Bert Brookes asks:

Can privatisation pay the rent?

MR. NORMAN Tebbit, interviewed last October on his appointment as Britain's Trade and Industry Secretary in succession to the fallen Cecil Parkinson, spoke about carrying through the Government's plans for the privatisation of nationalised industries. His approach to this task, he said, would be "brisk".

Even a cursory glance at the records of some of the State-owned industries during the past two decades shows that a brisk approach to the matter of their future ownership and control is not only necessary but vital.

Unless their financial wounds are staunched soon, the private sector, which sustains them, may be running out of replacement life-blood.

The hard fact is that, since the 1960s, some nationalised industries have begun to look like branches of the social services.

- Loss-making plants and pits have been kept in operation purely to provide employment, the bill being footed by the taxpayer.
- Wage claims made by the trade unions have progressively lost all relation to the earnings of their industries, the extra cost of settlements being financed, again, by the taxpayer.

The Guillebaud Report of 1960, which endorsed the principle that railway workers' wages should be comparable with those of similar workers in profitable industries, was the hydraulic lever that pushed open the floodgates. In 1972 the miners tore them off their hinges and, since then, workers in all nationalised industries have had the comforting knowledge that, however bizarre their wage claims might seem to their employers, there was always a financial reservoir available to be tapped – the taxpayer's purse.

It is true that the decline of these industries to the level of State remittance-men was largely the consequence of blatant gerrymandering by weak governments.

Both Labour and Conservative administrations, for their own political comfort, have dabbled at controlling the prices of nationalised industry products, thus forcing the industries into deficit, and then keeping them afloat with steadily mounting subsidies.

Over the 12 years 1963 to 1974, government aid to the nine major nationalised industries at that time[1] amounted to £5,147m, of which £2,840m went to the railways and £1,462m to the coal industry.[2]

It is hardly surprising that the government of Margaret Thatcher, dedicated as it is to transmogrifying British industry into a leaner, more efficient, more competitive organism *(so long, of course, as the privileged position of the landowning elite is not prejudiced)* is planning to sell off, to the public, majority shareholdings in all or most of the nationalised industries.

At a stroke, the industries concerned will not only cease to be a burden on the government's financial resources but will become subject to the discipline of the private sector, their affairs exposed to the fresh winds of the market.

The fact that this will leave them rather more insulated from government interference might make the market climate a little easier to bear.

OF COURSE, doing the right thing for the country and for the efficiency of industry sometimes brings governments a more tangible reward than just the plaudits of the right-wing press.

Privatisation will yield an attractive cash dividend for Mr. Lawson, the Chancellor. British Telecom alone is expected to net £4,000m for the Treasury's coffers, and all privatisation planned for completion during the life of the present Government will bring in something like £11,000m.

So the Government's interest in privatisation is transparently clear. But what about the public? And when we say "public" we mean those people who are *not* direct customers of the Gas Boards, Coal Boards etc., as well as those who *are*.

The fact that non-consumers of nationalised industry products nevertheless have a considerable interest in the industries themselves has been seen on a number of occasions in recent years; as when, for example, the Gas Boards have been required to increase their prices purely to provide additional revenue for the Exchequer.

"Unfair! ... Hidden selective tax!" – these have been the reactions of some gas consumers.

Yet if the nationalised gas industry belongs to the whole nation (i.e. if we are all shareholders in it) it is surely right and proper for its prices to be as high as the market will bear and for the profits not needed for immediate investment to be skimmed off for the benefit of the whole nation – by being handed over to the Exchequer.

To neglect to do this, to allow prices to be lower than the true market level, would imply that the gas industry belonged only to its customers.

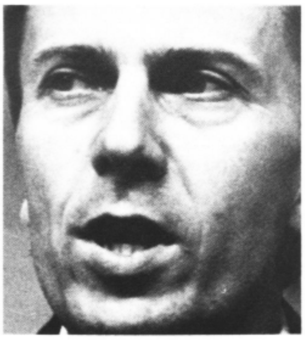
THE MAIN NATIONALISED INDUSTRIES, 1982-83

	Turnover £m	Pre-tax profit £m	Pre-tax loss £m
British Gas	5,958	723	–
British Telecom	6,377	365	–
Electricity Council	9,187	332	–
Post Office	2,714	139	–
British Airways	2,497	62	–
British Shipbuilders	1,093	–	110
British Rail	2,817	–	175
National Coal Board	4,932	–	489
British Steel	3,231	–	871

The gas industry is just one example of what Henry George called "natural monopolies" – enterprises which he felt should be run by the State.

