the slump? The answer can be documented by examining the case of the UK economy, where the construction industry developed both an acute awareness that the supply and price of land was at the heart of its problem *and* also a willingness to act as the leading sector capable of pulling the economy out of the recession. In this latter aspiration, the industry had the weight to be successful as the anchorman of the whole operation. It employs about 2m. people, and accounts for 11% of Gross Domestic Product. In 1980, output was £22bn., and the value of exports was £3bn.

However, in 1980 there was also a crude surplus of nearly 1m. houses over the number of households. With a housing stock of 21.5m., then, it would be easy to make two initial assumptions. First, British families are content with the buildings in which they are housed. Second, there is little scope for expanding the activity in the building industry. Both these assumptions are false. According to an all-party committee of MPs, the measure of a 'crude housing surplus' was an unreliable guide to housing policy. It disguised the true position, as measured by the 2.2m. dwellings that, in 1976, either lacked basic amenities or were totally unfit for habitation. It also failed to take account of 'concealed households' (estimated in 1977 to be 250,000).[15]

According to Sir Peter Trench, one of the leading experts in Britain's housing industry,[16] a total of 250,000 dwellings per annum on average was the *minimum* requirement for the 1980s if people's aspirations were to be met. This was the irreducible minimum calculation of 'need'. If the economy could supply this number of new houses — as it would, if it were functioning freely — it would represent an increase in the housing stock over the decade of something like 10%. Such a massive investment would provide an increase in the quality of the household living environment, as people moved out of slums; it would stimulate the demand for skilled workers and labourers, as entrepreneurs expanded their operations; and it would have a generally beneficial effect on the economy, as labour mobility was increased in response to the supply of houses in locations where jobs could have been created but for the want of employees for hire.

In the face of the measurable need, worth a minimum of £21bn. for housing alone (at constant 1975 prices), we could have expected the building industry to respond to the challenge of the market place. Instead, however, the industry began to contract from 1978 (Table 21:II). Why? The explanation can be summed up in one word: land.

By 1978, the price of a plot of land on which to build houses had regained the speculatively-high levels achieved in 1973.[17] A flood of reports alerted the authorities to the critical shortage of reasonably-priced land, both from official sources, charities and organisations concerned with the environment.[18] The warnings were reinforced by the housebuilders. In April 1981, 445 firms provided detailed answers to a survey which revealed that 85% of them were suffering from an acute shortage of land. Half of the builders said that their land supplies, at existing levels of production rates — the lowest since the 1920s — would last for less than one year. If, however, there was an upturn in the demand for houses, over 60% of the builders said that their land supply would last for less than one year.[19] The Federation of Master Builders issued its grim warning:

> No one wants a repeat of the serious and sharp increase in prices which occurred in 1972/73. Yet that may happen if action is not taken to ensure that sufficient land is available at a reasonable price. If builders are as hard pressed for land, as shown in the survey results, they will obviously step up competition for whatever land is available in order to keep their firms in existence. This competition will intensify with any growth in demand for housing. The implication for housing costs is quite clear. On a rough average about 25% to 30% of the selling price relates directly to the cost of

TABLE 21:II

*Great Britain, 1977-1981*[1]

| | | Value of new orders obtained by contractors[2] £m. | Index: 1975 = 100 | Housing completions (private: 000s) | Housing land prices per plot or per hectare 1975 = 100 | | | Farm prices: average per acre: £ | Unemployment (level in July) Millions | % |
|---|---|---|---|---|---|---|---|---|---|---|
| 1977 | | 6,096 | 94.6 | 140.3 | | 106 | | 1,022 | 1.5 | 6.6 |
| 1978 | | 6,347 | 98.5 | 149.0 | | 129 | | 1,368 | 1.5 | 6.4 |
| 1979 | | 5,681 | 88.1 | 138.1 | 1st half | 168 | | 1,828 | 1.3 | 5.9 |
| 1980 | | 4,848 | 75.2 | 125.7 | 2nd half | 202 | | | | |
| 1981 | Q1 | 1,284 | 79.7 | 27.7 | 1st half | 243 | | 1,904 | 1.8 | 7.7 |
| | Q2 | 1,295 | 80.3 | 25.4 | 2nd half | 238 | | | | |
| | Q3 | 1,230 | 76.3 | 29.3 | 1st half | 247[3] | 1st half | 1,858 | 2.7 | 11.6 |

1 Data from the Department of the Environment, except for farm prices, which are derived from *Farmland Market* (and cover England and Wales only).

