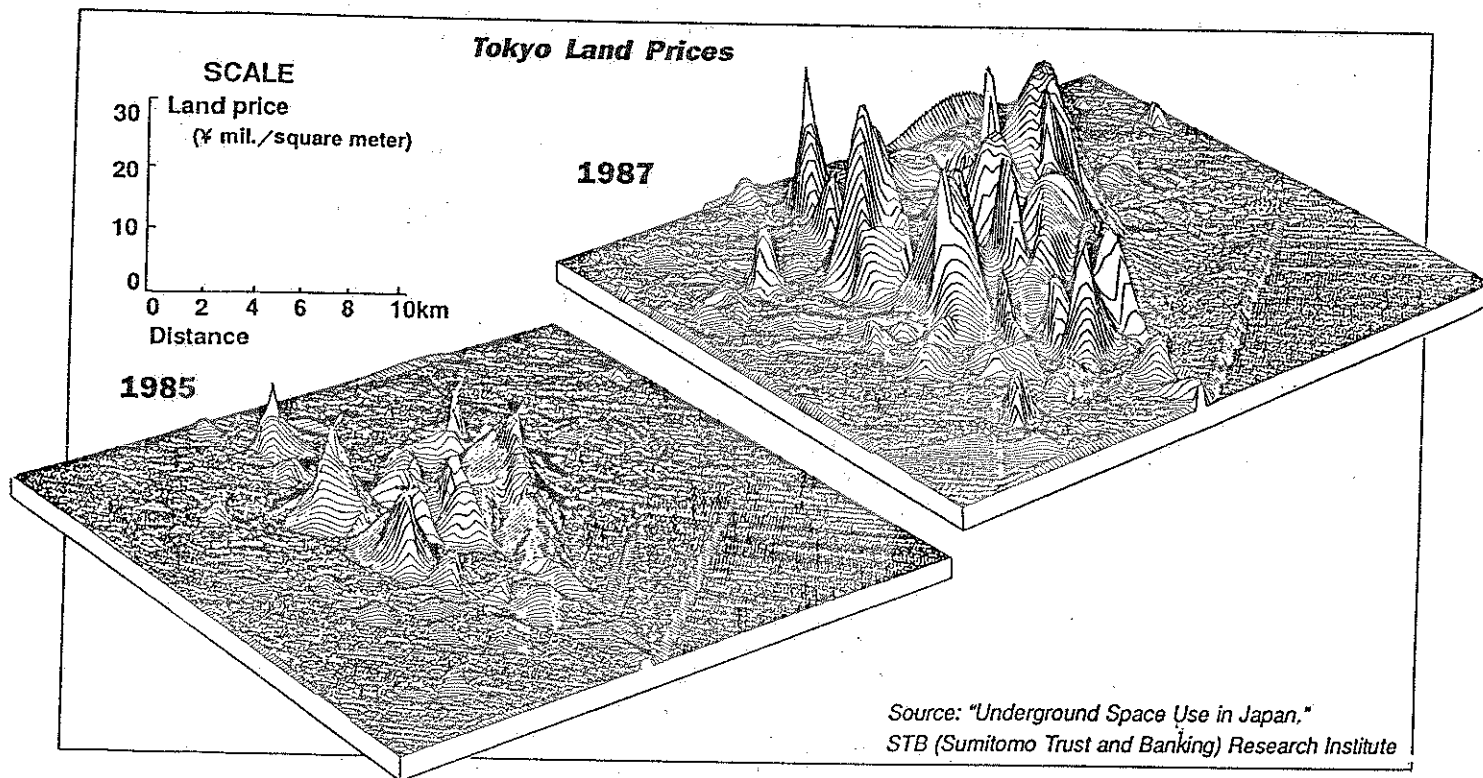


# LAND AND LIBERTY

ECONOMICS • POLITICS • PHILOSOPHY

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**TOKYO: THE 'BUBBLE' BURSTS**  
**THE ESSAY: ON E.F. SCHUMACHER**  
**DEMISE OF MIDDLE CLASS AMERICA**  
**JUSTICE IN SOUTH AFRICA**

# LAND AND LIBERTY

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## EDITORIAL

# MONEY: Myth, Alchemy & Rip-offs

MILLIONS of jobs are being sacrificed by governments which claim they have a duty to "fight inflation." Their righteousness is spurious, their policies designed to mislead, and the electorate - the people who are deceived - pay the price.

