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Editor: *V. H. Blundell*

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EDITORIAL

Behind The Pay Pause

TO COIN a new phrase or use a new word to describe an old problem is often to create the impression that the problem itself is new or changed. Thus a depression becomes a recession, unemployment redundancy and youthful crime juvenile delinquency.

The "pay pause" in the latest catch-phrase to be added to our economic jargon in this way. Stated in plain English, it is resistance to an immediate increase of wages. Fundamentally speaking, there is no new problem here. Nor does the fact that the workers concerned are government servants make the basic issues involved any different — although it may change the way the problem is handled.

An analysis of the economic and political ramifications of claims for increases in wages would not, however, be so difficult were it not for the introduction of extraneous matter into the arguments for and against pay increases. This not only creates confusion and misunderstanding, it diverts attention from the basic issues and consequently the right solution. To what extent this is deliberate on the part of those concerned is a matter for speculation.

Now, the biggest single factor that has given rise to the demands for higher wages, whether on the part of government servants or private employees, is the debasement of the currency — the "cure-all" of all near-bankrupt governments throughout modern history.

The Press on the Pay Pause

Before attempting our analysis of the problem of the pay pause, let us look at some recent statements on the subject. These statements indicate the nature and scope of the problem and reflect current thinking.

The Statist, January 12.

"Mr. Selwyn Lloyd has recently been talking of the extension of the principle of his pay pause, not only in time, but in scope.

He would make it apply to all forms of income including profits . . .

"Over the past year the nation has paid itself in higher wages and salaries £1,450 million more than in 1959-60 in order to remunerate itself for producing an additional £650 million of goods and services. The result was an inexorable rise in costs and prices . . ."

Financial Times, January 11.

"As part of the national policy on incomes which would presume that wages and salaries do not rise more than productivity, he (the Chancellor) is assuring the unions that he will not permit the relative position of profits to be improved because of wage restraint."

The Guardian, January 11.

"Few question the need for a more rational wages system in Britain. Mr. Lloyd may be credited with the sincere belief that his 'pause' was necessary to defend the pound."

The Guardian, January 6.

"Representatives of the British Employers' Confederation expressed the view that the balance-of-payments situation still presented the greatest danger. To correct this, a substantial increase in exports will have to be secured and for this to be achieved industry had to become more competitive. This in turn meant that no general increase in incomes could be justified until productivity had caught up."

The New Daily, January 5.

"The government should lay down a wages policy which would fix minimum wages for various categories of jobs and relative wages in nationalised industries to production . . ."

Summary

Let us now take these points in a convenient order:

1. The nation has paid itself more than it has earned.
2. Prices and costs have risen because of (1).
3. Inflation is caused by excess of demand.
4. The wage pause is necessary in order to defend the pound.
5. Increased exports, balance of payments and pressure against sterling depend upon keeping prices, and thus wages, down.
6. It is the government's business to regulate wages — or at least to have a "wages policy."
7. Because wages are frozen, so also should profits and dividends be frozen.

The statement that the nation has paid itself more than it has earned should cause any but those with a "follow-my-leader" type of mind to sit up with a start. How *can* we pay ourselves more than we earn — as a whole nation, that is? You cannot get a pint and a half out of a pint pot. From whence comes this extra that is not earned?

If some get more than they earn, the others must receive less than they earn, but how can *everybody* receive more than they earn? Why then is this statement accepted by Press, politicians and economists alike? The answer is that statistics prove it and, oddly enough, they do *for there is a dangerous and concealed half-truth in this claim.* It is analogous to the claim that wages have risen by 3 to 4 times what they were in 1939 — and they have, *in terms of paper money.* Since a nation cannot pay itself in real wealth more than it earns (unless other nations cancel what we owe them by way of trade, an unthinkable concept) the only way it can "pay more" is in debased paper money. To argue that prices and costs have risen because we have paid ourselves too much is to confuse cause with effect. It is because we have "paid ourselves" in too much *paper* money that prices have risen.

Confusion of Cause and Effect

Inflation, it is frequently alleged, can also be caused by "excess of demand." If more money is continually being infused into the economy by increasing the money supply, then demand must increase, but only *in terms of money*—it is not a *real* increase in demand. Here again cause and effect are adroitly reversed.