2 1975 constant prices, seasonally adjusted. Includes housing (excluding orders for home improvement work), and new work in public and private sectors.

3 Provisional.

> the building plot on which the house stands. Any serious increase in land prices would therefore reflect heavily on the final selling price.[20]

Despite this weight of evidence, however, the government continued to believe that there was a 5-year supply of land available to builders. The main thrust of official policy — persuading public authorities to sell off surplus land to the private sector — was considered to be sufficient to meet all needs.[21] There were two defects in this policy, however. The flow of publicly-owned land into the hands of builders was at a derisorily low level,[22] wholly insufficient to meet production needs. Secondly, this was a once-for-all policy: once the authorities had released as much land as they were prepared to sell, the public sector as a source of supply would come to a dead end.

The British Government, while acknowledging the key role of the construction industry,[23] treated this sector in a cavalier fashion. It was accused by the all-party Select Committee of MPs of depriving itself of information necessary for sound decisions, and of treating public sector housing expenditure as a 'residual' item.[24]

Appeals for action from the housing industry were stone-walled. John Stanley, the Housing Minister, declared in January 1982: 'The message for the construction industry . . . is that competitiveness is both the key to success and the only certain guarantee of survival'.[25] In fact, competition between builders — which is what the Minister meant — could not *begin* until the industry had wrested land from its owners: and that struggle had to take place under unequal terms, in an uncompetitive market.[26] The deprivation of reasonably-priced land prevented builders from erecting the houses that families could afford; builders were the major casualty in the 20% increase in bankruptcies heard in London's High Court in 1981.

Mrs Thatcher's government, having embarked on a monetary policy aimed at reducing inflation, was consistent in refusing to pump public funds into house-building. And in any event, such an approach would have been counter-productive. In France, for example, the socialist government of President Francois Mitterrand committed $5.85bn. to the construction sector in an attempt to reduce unemployment. The beneficiaries were the landowners, for subsidies of this size increase the attractions of land compared with other forms of assets.[27]

But the availability of *money* was not the crucial problem for the house-building industry. And nor did an increase in the supply of land depend upon the expenditure of a single penny of taxpayers' money: all that it required was the imposition of a tax on the annual value of land. The opportunity to consider such an approach was presented to Mrs Thatcher's Conservative Party when, while in opposition before the general election in 1979, it committed itself to a radical review of the property tax. One of the options was to lift taxes off buildings and transfer them onto site values. Such a transformation would have been welcomed by both builders and house-purchasers, for it would have made buildings and land cheaper to buy and sell. But when the Conservative government published its Green Paper on the property tax, it did not contain one word on this policy option.[28] This silence reinforced the belief that the government, for all its rhetoric about the crucial importance of the construction industry, was unwilling to inform its policies with the facts.

Thus, the builders were helpless and the government was useless; the construction industry was *prevented* from discharging its historic role of coaxing life back into the rest of the economy on the basis of a plan that co-ordinated the industry's resources with the government's political leverage.

Sir Peter Trench, in reviewing the prospects for the industry and its customers, stated: 'If I have dwelt so long on this thorny question of land it is because I sincerely believe it to surpass in complexity any other constraint on housing supply that might exist'. And he concluded that by the end of the 1980s, the *need* for new housing would continue to be well in advance of supply. 'Supply,' he concluded, 'because of land, will be in a thorough mess.'[29]

Some public authorities made isolated attempts to increase the supply of land and override the uneconomic prices being demanded by private land-owners. In Britain, Liverpool Council encouraged inner city housing construction by providing land at subsidised prices. This enabled builders to provide homes at prices which were comparable to developments on 'green-field' sites. In the United States, the city of New York provided land on the Bathgate Industrial Park in the Bronx for industrial developments. This was designed to provide 1,500 new jobs, by making it possible to establish companies that were to pay rents which (at $2.50 a sq. foot) were nearly half the rents charged by the private sector.[30]

Although well-meaning, such efforts are inadequate and ultimately self-defeating: they misallocate resources when the problem is viewed in the context of the whole economy and through time. The intervention of public authorities to over-ride the influence of land monopolists serves only to transfer economic rent to a new, favoured group — the ones who are given access to the land according to bureaucratic criteria.

