

AS ECONOMIC debates go, there is nothing very novel about capitalism versus socialism. Arthur Seldon, in a new IEA booklet*, turns to it again in his belief that capitalism (or "competitive private enterprise") has been on the defensive too long. For 50 years or more it has suffered the slings and arrows of outpouring intellectuals. And so much has it wilted under the strain that even its practitioners have become apologetic and inhibited. It is commonplace nowadays for successful businessmen to explain away their profits instead of exulting in their making. So Arthur Seldon mounts his personal counter-attack on behalf of the free-market economy.

Private enterprise, he reminds us, produces higher living standards than any other economic system, from the "mixed economy" of the social democrat to the centralised regimentation of communism. It is successful because it leaves individual initiative to make its own vigorous growth. For proof, he cites the stark contrast in standards between the USSR and USA, East and West Germany, North and South Korea, India and Japan, and others.

Further, he attributes variations in the standards of democratic countries to the degree of interference to which free enterprise is subjected by the state or the trade unions. Thus the USA has higher standards than the more unionised West Germany, West Germany has higher standards than France and all three are ahead of Great Britain.

But private enterprise, he concedes, has grievous faults. It produces inequalities in incomes (for which he prescribes a reverse income tax), monopolies (removed by freeing com-

Counter-attack by a free marketer

REVIEW BY
Bert Brookes

petition and passing anti-trust laws), a lack of "employee involvement" in industry (employees should buy shares in their firms) and environmental pollution (against which the state should legislate).

To eradicate these defects in the free economy, says Seldon, is not difficult. By contrast, the shortcomings of the state economy are innate and irremovable. For example, no central planning can possibly forecast the detailed needs of a whole nation. So compared with an economy in which individual activity responds to the call of the market, it is bound to be inefficient. Furthermore, the "take it or leave it" choice, which is all that the subjects of socialism can enjoy, leads to social tensions, to coercion by the authorities and to corruption in the corridors of power.

As far as it goes, Mr. Seldon's book is a useful reminder of some of the common arguments in the economic debate. Yet he does not face up to the question that inevitably arises from his analysis: that if the benefits are so pronounced, why has free enterprise been set aside in so many countries of the world? Why did Russia and China go communist? Why, to-day, do emerging nations in Africa and elsewhere dash for

Marxism with the velocity of a moth making for a candle flame?

In the absence of an explanation for this phenomenon, Mr. Seldon's book is superficial. The general level of living standards, with which he concerns himself, is not the criterion which most sharply divides the proponents of socialism from the adherents of free enterprise. Nor are the defects which he sees in capitalism the ones which condemn the system in the eyes of its major critics.

General living standards in Britain may stand high but the kudos for this is lost in the shame of over two million unemployed, the vast majority of whom would be on the poverty line were it not for state charity. In Europe and the USA, the standards of the "haves" may be the highest in the world but those of the "have-nots" – no jobs, no assets, no hopes – will be abject in the extreme. In the free enterprise remnants of Africa, Asia and South America standards for some may fill visitors with delight and admiration, but the squalor of the shanty-towns must be seen to be believed.

It is the twin scourges of poverty and unemployment, frequently found side-by-side with extreme opulence, which account for the bad odour in which capitalism and the free market are held all over the world. It is these apparently inevitable concomitants of capitalism that push intelligent people in Britain into the arms of the Left, which threaten the traditional faith of even the American people in the

The human factor, ground rules and the free market

REVIEW BY
Stephen Martin

THERE IS nothing a Government can do, that cannot be done by the individual on his own, or in free mutual co-operation with his fellows. For example, the prevalent belief that finance for certain activities is beyond the capacity of private market investment is ridiculous. Where does the state get the money, if not from private sources? There are no other.

The speculative nature of any enterprise, including space exploration, can only succeed provided its appeal satisfies individual desires, and efforts. Furthermore, its ultimate success depends on the economic axiom that man seeks to satisfy his desires with the least exertion, and that the cost of such effort is measured by its free market value.

Even in the areas of law and order, and international relationships, individuals of divergent character can conflict or cooperate, without resort to an overhead authority. A common code of individual conduct governs most part of our lives.

In a booklet entitled *The End of Government* Ralph Harris, of the Institute of Economic Affairs, takes his thesis from the end of the last war. But governmental control commenced in the latter part of the last century with the introduction of the Factory and State Education Acts, both of which were opposed by Richard Cobden and John Bright, who, as pioneers of the free market philosophy, succeeded in getting the repeal of the infamous Corn Laws. Indeed, Ralph Harris's views affect his advocacy of the free market, by degrading the human factor as needing authoritarian control, such as "ground rules for competition."

Furthermore, his attempt to define "public goods" as a state obligation, because they are "consumed collectively," is absurd. So are all other products of labour and capital. Thus he cannot avoid the trap of State paternalism.