Nowhere is the con being more blatantly employed to cover up culpability than in Britain, where Prime Minister John Major justifies his economic strategy in terms of the need to banish inflation "once and for all."

Money is a construct of our collective imagination: bits of paper, with no intrinsic value. To increase the efficiency by which we create wealth, we facilitate trade by using tokens - "money". Those tokens represent a claim on the goods or services produced by others. Ordinary folk earn theirs by delivering services to customers.

Dishonest governments that spend money without taxing voters, however, have the power to create worthless money - tokens that do NOT represent goods or services in the process of creation. Result: inflation. Inflation is a purely monetary phenomenon - a general rise in all prices as a result of the rapid expansion of the money in circulation. If the supply of money is doubled overnight, prices double as well. Who controls the money supply? Generally, governments. So who is responsible for inflation? Governments.

To obscure their responsibility, politicians pretend that inflation is something "real." It must be real - mustn't it? - because we are all called upon to fight this evil, banish it forever from the kingdom. The British government says: "We have to defeat inflation once and for all." Inflation can never be defeated "once and for all," because it can be generated at any time by those who control the printing presses.

Don't blame "inflation," the presence of which successfully exposes serious flaws in society. In the market economies, the cynical manipulation of the money supply bears witness to imperfections in the institutions of democracy. The most acute levels of inflation occur when a social system is under terminal threat - as in the USSR under Mikhail Gorbachev, after 1985 - and politicians try to maintain stability by pumping out bank notes. Latin American tyrants use inflation as one of their weapons of containment.

But it is not only the politician who misuses money. When people borrow money without any intention of increasing tradeable wealth, they disrupt production. The most notable example is when they purchase land. Power over land is the power to extract income from current and future production without adding anything to wealth. Neat: the nearest thing to alchemy, but the price for this trick is large scale unemployment.

So what is no more than a state of mind (money), an ingenious invention designed to ease the pain of producing our daily bread, is transformed by some into a malevolent power. Ultimately, of course, the problem is not money, per se, but rather our willingness to allow some people to manipulate the rest of us.

# LAND-VALUE TAX SQUEEZE ON JAPAN'S SPECULATORS

PROPERTY TAXATION is back on the political agenda. With the value of assets plummeting around the world, governments are trying to make sense of fiscal policies that might help lift their economies out of recession.

Their fundamental dilemma stems from analytical confusion. Politicians know that the downturns originated when property prices rose to unaffordable levels; but they now think that rising prices - especially in the housing market - will help to stimulate a recovery.

◆ In Britain, the Tory electoral victory means the introduction of a hybrid property/poll tax.

John Major's government anxiously waits for new life in the housing market, but prices are likely to be further depressed by his plan to tax residential property. Houses will be placed in one of seven tax bands, depending on the rough-and-ready assessment of the market value - a figure which will be adjusted for the number of people living in the home.

In what is still a buyer's market, prospective homeowners are likely to insist on a discount on asking prices.

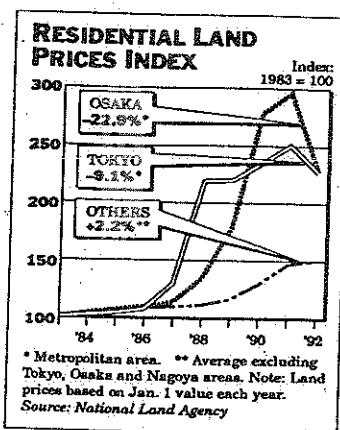
◆ The one country that is not confused about the role of property prices is Japan, where public debate zeros straight to the heart of the problem: the land market.

The Tokyo government correctly analysed the source of what is called

the "bubble" economy: speculation in land, which began in Tokyo in 1985 and then spilled into the speculation in equities of land-rich companies.

To curb the boom in land prices, the government - reacting to political pressure from Washington: the US wants to equalise trade with Japan - introduced a tax on land values.