Construction is a vital part of a programme of economic regeneration, but it has to be part of a rational strategy capable of reaping optimum advantage from all the factors of production — land, labour and capital — mixed in the correct quantities, in the right place and at the appropriate time.

We can now see how a switch in fiscal policy to land value taxation would not only increase consumption, through an increase in net household incomes, and stimulate investment in fresh capital formation, through an increase in post-tax profits, but also thrust the construction industry into the role of the leading sector in the climb out of recession. This broad-front recovery operation turns on one simple fiscal device, the economic benefits of which are out of all proportion to the administrative changes necessary to realise them. Land value taxation was a policy that found favour with large builders, especially in the United States.[31] At the political level, however, the will was lacking. In Britain although 62 members of the Westminster and European Parliaments saw the wisdom of advocating a penal tax on vacant land, to generate economic development,[32] Mrs Thatcher's government was paralysed by philosophical inertia.[33]

Land speculators were the only beneficiaries of the global recession. The vast array of subsidies and tax advantages associated with land ownership helped in the short run to protect them against sluggish industrial economies, while the eventual recovery promised rich capital gains by the end of the decade.

It is never too late to reformulate policies, but this ought not to induce complacency among the statesmen who are instrumental in shaping popular opinion. For at stake in the 1980s is not just the issue of short-term tactics for economic recovery, but the political future of the West. The economic lessons of the past 200 years have not been learnt, and economics, as Marx noted, effectively determines much of socio-political life. The march of events appears to favour the eventual triumph of the Marxist vision, the continued potency of which was demonstrated once again when it successfully snuffed out the first beacon lights of freedom which were lit in Poland by the workers who were brazen enough to form themselves into a free trade union. It is to this philosophical issue, the nature of Western society and the way in which fiscal policy will be of vital importance, that we now turn to conclude this investigation.

## Notes

1 Prime Minister Margaret Thatcher identified the munitions industry as a promising source of new jobs for Britain in the 1980s. J. Langdon, 'Arms drive aids exports, says Thatcher', *The Guardian*, 5.9.80. The defence budget was doubled from £7½bn. in 1978/79 to over £14bn. in 1982. In the US, President Reagan's 1983 budget set a record peacetime target increase in defence expenditure of $43.7bn. over the 1982 figure.

2 *Op. cit.*, p.13, para. 4.13.

3 *Economic Outlook*, Paris: OECD, July 1982, pp.20-21.

4 It was one of the ironies of this period that the representatives of organised labour implicitly endorsed the view that wages were at the source of the problem of low profits and investment. For example, Britain's Trade Union Congress agreed in

September 1980 to accept an incomes policy which would hold back the level of wage settlements and so reduce the real living standards of their members. This agreement was conditional on the return of the Labour Party to power at the following general election.

5 *Money Income & Poverty Status of Families and Persons in the US: 1980*, Washington DC: US Dept. of Commerce, Bureau of the Census, Aug. 1981. p.3.

6 *Ibid.*, p.1. In Britain, the decline in real personal disposable income in the year up to the third quarter 1981 was 3%.

7 P.J. Loftus, 'Labour's Share in Manufacturing', *Lloyds Bank Review*, April 1969, p.17.

8 The present earnings-based taxes produce the absurd situation in which a company may need government subsidies to remain in business. The subsidies (or market restrictions which — by raising prices above their competitive levels — amount to the same thing), are necessary to offset the income tax yield. In other words, no-one wins except the bureaucracies which are kept busy trying to cancel out the negative influences of the tax structure!

9 E. Woolf and J.D. Allen, *Tax Restructuring: A Policy for Economic Regeneration*, London, July 1981, pp.23-24.

10 *Op. cit.*, Table 6, p.23.

