Reduction of the Rate of Inflation—Essential Desideratum

Counter-Inflation (Temporary Provisions) Bill Motion: Approval; 23 November 1972

My Lords, it is the tradition in this House that we should seek so far as possible to establish a consensus—that we should not only bring out points of difference but points of agreement. I take it that we are all convinced at the moment that the value of money has been diminishing, is still diminishing and that that diminution must be arrested, if not completely stopped. In this connection, I was surprised to hear the noble Lord, Lord Diamond, to whom I always listen with respect and interest, base his indictment in this context entirely on what has happened in the last two years. If one takes the retail price index for 1963 as 100, the price in August of this year was 165, and although I should be the last person to wish to defend what has been allowed by ministers in the last two years, I should have thought, speaking with the utmost friendliness and deference, that those who sit on the Opposition benches would feel no reason to be altogether proud of what happened while they were in control. After all, the tremendous increase in the rate of increase of money supply began before the last General Election.

These differences apart, I wish to comment a little further on the question of property prices and the price of land. In recent debates I have noticed a growing tendency on the Labour Benches for noble Lords to pick out extraordinary cases of vast increases, which no one in his senses would deny, and to suggest that these were not only indicative of something wrong in the economy, which again no one would deny, but also that they constituted as it were one of the main causes. I have no doubt that the spectacle of the rising prices of land and real property is a cause of irritation and disquiet and may contribute to the general atmosphere of mutual distrust which makes grown-up and amicable discussion of these matters very difficult. I have no doubt also that there may be elements in the tax system favourable to an increase of demand in certain parts of the market for real estate. But, in the main, I suggest that to diagnose the rising prices of real property, or indeed of durable goods in general, as being one of the
origins of the recent acceleration of the decline in the value of money is an absolutely classic case of mistaking effects for causes.

There is, of course, a certain amount of speculation in the narrow sense of the word—professional people cleverly attuned to the tendencies of the market making a 'bob' or two now and then—but I would be so bold as to say that, viewing the economy as a whole, the effect of this speculation in the narrow sense is quite negligible when compared with the effect of the surge into goods caused by the expectation of still rising prices. The fact is that one cannot fool all the people all of the time. Although at the beginning of the post-war period the decline in the value of money was not so perceptible, except to people living on fixed incomes, as to cause serious alarm—one shrugged one's shoulders and said, 'It all comes out in the wash and a little of that does not do much harm'—people are now aware that something serious is happening. This inclines men's minds, be they rich or poor, to seek some more stable repository for whatever they have.

What the Government have been doing—perhaps I should not refer solely to the Government but should widen the indictment and say what those who rule over us have been doing—in the last decade is to turn most of us into 'bulls' in real things and 'bears' in money; and to indicate the results of this sort of market movement as being one of the causes of what is happening seems to be as futile as if, when sticking a thermometer into a bowl of boiling water, one says, 'What a wonderful heater it is!'

Let me give an example. I know a youngish couple who came into a very few thousand pounds only a month or two ago. What did they do? Did they buy Savings Certificates or Savings Bonds? No. Did they go to some sober stockbroker and ask for a selected bunch, even of equities, which would perhaps maintain the value of the money they had come into? No. At the weekend they got into a car with their young family and they sallied forth into a part of the country where they thought that land prices had not risen as much as elsewhere because they felt confident that there, at any rate, they would have something which, in default of a total social revolution, might have some chance of keeping its value. That is what I am saying. The general bearishness with regard to money that is driving us all into goods and land is simply the leading species of a large genus.

What then can I say regarding the causes of inflation? As the noble Lord, Lord Balogh, has said this is a very complicated matter indeed. Inflation can come on the demand side from increased spending by individuals or, what is much more likely, by governments. It can come, too, on the cost side as a result of demands for increased emoluments at a high or low level, such demands influencing costs and eventually influencing prices. In the last twenty years many influences have been operative and I am sure that, if we were to get down to details, those of us who, like the noble Lord, Lord Balogh, and myself, have devoted a good deal of time to studying these matters would still find ourselves in some state of disagreement about the interpretation of particular phases. There certainly was a time when Lord