Last year, land prices decreased dramatically for the first time in 17 years: average prices in residential areas dropped by 10% to 30% in the three major metropolitan areas. Land prices had pushed the price of homes beyond the reach of the average wage earner, causing deep dissatisfaction.



This year - the eighteenth year after the 1974 recession - the economy turned down. In April the government introduced emergency "pump-priming" measures - bringing forward public investment - to try and

restore the growth rate.

The unhappy owners of large and valuable sites (those who are not able to claim exemption from the land-value tax), alarmed by the decrease in the value of their land, are now asking the government to cut the tax, which came into effect in January. This year's tax rate of 0.2% on the assessed capital value of land (assessments are significantly below actual market values) will rise to 0.3% next year. In the current fiscal year, the tax is expected to yield 420 billion yen (a mere 0.67% of total tax revenue).

But industrialists are aware of the negative effect of high land prices. The price of commercial land rose by 13% in 1990, and suffered a 4% drop in 1991.

"We are afraid that high land prices might come again," one Finance Ministry official told me. But anxious trade organisations, including the Federation of Employers' Associations, are publicly warning that this must not happen.

## LETTER to the Editor

SIR, Lewis Little ("Your Pound in their Pocket," March/April 1992) was a little unfair to the Liberal Democrats. It is already manifesto policy to replace the Uniform Business Rate with a site-value tax, and there is a strong movement within the party to extend this idea in due course to other classes of land.

Before I returned to the Liberal Democrats after a period with the Greens, I got a letter from Paddy Ashdown stating that he was personally in favour of LVT for additional applications.

This was further reinforced by a letter from Jim Wallace MP, dated 4 June 1991, saying that LVT is "undoubtedly the front runner" being considered by the economic policy working group.

Owen Dumbleton,  
Candidate, Houghton & Washington,  
Tyne & Wear, England.

## TAXES THAT HAMMER LAND DEALS

JAPAN has introduced a special tax on idle land, called the Special Land Holding Tax, which is intended to prevent speculative land deals and promote efficient land use. The tax (rate: 1.4%) is aimed at sites larger than 1,000 sq. meters inside city planning areas designated as "Districts for Identifying and Promoting the Utilization of Idle Land".

Among other land tax reforms are increased rates levied on capital gains (the rates being lower for individuals than for corporations), and improvements in the system for assessing the value of land. These changes are aimed at "strengthening prevention of speculative land transactions," according to notes issued by the Ministry of Finance.

# The Retreat to Europe

**A**CCORDING to the European Commission's own polls, 63% of Britons oppose a single European currency. This comes 20 years after Edward Heath signed the treaty of accession, and shows the depth of mistrust even though all political parties and all daily newspapers are unfailingly pro-European.

It was Mrs Thatcher, she who paraded the strongest oral protestations, who nevertheless made the firmest commitments, with the Single European Act of 1986 and later the EMS/ERM. Why do they do it? The uncritical adulation of the Liberal Democrats is simply immature; for Scottish Nationalists it is a cloak for rampant parochialism; but why does Labour slaver to jump the hoop whenever Jacques Delors holds it up, and why do Conservatives, in the end, come to heel too?

The explanation is failure, mediocrity and opportunism. It was in desperation over failure of their policies at home that first Harold Macmillan and then Harold Wilson trod the European road, but met a "non". Later Heath and (again) Wilson did go down it, fleeing from the nation's economic problems and tacitly admitting the poverty of their parties' proffered programmes. "Europe" had become a refuge.

Just as local councillors pass blame to central government, so Her Majesty's craven ministers shield their limitations behind commitment to Europe. This suited Conservatives when the intent was mainly economic, towards removal of internal trade barriers and a single European market. Lately, the emphasis has shifted in the direction of what are called social policies. These are more to the liking of the paternalist, dirigiste, and corporatist continental Europeans - and of course they appeal to the Labour Party.

The bad news is the sheer awfulness of the Community's aim - a protectionist federation with a single currency, "harmonising" everything in sight, regulating how we live and work, from Galway to Rhodes, from Berlin to Lisbon. Inevitably it will strut and pose on the world stage, if only as a distraction from re-writing the rules on maternity leave and deciding the level of next year's corporation tax (yes, a former Dutch finance minister has already proposed to the Commission that this be taken out of the hands of national governments). The good news is that it will never happen.

