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MANY Western leaders harbour the view that protracted unemployment is in some sense a failing of individuals.

People *could* find work, if only they would make the effort. All they need to do is mount their bicycles and look for it, in the immortal words of Britain's Employment Secretary, Norman Tebbit.

This spurious view, argues FRED HARRISON, is designed to conceal the reality that politicians are primarily responsible for the policies that cause unemployment.

REAGANOMICS rests on the claim that the public sector is an insupportably heavy burden on wealth-creation.

There is an important sense in which this is true. Unfortunately, the policies that follow from this economic perspective are not designed to rescue the industrial economies from the worst depression in 50 years.

This is because Reaganomics fails to correctly identify the mechanisms at work which successfully undermine investment and production.

> **Ultimately, it is not the size of the public sector so much as the nature of the tax system that throttles enterprise.**

Vague talk about the need to cut government spending does not constitute a rational policy of reform, to eliminate the constraints on economic activity.

We can identify key elements of the problem by examining how taxation affects international trade.

THE TABLE illustrates that countries with large public sectors tend to save and invest less. Britain is at one end of the scale; Japan is at the other end. Countries that spend more on investment tend to be less vulnerable to the pressures of the depression.

But the problem with the critique of the public sector – as presented by President Ronald Reagan and Prime Minister Margaret Thatcher – is this.

They maintain that the heavy tax burden is a disincentive to entrepreneurs, that high-income earners are dissuaded from taking risks if they are subject to high marginal tax rates.

Tax lesson the West must learn from Japanese

● Pres. Reagan and Mrs. Thatcher – speaking the same language

Their analysis, then, begins on the supply side. But this argument is weak; it is easily ridiculed by pseudo-socialists like J. K. Galbraith who have no difficulty in pointing to groups of high tax payers who work as hard, if not harder, than anyone else.

Wholly neglected is the demand side implications of the present tax system. And this is because the tax effect on pricing policy is ignored, for policy-making purposes.

Countries with large public sectors also have high tax rates. What happens when these taxes are imposed? Wage earners pass them on to employers, who in turn pass them on to consumers.

This forward shifting effect pushes up prices and reduces the competitiveness of goods on the international markets.

POLITICIANS, then, rather than trade unions, are mainly responsible for the loss of competitiveness: they are the ones who impose taxes in the first place.

But this aspect of the wage bargaining process is ignored by economists. Why? Because, according to Vito Tanzi, the Director of the Fiscal Affairs Department of the IMF, it "gives results inconsistent with orthodox Keynesian analysis."*

Japan has a low-tax policy: as a result, the prices of her manufactured products under-cut the products of high-tax economies like Britain's.

But although Japan has a smaller public sector, this does not mean that her citizens suffer as a result of fewer services provided by the government. Her citizens now live longer, and are healthier, than the peoples of European nations who enjoy the benefits of public health services.

The difference, of course, is that in Japan, the wage earner either finances these services directly out of his pocket, or he persuades his employer to do so for him.

But because the route taken to provide these services does not push up product prices, Japan is able to extend her penetration of Western markets.

And European and North American producers will not be able to defend their share of the world markets until governments adopt a fiscal policy based on an appreciation of the damaging price effect of the *pattern* of taxation in these countries.

*Vito Tanzi, *Inflation and the Personal Income Tax*, Cambridge University Press, 1980, p.132.

Economic performance and public sector finances in seven OECD countries, 1981

	Gross Domestic Product[1]	As percent of groos domestic product: Gross Fixed Capital Formation	Gross Saving	Government Final Consumption Expenditure	Current Disbursements of Government[2]	Current Receipts of Government[2]	Unemploment 1982[3] Q3
U.S.A.	2.3	17.9	18.9	18.1	31.7	32.7	9.7
Japan	3.2	30.9	31.5	10.2	25.4	28.2	2.4
Germany	0.2	22.0	20.8	20.7	41.2	42.8	6.7
France	0.2	21.2	19.4	15.8	43.1	45.4	8.3
U.K.	–2.0	15.9	17.3	22.3	41.7	40.4	12.9
Italy	–0.2	20.3	18.9	18.1	41.1	37.5	8.6
Canada	3.8	23.7	21.4	19.5	37.7	37.1	12.0

[1] Growth of real GDP at market prices, percentage change.
[2] 1980.
[3] Standardised rates, percent of total labour force.

SOURCE: *Economic Outlook*, Paris: OECD, December 1982.