Writing in *Social Problems,* in 1883, he cited the railways, the telegraph, the telephone and "the supplying of cities with gas, water, heat and electricity" as being "in their nature monopolies". In his opinion: "All businesses that involve monopoly are within the necessary province of government regulation, and businesses that are in their nature complete monopolies become proper functions of the State."[3]

George had in mind that, in any single locality, it would be irrational to have more than one set of railway lines running from A to B, or to have more than one network of gas or water mains or electricity supply cables serving the houses in a street. In these fields, he argued, private enterprise, left to itself, would inevitably contrive its own private monopoly for its own private gain. So it was essential for the government to move in and establish State monopolies from which all citizens could derive benefit.



● Norman Tebbit – a 'brisk' approach to privatisation

It is sometimes contended that Henry George's "natural monopolies" were not *complete* monopolies. Railways face competition from road transport; electricity competes with gas and vice versa.

This is true, but while such competition from *outside* the industry may curb the wildest excesses of monopoly, the lack of competition *within* the industry will almost certainly blunt the zest for efficiency. Prices to the consumer are likely to be higher than they would be if producers within the industry were competing against one another.

The fact that the gas industry has produced profits steadily rising for many years (from an average of £227m a year in the 1970s to £370m a year so far in the 80s) hardly suggests that competition from oil and electricity is causing much concern in the Gas Council boardroom.

HOWEVER this may be, when it came to the land monopoly, George did not take his own advice. Faced with the vision (if his ideas took root) of enormous bureaucracies being set up to nationalise and administer the land, he quite properly advocated not a State take-over of land but a take-over of the *economic rent.*

As he wrote in *Progress and Poverty:* "We should satisfy the law of justice, we should meet all economic requirements, by ... abolishing all private titles, declaring all land public property ... I do not propose either to purchase or to confiscate private property in land. The first would be unjust; the second needless ... It is not necessary to confiscate land; it is only necessary to confiscate rent".[4]

The big question to-day is whether there is a similar – and simpler – alternative to State ownership of coal, gas, the railways, electricity and the rest. Is there a way of taking these industries out of the clutches of government and placing them in an environment conducive to efficiency and growth, yet without depriving the community of the "rent" – the income arising from the industry's monopoly?

There are certainly indications that this would be possible. In the extraction and marketing of North Sea oil, for example, and in the concessions to run television and radio networks, we see the operation of the "franchise" system. Under this, the contractor who is licensed to provide the service or produce the product is required to pay a levy, this being fixed at a level to reflect the probable bonus earnings of the concession, i.e. the income over and above that attributable to the work of labour and the investment of capital.

Since 1977, the North Sea oil companies have contributed around £20,000m to the national exchequer, a sum which, although assessed on a different basis from a land-value tax (and therefore lacking its incentive effect) nevertheless may not be vastly different from the full economic rent of the North Sea oil concessions.

So the possibility exists that, one hundred years after Henry George's original thinking, and by making full use of modern methods of accounting, computing and information gathering, we could stomach his "natural monopolies" being operated by private enterprise – provided the monopoly elements of their earnings are assessed and collected as public revenues.

With this in mind, we must await with interest the details of the Government's proposals. If we can privatise these industries without the people at large losing the "rent" – the monopoly element of profits – we may be well on the way to having the best of both worlds.

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3. Henry George, *Social Problems,* New Popular Edition, Henry George Foundation of Great Britain, 1898, p. 152.
4. Henry George, *Progress and Poverty,* New York: Robert Schalkenbach Foundation, 1979, pages 403-405.

● FORESTRY – from p. 31

a forestry investor is when you sell. Although any increase in the land value is liable, no capital gains tax is payable on the sale of timber. Finally, after two years' ownership, the value of woodland is halved for capital transfer tax purposes. The liability is reduced even more if the investment is gifted more than three years before the donor's death. The tax take is then at life-time rates instead of the heavier death rates. For example, on present rates, a £200,000 gift would normally put £30,000 into the taxman's pocket at the life-time rate. As a forestry gift, the death rate rake-off would be £14,750 and the life-time rate only £7,375."[5]

WHY SHOULD the "money men" be so bullish about British forestry when the government is not?

James Erlichman in *The Guardian* offers this answer. "Fundamentally, it is because the institutions accept the forecasts ... that a world timber shortage is imminent, which will cause real timber prices to rise by 30 per cent in the next 20 years – just when British forests will be maturing."

But timber prices are only half the forestry equation. The other half relates to the way the value of the land is boosted by tax concessions.

Prices are rising steadily. Once again, the landowners are making a killing, aided and abetted by a malleable tax system.

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