The EC faces collapse.

THE AIMS of member states are diverse, and the aim of their governments are not necessarily the aims of their people. Under the strain of economic depression, both sets of cracks will start to show. There is not the remotest

prospect that the pre-conditions for the single currency will be met (levels of public sector borrowing, of inflation, of exchange rates and interest rates). There is a limit to the amount of interference which ordinary citizens, politicians in or out of office, journalists and the like, will tolerate without seizing the opportunity to vent outrage on the "foreign oppressor", whether the offence is yet another decision of the European Court or a ruling that a favourite ice cream may no longer be put on sale. Then there are the questions of whether to admit new members, not just the relatively affluent EFTA states, but Turkey and the East Europeans.

It is, however, straightforward shortage of money which will do the trick. The EC is spending 55% of its budget on the Common Agricultural Policy, £22,000,000,000 a year on supporting the production, storage, destruction and dumping of food that nobody wants, at way above world market prices. Most of this expenditure merely props up the price of agricultural land. The damage done to the economies of poor countries reliant on primary products, mocks the hypocrisy of aid to the Third World and Eastern Europe. At the same time, the CAP infuriates powerful exporting competitors like the USA, Australia and New Zealand, and, by threatening the GATT negotiations, risks the kind of worldwide lurch to protectionism which deepened and prolonged the slump of the 1930s.

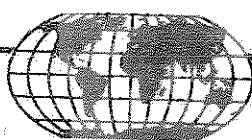
Fortunately, the game is nearly up. Italy, Germany, France, Spain, all are in disarray, like Britain. True, the so-called McSharry plan would replace CAP hand-outs in part with doles to identified LEAs (less favoured areas). True, also, the Maastricht accords envisage a new line in subsidies called the Cohesion Fund. Governments struggling to cope at home just will not find the extra cash. Breaking point is nigh. It could be closer than we think. Denmark has a referendum on the Maastricht agreements on June 2, and the prospects for a "no" vote are promising. It would send all Twelve back to the drawing board.

## REALLY, SOLEY?

CLIVE SOLEY, Labour Party spokesman on housing, put his name to a document for the recent General Election. Called "Building a Better Britain", it drivelled its way across 19 pages, during which it mentioned land only once - on page 18 - and then only to refer to integrating land use and transport planning. Does he think the construction industry builds its foundations on thin air, up there where his own thoughts evidently are?

Soley, really!

LEWIS LITTLE



# Round the world

## MOSCOW

### Yeltsin's fury

President Boris Yeltsin routed conservatives who opposed many of his reform plans, but the legal status of land remains confused. Land was a key issue for the former communists in the Congress of People's Deputies. At an acrimonious two-week session, they fought a rearguard action to block Yeltsin's decree that permitted the sale of land.

Pro-Yeltsin deputies argued that private land ownership may be the only chance to save Russian agriculture. But the conservatives refused to pass a law allowing private ownership of land, a failure for which they were admonished by the president in his closing remarks on April 21.

Even so, the power remains with Yeltsin, who continues to rule by decree. Article 21 of Yeltsin's decree on fiscal policy makes provision for the taxation of land, which is to be administered by local governments. (Taxes on the use of natural resources will be payable to the Federal government.)

Yeltsin's decree on the taxation of personal property set the tax rate on real estate at 0.1% of assessed value. Article 3 exempts property from the tax if it is "ruined or destroyed" - suggesting that owners could remove the roofs of their properties and escape the tax (a device favoured by British industrialists who wished to avoid paying tax under the old rating system).

\* Foreigners will soon be able to buy land in the republic of Belarus, where the Parliament has decided to privatise state property. Kazakhstan, however, has decided to retain land in state

ownership, with leases granted to users.

