

Where are the limits to the public sector?

IN MY REPORT on the Australian debate into how much revenue would be raised by a single tax on land values (*Land & Liberty*, March-April 1981), I noted the following conclusion:

"In essence, then, it is being argued that under a Single Tax regime, public revenue would comprise both *current* tax revenue from all existing sources, plus the outstanding economic rent still retained in private hands."

I then went on to suggest that this would cause difficulties to the purist who supported Henry George's philosophy, for "it would also produce an income to support a public sector far larger than that which George deemed appropriate for a liberal economy based on free enterprise, the private ownership of capital and the self-sufficiency and individual decision-making of a libertarian society."

In fact, this view was based on an over-simplified interpretation of George's attitude towards the public sector. He was not totally antagonistic towards the community operating commercial enterprises. In accepting the prospect of an embarrassment of riches, George states unambiguously that, along with the transformation of the role of government would come the *extension of economic activity in the public sector*:

"All this simplification and abrogation of the present functions of government would make possible the assumption of certain other functions which are now pressing for recognition. Government could take upon itself the transmission of messages by telegraph, as well as by mail; of building and operating railroads, as well as of opening and maintaining common roads. With present functions so simplified and reduced, functions such as these could be assumed without danger or strain, and would be under the supervision of public attention, which is now distracted."*

Government would assume more than an administrative character. Within a democratic framework it would seek to promote the common good – by, for example, supporting scientific investigations, rewarding inventors, improving the distribution of energy to consumers, and so on.

If he were alive today, Henry George would probably conclude that the public sector had over-stepped its legitimate bounds. Nonetheless, in criticising current governmental involvement in economic activity, it would be a mistake to cite Henry George as a philosopher who totally disallowed a degree of public sector involvement in such enterprise.

*Henry George, *Progress & Poverty*, New York: Robert Schalkenbach Foundation, centenary edn. 1979, p. 456.

Fred Harrison

COMPUTING THE PLANNED ECONOMY – SOVIET-STYLE

Capitalist Technology for Soviet Survival, Philip Vander Elst, The Institute of Economic Affairs, Research Monograph 35.

MOST OF us know that there are shortages of consumer goods in the Soviet Union and that food production is erratic. In industry and technology, however, the impression is that the Soviet Union is one of the world's super-powers: in arms and in space she is the equal of the United States.

In this pamphlet – full of facts, figures, and quotations – the case is

put that perhaps this aura of Soviet pre-eminence is a myth. What a centrally planned economy can do best is concentrate production on one or two special areas, but what it fails to do is to allocate resources efficiently (for it lacks the signalling system of a free market), or to stimulate innovation (for it lacks personal incentive).

It has been calculated that, at 30,000 operations a second, it would take a million computers several years to plan the whole Soviet economy! It is therefore not surprising that there are many mistakes and rigidities in the Soviet system which have to be mitigated by a thriving black market. Decentralization would ease the problem but is at odds with the central control that political dominance demands.

The author contends that the strides the Soviet Union has made, from a pre-revolutionary base less backward than is commonly supposed, have mainly depended on the importation of ideas and processes from the West, initially through Lenin's 'new economic policy' and American assistance to the first Five Year Plan, then through lend-lease during the second world war, the acquisition of industrial capacity from Germany and other occupied countries, and, after the war, the purchase from the United States and Western Europe of chemical plants, shipping, and high-grade computers. Evidently centrally planned economies can prosper only by drawing on the expertise of market economies.

Mr. Vander Elst draws two conclusions from this. One is that a world of centrally planned economies, or a single centrally planned world system, could not progress but would 'choke on technical inertia'. The other – more controversial – is that the eventual atrophy of the Soviet tyranny can be brought about more effectively not by the expansion of trade but, on the contrary, by a Western embargo on the supply of technology.

This is not work that will set the mind of the reader ablaze, but it will make him question something he has too readily accepted. The Soviet Union may not be as strong and as independent as she seems.

Tony Carter

LETTER TO THE EDITOR

'Land tax would boost costs of food production'

SIR, it is a pity that the graph accompanying your leader (March-April issue) did not include farm incomes. If it had, readers would then have seen that farm incomes and rents rose in line until 1976. Taking 1969 as 100, the index for farm incomes in 1976 was 223 and farm rents 200. Since 1977 farm incomes have declined, and it is the decline in farm incomes which has been the cause of the financial crisis in farming, not the increase in farm rents.

Figures for farm rents do not equate to landlords' income any more than figures for farm output equate to farm income.

The Annual Review of Agriculture White Paper shows that net rent (gross rent less landlords' expenses such as maintenance, insurance and depreciation on buildings) was £55 millions in 1969/70 and £59 millions in 1979 – hardly a massive increase in income for landowners. The fact is that all sectors of the agricultural industry are suffering from cash flow problems and as a result have had to resort to bank borrowing on an unprecedented scale. Borrowing has risen by 70% in the past two years and as a proportion of farm income has trebled to 45%.

Your leader ignores the point that taxes have to be paid with cash and cash is in short supply in agriculture; to suggest additional taxes on land would be to force a greater reliance on high cost capital with a consequent increase in the cost of food production.

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