11 H. Parker, *The Moral Hazard of Social Benefits: A Study of the Impact of Social Benefits and Income Tax on Incentives to Work*, London: I.E.A. Research Monograph No. 37, 1982.

12 A comparison of Tokyo's office rents with those ruling in London or Paris is made extremely difficult by the fact that Japan's rents understate the true cost of occupation to tenants. Tenants are required to pay very substantial deposits as well as rents. *International Property*, London: Richard Ellis, June 1982, p.83.

13 Darin-Drabkin, *op. cit.*, Table 3.4, p.65.

14 The same explanation accounts for the buoyancy of the Hong Kong economy. The maximum tax rate on profits is 17% and the maximum tax on individual incomes is 15%. Rents and the buying price of land, however, are the highest in the world. The British colony has been able to out-perform even Japan in the postwar years, but her success was built on extremely low wage rates, which are made possible by an inexhaustible supply of cheap labour from Red China.

15 *Third Report from the Environment Committee*, HC 383, London: HMSO, 1981, para. 18.

16 Sir Peter Trench was chairman of the National House-Building Council, a director of the Nationwide Building Society and Chairman of Y.J. Lovell, the housebuilders and construction group.

17 *The Housebuilding Industry and Changes in the Market for Housebuilding Work: A Review of the British Experience*, University of Birmingham, Centre for Urban and Regional Studies, Research Memorandum 87, June 1981, p.23.

18 See especially D.C. Nicholls, D.M. Turner, R. Kirby-Smith and J.D. Cullen, *Private Housing Development Process: A Case Study*, London: Department of the Environment, 1981; *Countryside Management in the Urban Fringe*, Cheltenham: Countryside Commission, 1981, and *Waking Up Dormant Land*, London: Council for Environmental Conservation Youth Unit, 1981.

19 *Future for Housebuilding*, London: Federation of Master Builders, June 1981, Tables 2 and 3.

20 *Ibid.*, p.2. This warning was verified by a detailed analysis of the accounts of housebuilding firms, which concluded: 'Costs show little sign of easing and land

is coming into short supply. The resultant high price of land adds to the cost pressures'. See *Housebuilders: An Industry sector analysis*, London: ICC Business Ratio Report, 1981.

21 *The Government's Reply to the Third Report from the Environment Committee,* HC 383, London: HMSO, 1981 Cmnd. 8435, paras. 11-16.

22 *Future for Housebuilding, op. cit.*, Table 6.

23 John Stanley, 'The Government and the Construction Industry', Memo. by the Minister for Housing and Construction, London: NEDC (82)5, mimeo.

24 *Third Report from the Environment Committee, op. cit.*, para. 21. Public sector housing expenditure was reduced from 5.4% of planned total expenditure in 1980/81 to 2.9% in 1983/4.

25 'The Government and the Construction Industry', *op. cit.*, p. 16.

26 This point was forcefully made by housebuilder Tom Baron, a former adviser to Conservative Minister of the Environment Michael Heseltine, who stated: 'If land was more readily available and consequently cost less, we would be competing for customers instead of competing with each other to buy land'. *Chartered Surveyor*, January 1982, p. 333.

27 This fact was finally recognised by the French government. See D. Marsh, 'Keynesianism in a new guise', *Financial Times*, 28.9.82.

28 *Alternatives to Domestic Rates*, London: HMSO, Cmnd 8449, 1981.

29 'Sir Peter Trench foresees a decade of housing shortage', *The Building Societies' Gazette*, n.d. (June 1981), pp. 816-817.

30 R. Smothers, 'South Bronx Industrial Park Begins to Take Shape', *New York Times*, 18.12.81.

31 R. B. Andrews, editor, *Urban Land Use Policy: The Central City*, New York: The Free Press, 1972, p. 207.

32 A. D. Steen, *New Life for Old Cities*, London: Aims of Industry, n.d. [1981], p. 25.

33 The government did claim that it was studying the proposals contained in Steen's book. See *Hansard*, 7.12.81, col. 564. There is no evidence, however, that the land tax was one of the proposals under consideration.