## NEW YORK

### Free trade or Protection

THE SLUMP in world trade has heightened demands for protectionist measures. The *US News & World Report*, in its March 2 editorial, warned readers against using Japan as a scapegoat. Editor-in-Chief Mortimer B. Zuckerman wrote:

◆ "At the turn of the century we had the same complex about Britain, and the great economist Henry George had the right answer to the clamor then for higher tariffs: 'What protection teaches us is to do to ourselves in time of peace what our enemies seek to do to us [with blockades] in time of war.' That lesson ought to be burned into our souls..."

◆ Annual world income would be \$477 billion higher in the year 2,002, if all trade barriers were removed, according to a new study by the Paris-based Organisation for Economic Cooperation and Development.

## SAIGON

### State ownership

IN A heated debate on a new constitution, staged by Vietnam's national assembly in April, it was decided that land should remain the property of the state, but that it can be allotted to individuals for long-term use.

Rents for offices and apartments for foreigners have doubled over the past year and have soared in Ho Chi Minh City. Civil servants of the communist regime have found a way to cash in on the boom. They pay a few dollars a month in rents for villas which were appropriated after the USA was expelled from Saigon in

1975; they now sub-let the apartments to foreigners for \$2,000 to \$6,000.

"While real estate is going into a recession in the rest of the world, in Vietnam it's booming," Australian businessman Paul Fairhead is reported as stating.

## LONDON

### Green Queen

Queen Elizabeth II, one of Britain's largest landowners, says: "The earth is a gift to us all, whoever we are, wherever we live. We all share the task of ensuring that our world will remain fit for life and capable of sustaining us and those who will come after us."

In her message to the 50-nation Commonwealth, she added: "The living world is a God-given heritage and we have to be more responsible in our stewardship of it. We must be careful, not selfish or greedy, about the way we exploit scarce natural resources and about the demands we make on the natural environment."

## MADRID

### Radio rentals

The rental value of the airwaves is rising in response to rapid technological innovation. That is why government officials representing 160 countries met in Spain in February, to thrash out an agreement on how to allocate radio frequencies for a broad range of new mobile communication services.

The demands are from consumers who want to use low-cost wireless telephones that can be used anywhere in the world, to laptop computers that transmit data using satellites.

Companies around the world are demanding access to the airwaves, which means that existing services

may have to be displaced from those radio frequencies that can be easily used. Countries write their own rules for use of the radio spectrum within their borders, but many signals are difficult to contain within national boundaries.

## TOKYO

### The Pacific slump

Prime Minister Kiichi Miyazawa tried to cool the rancour threatening relations with the USA, following disparaging remarks directed at American workers. Referring to the get-rich-quick land booms which disrupted both economies, he acknowledged that similar economic problems beset Japan:

"In one sense, there are many of these same elements present in what has been called Japan's bubble economy. After this bubble [burst], both [countries] now have a lot to clean up in the aftermath, and all of our people learned a lot from this. It is very important to build things of value with the sweat of our brows. When President Bush talks about education, I believe he is trying to reiterate the above kind of message."

## WASHINGTON

### Bill Clinton lands in trouble



US presidential candidate Bill Clinton, the Democrat's front-runner for the nomination, failed to make a fortune out of a land deal in the Ozark Mountains. He was involved in a speculation in which 200 acres were bought with the intention of reselling at a profit.

# News in Brief

**POLICY-MAKERS** were exposed to the radical nature of a full-blown land-value tax, during a series of seminars and top-level political meetings in South Africa.

The policy assumes a special significance, following President F.W. de Klerk's success in winning a referendum majority to abolish the trappings of apartheid and seek a deal with the black majority.

For even with plans to make everyone equal before the law, land hunger would remain the most vexatious issue. As other post-colonial countries like Zimbabwe have discovered, political independence by itself does not satisfy demands for land.

That is why the message taken to South Africa in March by three American professors of economics could prove to be crucial. They conferred with government tax advisers and senior officials of Nelson Mandela's African National Congress, exploring the comprehensive contribution which land-value taxation (LVT) could make in fulfilling the aspirations of the destitute majority.

FIRST to fly in was African-born Rex Ahene, of Lafayette College, Pennsylvania. He visited polling booths in Johannesburg on the day of the historic referendum, before being joined by Mason Gaffney of the University of California. The two professors then joined John Strasma of the University of Wisconsin-Madison, to address a seminar at the University of Pretoria.

