

Holiday Shocks KENNETH JUPP



IN AUGUST, when political activity usually stagnates because so many people are on holiday, the Monetary Policy Committee of the Bank of England surprised everybody by announcing a quarter per cent reduction in the interest rate. Manufacturing industry was officially in recession, service industries were hesitant, the technical industries based on computers were desperately lowering prices, the stock market was falling, and rural industry and farming were in dire straits. By contrast, the shops were busy, consumer spending was booming, while house prices were rising strongly. Boom in some sectors, slump in others. How can the regulation of interest rates by the Central Bank cope with such divergence? Logically, each sector needs to be treated differently. Individual firms need restraint or relaxation of restraint, in different measure. "One size fits all" is a recipe for disaster.

The belief that all this diversity in the economic landscape can be controlled by a committee of experts is a "left-over" from Marxism. To examine a non-Marxist view one has to go back to the 18th century French economist and statesman A-R.J. Turgot, who considered it an error to believe that the rate of interest should be fixed by government. He explained that money has to express two distinct valuations: the cost of goods bought in the market, and the cost of money borrowed in the money market. The two evaluations are regulated by entirely different principles, and move independently of each other, often in opposite directions. "The rate of interest, like the price of other merchandise, should be fixed only by the market."

Current jargon frequently refers to the workplace as a playing field. This is a heartening but quite inappropriate metaphor. Work for most people is not at-all like play, and the work-place is not in the least like a field. Turgot described it as a landscape of hills and valleys, with rough places and plain, where –

The rate of interest can be regarded as a kind of water level, falling below which all labour, cultivation, industry, and commerce are engulfed, and come to an end. The mountain summits rise above the waters, forming fertile and cultivated islands. If the water should begin to flow out, as the water level goes down, first the land on the slopes, and then the plains and the valleys appear, and become covered by every kind of productive activity. If the water rises or falls by only a foot, it is enough either to inundate, or to restore to production, immense tracts of land. It is the abundance of capital which brings enterprises to life, and a low rate of interest is both the effect, and the indicator, of abundant capital.¹

It is madness to suppose that interest rates, or indeed any other human device, can be used to decree that every valley shall be exalted, and every mountain and hill made low, the crooked made straight, and the rough places plain. However, government does need to do what it can to even out the advantages and disadvantage of the rugged economic landscape.

For many years governments of all complexions have resorted to subsidies or nationalisation to sustain ailing industries. Both these methods, although they continue to be used, have now been largely discredited. A far more effective way to protect those who are poorly placed in the economic landscape, is by taxation:

The expense of government to the individuals of a great nation is like the expense of management to the tenants of a great estate, who are all obliged to contribute in proportion to their interest in the estate.²

A good landlord achieves Equity by ensuring that each tenant pays a reasonable rent, revised at frequent intervals so as to keep pace with changing circumstances. Individual rents then take into account every advantage or disadvantage of situation, and even out the inequity of the mountainous economic landscape. The Chancellor is very like the manager on behalf of the Crown of a great estate, and could do the same in respect of the expenses of government by taking rent from every freeholder, but only for his position.

The public is now being alerted to the importance and value of position by the difficulty of recruiting police officers, nurses, teachers and other public servants in London and the South-east, where salaries are insufficient to meet the cost of a mortgage with which to buy themselves into the housing market. Departments and companies also are searching for premises away from the gold-paved city and its inner suburbs.

The enormous value of position is one of our most valuable assets. Unlike the buildings and other developments of a site, which are man-made and are therefore private property, the value of a site is public property created by the amenities of Nature and the growth of the community surrounding it. If it were collected by the exchequer in the form of rent, mortgages would only have to cover the price of the building.

1 A-R.J.Turgot, *Reflections on the Formation and Distribution of Wealth* (1766), Othila Press, London 1999, paragraphs 75 to 90. Turgot's meticulous argument in these paragraphs is summarised at pp. xxiv to xxvii of my introduction to the translation.

2 *The Wealth of Nations* Bk. V., 2, ii. This dark saying of Adam Smith is part of his first maxim of taxation.