An End to Inflation?

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THE WORD 'inflation' is so often heard and read at the present time in a context referring to increases in prices that its correct definition, according to the Oxford dictionary, "undue increase in the quantity of money in relation to goods available for purchase", has almost been forgotten. This criticism, however, cannot be made against Professor W. H. Hutt, in *Politically Impossible?** a short book published in 1971 but perhaps even more relevant today and thus worthy of a short review. The author describes his work as "An essay on the supposed electoral obstacles impeding the translation of economic analysis into policy" or "Why politicians do not take economic advice."

The dilemma is presented as the readiness of politicians to accept in the same programme, contradicting policies such as "to fight inflation" and "to work for full employment" and "to defend the untrammelled right to exert strike-threat power in wage-rate determination." Neither do economists escape criticism as is apparent from the following quotations: "University text books abound in tendentious passages expressed in the jargon of economic science." and "The economists' only way to permanent influence is to take a line which will be consistently acceptable to some powerful group, or else to pander to the established convictions and conventional beliefs of society at large."

The author's proposed solution to this dilemma is that economists' advice to politicians (and indirectly to the electorates) should be something as follows: "In our judgement the best you will be able to get away with is programme A; but if you could find a way of really explaining the issues to the electorate our advice would have to be quite different. We should have to recommend programme B."

To illustrate the way in which his proposed solution might work the author discusses monetary policy, income transfers, "Keynesianism" and the "strike threat system," contrasting what the majority of economists actually said of each policy and what Professor Hutt considers should have been said : the latter broadly conforming to the fundamental tenets of political economy as enunciated by the classical economists.

The present power of the large trade unions is such that even a halt to the annual round of wage rate increases, many of which have recently exceeded the annual rise in the cost of living, appears "politically impossible" : still less a reduction in wages which, economically might be necessary to stem rising unemployment.

Professor Hutt points out that, in these circumstances successive governments have chosen the easy short-term remedy of inflation to maintain demand and employment. In economic terms when labour, by strikes and other strong-arm tactics forces wage rates above what the market can bear and there is no subsequent increase in the money supply, then a rise in unemployment is inevitable. It seems from the Chancellor of the Exchequer's warnings to trade unions of the dire consequences of wage settlements in excess of the "guide lines laid down in the social contract" that he has belatedly recognised this economic truth.

Henry George, writing in *Progress and Poverty* nearly a century ago, when the dollar and the pound sterling were freely convertible into gold and their purchasing powers were virtually constant, and when there existed no means whereby labour could force wage rates above market values, attributed the cause of recurrent industrial depressions to the other major factor of production, land, pricing itself out of the market by speculation in land values. In this conclusion he was undoubtedly correct.

The excessive wage rates extorted from employers in both the public and private sectors of industry by powerful trade unions tend to increase unemployment but so does the speculative rise in land values beyond the point where capital and labour can profitably engage in production. While this tendency of rising land values to curtail production can be mitigated temporarily by inflation (lowering rents in real monetary value) it can be eradicated permanently only by the taxation of land values imposed as nearly as possible to the full unimproved value of all land, which, unlike inflation has no adverse side effects. It is to be regretted that in this interesting and instructive book Professor Hutt has ignored the importance of land monopoly in the highly organised industrial society, which exists in Britain today.

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