Godfrey Dunkley, a Cape Town-based advocate of tax reform, co-ordinated a series of meetings with ANC and government officials.

Initial scepticism among ANC officials mellowed, as the radical implications of the land-value tax were elaborated. Among the sceptics was Derek Hanekom, the ANC's Land Commission co-ordinator (see *Land & Liberty*, November/December 1991, p.86). Prof. Gaffney directly challenged Mr Hanekom to reveal whether the ANC had a more radical policy. He failed to reply, and later told Gaffney: "You may have converted me."

Among other community leaders participating in the discussions was Frank van der Velde, the mayor of Cape Town (which is the only major municipality in South Africa that does not levy a tax directly on the value of

# J U S T I C E

## in South Africa

by Peter Poole

land). The mayor publicly declared that he planned to move in the direction of LVT, though the reason he gave was the cost of assessing the value of buildings, rather than the dynamic benefits of socialising rental income.

Daniel G. Franzsen, a special tax adviser to the Republic's Treasury for many years, publicly declared his support for the policy. He revealed that an old friend - Lowell Harriss, emeritus professor of economics at Columbia University and President of the New York-based Robert Schalkenbach Foundation - had urged him on a number of occasions to "tax land".

Most South African municipalities levy a tax on land rents, but in Prof. Gaffney's view, however, the major benefits of LVT were not being

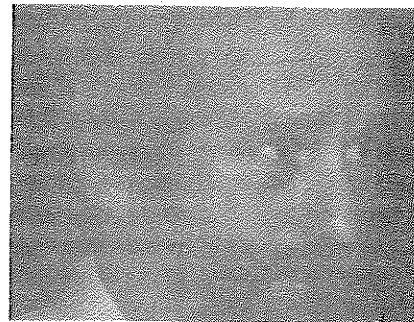
reaped, partly because of the low tax rates, and partly because the tax was administered locally - "they have not learnt the lesson that if you spend the revenue locally, you don't get a high degree of equity between different localities," he told *Land & Liberty*.

PROF. STRASMA, in his Pretoria paper, addressed the problem of the tax rate, especially as it affected rural land. Experience in other parts of the world, he reported, suggested that a land-value tax of "2% of market value per year is high enough to be effective, and generates enough revenues to justify the effort".

The equity aspects of LVT were stressed by Prof. Gaffney, who argued: "Conventional land reform is likely to select a few token blacks for restitution or subsidy, leaving the mass as miserable as before. If given an 'anti-racist racist' spin, it would do nothing good, and perhaps some damage, to landless whites. Tax reform does justice among whites, and among blacks, among coloureds, and among Indians, not just between groups.

"Tax reform is comprehensive in its impact. It truly levels the playing field, tapping unearned rents now taken by a tiny minority of South Africans (plus a few foreigners of great wealth) and distributing them equally among all citizens of the Republic."

♦ The land tax featured in the ANC's draft economic policy document, which was published on April 28. The document will be debated at the organisation's first policy conference on May 28.



DEREK HANEKOM



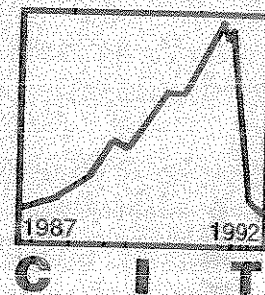
NELSON MANDELA

"Today's economic playing field may be visualized as the cross-section of a hill, the hill consisting of resource rents. Those on top stand taller because of what they have, not what they are. Measured differences of ability among persons are very small compared with measured differences in their ownership of resources. Tapping those rents and dividing them equally is what it will take truly to 'level the playing field.' The rest of the rhetoric one hears and reads is so much trivia by comparison.

- Professor Mason Gaffney

# CENTRE FOR INCENTIVE TAXATION ECONOMIC INTELLIGENCE

EH/32 MAY 1992



## PM'S POLICY FOR RECOVERY FLAWED

AND SO the inquest is over, with John Major's Tory party safely back in power, and nothing learnt in all the hullabaloo at the hustings. Britain is in for another five years of Conservatism, with the immediate problem of having to pay back the large politically-inspired government debt while the economy is stagnant.

