Back to brass tax

IN MY VIEW

BY WILLIAM KEEGAN

SOME of the most interesting exchanges at the annual economic summits tend to lose out in the competition for newspaper headlines. The Canadian Press reported one such exchange between Mrs Thatcher and the West German Chancellor Herr Helmut Kohl.

Apparently, in that appealing manner we all know so well, the British Prime Minister apologised to Kohl for the behaviour of her football supporters. To which the good Chancellor replied — showing qualities hitherto undetected — that, if he were Mrs Thatcher, he should have been more concerned about the performance of the English football team.

The links between the quality of a country's sporting performance and its economy have not, to my knowledge, been the object of assiduous econometric research, although my good friend Dr Roberto Speziale of Genoa may yet surprise us in this sphere.

Shortly someone will, I suspect, find some sort of causal link between the disaffected state of the teaching profession since the then Sir Keith Joseph first demanded 'value for money' from them, and our future sporting performance — if only because so many teachers who voluntarily gave their devoted time (free in more than one sense) to sporting activities no longer see why they should do so. My teacher friends tell me competitive games are already suffering in the state sector.

These will not have been the first warning signals to be ignored under Mrs Thatcher.

The most obvious warning signal in this decade was the combination of the decline in our industrial base and the cutbacks in research and training for new skills that took place as British industry fought for its life. The question was: would industry be able to cope with a subsequent boom? Recent events have given us the answer: the British economy is overheating but underpowered.

A more recent signal was the alarming deterioration in the balance of payments which was apparent before Lawson's execrable Budget. Among others, Dr Gerard Lyons, analyst at Savory Milln, deserves credit for sounding the alarm well before the recent City bandwagon got rolling. Now that the bandwagon is rollicking ahead, it is possible that the forecast I made here only a few weeks ago (half jokingly, I thought) of an old-fashioned package of 'July Measures' may yet prove accurate.

The Budget added tax cuts at an annual rate of £6 billion to spending power, principally for those who already have plenty of spending power and an especially high propensity to import from abroad — when they are not actually physically abroad spending on their third or fourth foreign holiday of the year.

But back to those possible July measures: one thing we can rule out is a return to a top rate of income tax of 60 per cent. That would hurt people who can already look after themselves. But some economists who have the ear of the Chancellor are beginning to talk of a rise in indirect taxation — VAT and so on — as a means of taking the steam out of the consumer boom.

Higher indirect taxes for everybody, as well as higher interest rates for all borrowers, would be a way of offsetting the 'overheating' effects of the Budget which my old friend the Chancellor might find amusing. By relying solely on monetary policy to cool down the consumer boom (by monetary policy I mean a rise in interest rates every other week) the Treasury and the Bank of England risk damaging the one potential industrial investment boom we have seen in the past nine years without necessarily doing much about consumer credit.

Higher interest rates, both directly and indirectly via their effect on the exchange rate, are bound to cause a cutback in the investment that the underpowered economy now needs.

Controls on downpayments and the rationing of bank advances used to work well in the past to rein back consumer credit; interest rates operate much more slowly and some analysts believe they hardly work at all.

It is, then, with a superb sense of timing that the Organisation for Economic Co-operation and Development has just published a handbook of case studies entitled *Why Economic Policies Change Course*. The OECD finds that in most instances 'a combination of the usual economic data and mainstream economic analysis provided the authorities with fair warning of potential trouble ahead'.

It pinpoints 'the problems of an economy growing for a prolonged period at a rate substantially faster in relation to productive potential than the average of partner countries' and 'the difficulty of engineering a depreciation in a floating regime without the process getting out of hand, especially for a reserve-currency country'.

The study also warns of 'the emergence of risk premia in countries' interest rates' and 'the inadequacy of foreign exchange measures alone and the need for them to be backed up by appropriate macroeconomic policy adjustments'.

These warnings are put in a general historical context and not specifically directed at the US or the UK. But my goodness, they give weight to the view that the Chancellor should have taken the money and run after his amazing March Budget.