Whilst seeming to expose, and emphasising the dangers of state pater-

virtues of free enterprise and which drive the leaders of emerging nations into one-party dictatorships. No naïve palliatives of the kind suggested by Mr. Seldon will remove this long-standing stigma from the image of capitalism.

The irony is that the stigma is not justified. Poverty and unemployment are not innate characteristics of capitalism even though the feeble attempts of the democracies to eliminate them have so far succeeded only in substituting ever-accelerating inflation.

Arthur Seldon's preoccupation with the superficial, to the exclusion of the fundamental, is surprising. It would surely not take him long to identify the true reasons for the widespread disillusionment with free enterprise and to discover that the roots of poverty and unemployment, wherever they occur in the world, lie not in the machinery of free enterprise but merely in the ownership of land; that the poverty of the peasant in the Third World, for example, is due to his landlessness in a set-up where the vast bulk of the productive land is owned by the powerful few. And that the unemployment in the developed countries is due primarily to speculation in land which tends to price this essential resource out of the reach of the entrepreneur.

Until he devotes his talents to studying the real stigma that has fallen upon capitalism, Mr. Seldon's plea for free enterprise, right though this may be in principle, is about as fitting to the economic problems of the day as was Marie Antoinette's advice to hungry Frenchmen in 1789.

**Corrigible Capitalism, Incurable Socialism.*
London: The Institute of Economic Affairs, Occasional Paper 57, £1.20.

nalism, such as debasement of the currency, Ralph Harris talks about the need for "the topping up of low incomes," government welfare services, and "the age old problem of poverty."

It is at this point that he and most economists past and present, including Milton Friedman with his recent television series entitled "Free to Choose," although acknowledging David Ricardo's law of rent, that "the rent of land is determined by the excess of its produce, over that which the same application can secure from the least productive land in use," fail to recognise its importance as the primary factor in the production and exchange of wealth. That the ownership of this rent is the fundamental issue, because of its power over life and economic activity. That its owner contributes nothing to the processes of production, being paid out of the general income, produced by labour and capital. That all State aid by way of subsidies and financial assistance, ultimately finds its way into the pockets of this owner.

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GROCERY ECONOMICS

LORD THORNEYCROFT, Tory Party chairman: "I have been in politics many years and I have tried or seen tried almost every known solution and none of them really works. Parties or politicians are influenced far more by experience, by character and by instinct than by theory. Margaret Thatcher, one of the bravest of them all, owes far more to the small grocery store she knew in childhood while at Grantham than to the fashionable economic theories of the day."

Finally, another share of the stock of wealth, is taken by the Government in taxes levied on incomes, earned in the production thereof. All of which must inevitably frustrate the free market operation, encourage monopoly, both of labour and capital, and operate against a just and equitable distribution of wealth.

It is farcical to maintain, as Ralph Harris does, that "the chief economic end of government is to confine the costly coercive processes of political control to the minimum function necessary to ensure freest operation of a competitive market economy." This is a contradiction in terms and of free market philosophy.

The Leviathan State is here, and has been growing in power for over a century. Its end will not be achieved until all government participation in industrial and economic activity is swept away. But, so long as a vestige of the economic rent of land remains in the hands of private ownership, so long will every attempt to achieve the good society fail.

The Tax We Need

REVIEW BY
TONY CARTER

THIS HANDY little booklet is a compendium of short comments by the author himself, and by others whom he quotes, on the effects and advantages of land value taxation. It is pithy in style but covers a wide range, from economic depressions and inner city renewal to marxism and a catalogue of famous supporters.

Among many points that I personally found of interest are the contentious topic of the relationship between rising land prices and inflation, the criticisms of Henry George, the objection that a high tax on urban land might drive people out to the suburbs and the converse argument that it might cause land to be developed too intensively, and the assessment of Proposition 13 in California.

Mr. Chandler states that speculative increases in land prices are one of the causes of inflation, a debatable proposition. He draws attention to the loose way in which George referred to communal ownership of land when he meant communal ownership of rent, and challenges George's belief that an increase in population must be beneficial. He also accuses him of error in describing wages as wealth when wages are money and money is not wealth, surely a misinterpretation of the role of money which always represents wealth.

Mr. Chandler correctly affirms that high land value taxes lower the price of land and so attract people to city centres; and that land will be put to its optimum use up to but not beyond the limit of demand. He is strongly opposed to proposition 13 because it has cut the property tax on land as well as on buildings, a fact that some readers of this journal may have overlooked. We certainly do not want to see land values taxes reduced - quite the contrary - but we do want to see all other taxes reduced and the swollen public sector brought down to a fraction of its present size. In Britain Mrs. Thatcher's government has failed to achieve this, and it is to be hoped that President Reagan will fare better.

The Tax We Need is an apt title for Mr. Chandler's work which should prove a useful book of reference for advocates of land value taxation and a valuable introduction to readers for whom the subject is new.

Tertius Chandler *The Tax We Need*, San Francisco: The Gutenberg Press