When, through debasement of the currency, the value of the pound falls, resulting in higher prices, not only do wage earners demand more wages, but many importers in other countries refuse to pay the higher prices, and thus we become less competitive. Here again the thread of truth runs through the statements regarding our exports, i.e. that inflation adversely affects our balance of payments. Unless the pound is left to find its own level in relation to other countries' currencies (the only protection foreign buyers have against rising prices) or inflation of the currency is stopped, we can solve our balance of payments and "pressures on sterling" only by restricting imports or increasing exports. The last two expedients are the only ones of which economists seem aware. When they speak of stopping inflation they can think only of baling the boat, not stopping the leak. It is astounding how much confusion can arise from thinking, or pretending to think, that an effect of a phenomenon is in fact its cause.

From this unreason springs the idea that the pay pause must be maintained in order to safeguard the pound. The pound, in fact, has been insufficiently safeguarded in the first place by the government, which persists in its policy of debasing it and then blaming the wage-earners and dividend-owners for expressing their real wealth in terms of the inflated currency in order to redress the effect of depreciation.

Regarding a government wages policy, we would state emphatically that it is no business of the government to regulate the general rates of wages. What is its business is to refrain from actions which bring about the inflationary situation and consequent wage disputes. In short the Government should balance its budget with real wealth, not new and additional paper money.

Freezing Dividends

The proposal to freeze dividends *pari passu* with the wage pause is not only a sop to the unions, it is a confidence trick, since dividends can be unfrozen but "pauses" cannot be made good. A capital gains tax, also a sop, is not germane to the question and cannot seriously be regarded as a balancing factor to the wages pause.

To consolidate the case we have made out we call as evidence the answer given by Lord Mills in the House of Lords on December 5 last, when he was asked for figures giving the value of the pound since 1850. Here they are:

Purchasing power of the pound (1914 = 20s.).

				s.	d.
1850	"	"	"	20	5
1875	"	"	"	18	0
1900	"	"	"	23	0
1914	"	"	"	20	0
1919	"	"	"	9	4
1929	"	"	"	12	2
1939	"	"	"	12	5
1945	"	"	"	7	10
1950	"	"	"	6	3
1955	"	"	"	5	1
1956	"	"	"	4	10
1957	"	"	"	4	8
1958	"	"	"	4	7
1959	"	"	"	4	7
1960	"	"	"	4	6

It will be seen that during the period 1929-39 the pound remained almost steady, gaining in value in fact by 3d. There was, during that period, no persistent and "extravagant" demands for higher wages. It may be argued that during this period there was much unemployment and therefore the unions were not in a position to enforce their claims, but they had no need to, their wages maintaining their value from year to year. But most important of all, wage increases since 1939 have barely kept pace with the fall in the value of money, the gains (except for some tightly organised unions) have been hollow ones. In short, trade unions generally have not and cannot raise real wages. Where increases of real wages have occurred, they have been due to factors outside the power of unions.

Higher standards of living today are largely accounted for by overtime pay, shorter hours, working wives, subsidised rents, both state and private, and, above all *regular* employment, which more than anything has eliminated real poverty.

It will also be noted from this table that debasement of the currency began at the outset of the First and Second World Wars. In the case of the First World War, inflation came to an end when the war ended. In the second, it continued long after — indeed, it has not stopped up to the present day.

Inflation Continues

The picture is almost complete. The latest evidence of the prime cause of higher wage demands is to be found in the increase in the fiduciary issue last year, i.e. *the government, through the Bank of England, put a further £92 million of paper money into circulation during* 1961, and the figures of unbacked paper money now stands at £2,375 million (January 20).

It is simple — but simplicities are often profound. If we could apply the same kind of reasoning to other economic problems — the housing shortage, land speculation, poverty and trade — we would likewise come to a simple answer, but an answer that politicians with so much to lose would find too unpalatable to consider.

Who Causes Inflation?

"INFLATION: Resort to inflation of the currency; raise price artificially; abnormal increase of the currency by the issue of inconvertible legal-tender notes." — *Fowler's Concise English Dictionary.*

"Inflation is not a budgetary phenomenon; it is a monetary trouble. It arises if a government, instead of raising the taxation which is necessary in order to meet its expenditure, expands the note issue. The government possess ample powers to deal with these matters. They control the Bank of England." — *Lord Douglas of Barloch.*

"The treasury bill (government promise to pay in three months) has been used as the modern equivalent of the printing press or debased coinage... The government has financed itself with a flood of treasury bills which have indirectly swollen bank deposits and increased the supply of money." — *Sir Oliver Franks.*

"One certain way to arrest the continuing inflation is for the Treasury to instruct the Bank of England that in any year from now on it must not increase the fiduciary issue note circulation above the peak figure for the previous year." — *Sir Arnold Plant.*

"Public spending and public borrowing must be limited to what we are prepared to finance by real savings and real earnings and not just by printing extra banknotes." — *Mr. J. Enoch Powell.*