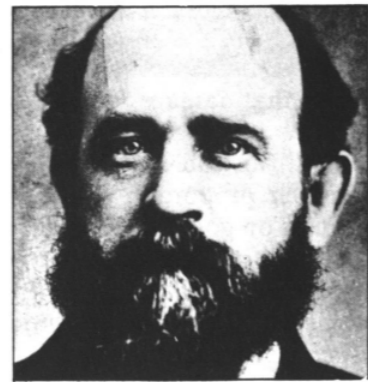


'The social collection of rent is not equivalent to the government collection of rent'

CAN rent be used as a tool to force market economies to be efficient? And who, in an ethical society, ought to benefit from the value of natural resources? FRED HARRISON reviews the experience from oil-rich Alaska



• Henry George

Trust fund route to social justice

CAPITALIST economies are collapsing into the deepest recession for two decades, and former socialists are wrestling with the kind of society they ought to create.

Political economy is evidently assuming a new importance, but is it possible to derive solutions by relating theory to real-world experience?

Yes, says Gregg Erickson, a bureaucrat in Alaska, the US State that has enjoyed one of the biggest rent booms in living memory (see table).

Mr Erickson is Director of the Division of Oil Spill Impact Assessment and Restoration at the Alaska Department of Fish and Game. He is also a lecturer at the University of Alaska Southeast, in Juneau. His views stem from the experience of watching oil rents accumulate during the 1980s.

Government has taken 70% of the oil rent, the difference being privately appropriated as an "excess return to capital" — in other words, Alaskans were overly-generous when they han-

ALASKAN OIL RENT (1977-1990): US \$

	Total (bns)	Per Capita
Rent since 1977	100	200,000
The share-out:		
State Government	30	60,000
Federal Government	40	140,000
Privatised	30	60,000

ded out the leases to their state's petroleum.

Even so, as the table illustrates, the citizens of Alaska were bestowed with vast riches as a result of OPEC's decision in the mid-1970s to exercise its monopoly power over a scarce natural resource.

Petroleum generated more than sufficient to pay for government services. In Alaska, there are no state or local taxes, except a few exactions on the canned salmon interests, which are considered "outsiders" and "therefore don't count"!

But how should the revenue be distributed? Direct to citizens, on a *per capita* basis? Over 13 years, each Alaskan could

have received \$200,000. Or hand it over to the government, to be spent on behalf of the public?

In Mr Erickson's view, Alaska made the big mistake of handing money over to the government.

GOVERNMENTS and bureaucrats have short time horizons: they don't peer beyond the next election. Result: give them money, and they go on spending sprees! "That's indeed what happened. We had the opportunity to put Henry George into effect, and did so with a vengeance."

The oil rent revenue provided legislators with the chance to reduce other forms of taxes, the

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kind that damage incentives to work and invest.

But instead of spending a smaller proportion of their incomes on government-provided services, people found that proportion rising: from 7% of *per-capita* income spent on state and local government services in 1977, to 30% of their income three years later.

This was a mistake, in Mr Erickson's view. "It is not necessarily the case that the social collection of rent is equivalent to the government collection of rent.

"Public choice theory needs to be thought about carefully, before adopting the tenets, but there is, within it, a kernel of truth: governments are special interest groups."

Governments don't need to be involved in the social distribution of rent. There is an alternative institutional arrangement available that could deliver social justice and economic efficiency: trusts.

A TRUST was created in Alaska, called a Permanent Fund, which is now worth \$10 billion.

"In 1976 it was decided to take 10% of rents and royalties and put it in a fund, away from the clutches of the government, and reserve it for future generations," explains Mr Erickson.

Income generated by the fund was distributed to the citizens. The first pay-outs were \$300 per head. Today it's \$1,000.

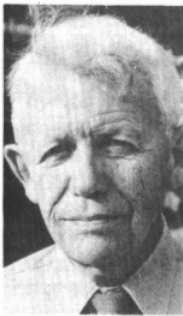
But the trust model can serve another vital role, which the former socialists could turn to their advantage in their search for a route through to the market economy.

"In Eastern Europe, the bureaucrats have the job of measuring, collecting and redistributing rents. Bureaucracies that administer the resources often feel they have interests in

THE CHURCH AND THE LAND: Part Four

HOW PAPAL

• **ONE** hundred years ago, Pope Leo XIII published *Rerum Novarum*, in which he stressed the right to private property, especially in land. American social reformer Henry George read the encyclical as an attack on his writings, and replied in vigorous terms.



• **DAVID RED-FERN** reviews the original controversy, and in the next issue of *LAND and LIBERTY* he analyses *Centesimus Annus*, the encyclical written by Pope John Paul II and published in May to celebrate the centenary of *Rerum Novarum*, which the Catholic Church now regards as an "immortal document".

1991 is a significant year in the history of the Roman Catholic church; for it is the centenary of the Papal Encyclical *Rerum Novarum*, which marks the beginning of the Church's concern, charity aside, with social problems and possible solutions to them.

It is also the centenary of Henry George's *The Condition Of Labour: An Open Letter to Pope Leo XIII*, which is a detailed commentary on the Encyclical and an appeal to the Church to recognise the correspondence between true economics and true religion.

This was soon translated into Italian and passed to the Vatican as a sumptuous leather-bound special edition, which, it is to be hoped, is still to be found in the Vatican Library; for more recent evidence of catholic thought suggests that very little notice has been taken of it hitherto.

We are indebted for an account of this to John Jukes, a Franciscan Friar, Bishop of Strathearn and Auxiliary in Southwark, who presented a paper last year to a conference on "Christianity And Capitalism", held under the auspices of the Health and Welfare Unit of the Institute of Economic Affairs.

The title of his paper is *Christianity And Capitalism: A Catholic View*; and it is encouraging to see that, at the very outset, he makes it clear that he understands the distinctions between the three factors of production, land, labour and capital, as conceived by the classical economists.

"Capital," he justly observes, is "a product in itself which can be employed for the further production of goods and services". He has forgotten goods in the process of exchange; but no matter, the main point is that he understands the difference between capital and land.

Unfortunately, this mental clarity of his makes it all the harder for us to understand why he has failed to see, or at any rate to comment on, the

them that are akin to ownership interests.

"Bureaucracies need to be taken account of, as we opine how the Eastern European countries should restructure the collection, measurement and redistribution of rent," says Mr Erickson.

He acknowledges that the

Western liberal market economy is hardly a perfect system — witness the mass unemployment, inflation, poverty and the ensuing crime. How, then, is the capitalist economy to be forced in the direction of even greater efficiency? Here, trusts — rather than bureaucrats — may have an important role to play.