



● The West's costly nuclear umbrella — with more than three times as many Cruise missiles planned.

## INSITE on Poverty and the Arms Race



● The Reds' nuclear line-up. Reduced defence spending could get their industry in better shape.

# PEACE TREATY MYTHS

IT IS popularly assumed that we could eliminate poverty or generate new economic development if we did not spend so much on "defence". But is there a simple trade-off between the two?

This is certainly a major perception behind people's hopes for success at a future summit meeting between Messrs Reagan and Gorbachev, assuming they can overcome the disappointments of Reykjavik.

The assumption, alas, is built on a false premise.

FOR THE Russians, if we allowed appearances to deceive us, there is the possibility of a trade-off between a smaller military budget and faster economic growth. We could expect a boom in the formation of new capital equipment in the Soviet Union's antiquated industries, and a rise in the quality of consumer goods available to workers.

But the Soviet Union is exceptional, because the state controls all resources and regulates wages. It can therefore appear to engineer such an outcome because it is a command economy. But what would happen in the West, if a government cut military spending and reduced its tax revenue proportionately?

The principal effect is that land prices and rents would rise, to mop up the increase in net incomes.

● WAGES net of taxes would not rise, because the existing set

of pressures would keep them at their present levels.

● PROFITS would not rise for similar reasons — the competitive flow of capital either between sectors or internationally.

● RENTS are all that we are left with. The land market is a permanently monopolistic one: there can be no flow of new land into a location that happens to be the focus for new demand, thereby moderating rents (whereas corporations that exercise monopoly power are constantly vulnerable to upstarts trying to move in to undermine the control they exercise over a market).

QUOTE by Professor Richard Estes of the University of Pennsylvania:

**'Until or unless we decrease the money spent on military and defense purposes, we will not have the money available to address racial inequality and the decline in social spending in the U.S.'**

But even if the government retained the financial benefits of a cut in the military budget, we would expect the net benefits arising from a cut in the military budget to find their way into higher rents and land values.

For example, what would happen if the government decided to provide better hospitals and schools? House prices would soar in those areas receiving benefit!

Or the government might decide to build new roads so land-owners with properties at the

intersections of new or improved highways would pocket the benefits!

IF ANYONE doubts this argument, he needs only look at Third World countries. They will not find a correlation between the level of poverty and the amount spent on the military.

Wipe out the jumped-up generals and their toy town soldiers, and you would still find massive poverty among the people, if they have lost their traditional access to natural resources.

None of this is an argument against Messrs Reagan and Gorbachev burying the hatchet, should they ever get together again. But there is little point in raising expectations about the knock-on effects.

It is probably true that, given the abysmally low living standards in the Soviet bloc, real standards would rise slightly. But most of the investments generated by an arms deal would nonetheless be financed out of what we in the free market economies call rental income.

Moscow can dictate where the "new money" goes: Washington, London and Paris could command the nuclear warheads to go away, but they could not stop the flow of income into the land market — under the present fiscal and land tenure system. There would, then, be a real estate boom stemming directly from a peace treaty.