A dangerous consensus has built itself around the explanation for what caused the UK recession: deregulation of the financial system in the early 1980s. Curious, because identical problems with economies elsewhere in the world could not possibly have originated for the same reasons - for they did not deregulate their financial systems. Unless the UK is to avoid another treadmill business cycle, a clear understanding of what went wrong is a crucial prelude to articulating new policies.

So what did go wrong? Consider the stories that unfolded on either side of the border between England and Scotland.

Throughout the Thatcher years, actual pre-tax average incomes rose at a similar pace on both sides of the border. Yet the income required to maintain a fixed standard of living at local prices varied so significantly that, in North-West England, the growth of real purchasing power was half that of Scotland's (see graphs)\*. Why?

The difference was in the cost of housing. But that is not a correct classification of the source of the problem, for the costs of bricks-and-mortar and furnishings were similar on both sides of the border. The difference was a measure of what happened in the land market. South of the border, land prices boomed in the way that they did not in Scotland.

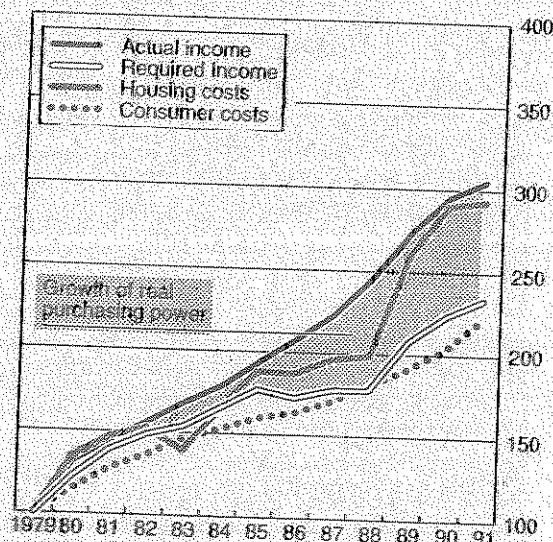
Result: English workers had to struggle harder to finance the needs of their families, after paying for shelter. As a result of the land boom, their purchasing power was reduced. Translate that into macro-economic terms, and we see why the spending power of English workers was savagely curtailed during the late 1980s. This had to express itself in a cutback in construction and a close-down of retailers.

The Scottish economy, by contrast, remained buoyant. Housing (=land) costs were contained within the limits of people's actual incomes, which meant that local businesses were not decimated. Not surprisingly, therefore, unemployment problems first emerged in the south-east, and like a cancer moved inexorably northwards.

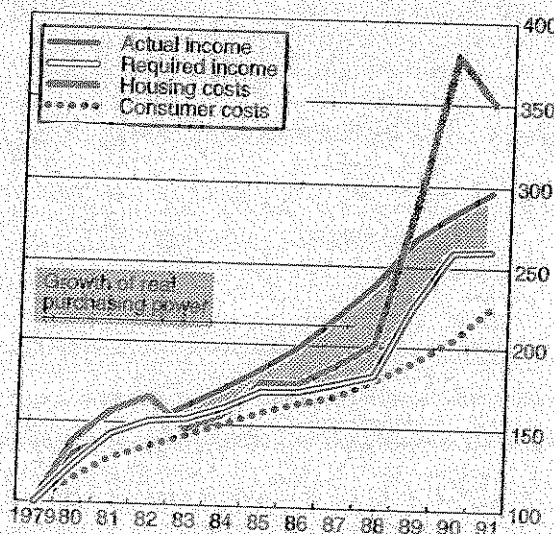
FACT: according to the latest survey by Manpower, the employment agency group, while employers in the North-West expect further cuts in jobs, Scotland remains buoyant: 23% of employers there expect to be taking on more staff while only 9% forecast cuts (see chart, page 2).

FACT: prudence in the Scottish property market during the 1980s is reflected in current rental trends. According to London surveyors Hillier Parker, rents for London office space have fallen by 26% over the past

### Scotland



### North West



year; in Scotland, they increased by almost 4%.

How does this story fit with the new wisdom? It does not. For example, the boom of '88/90 is characterised as "The Lawson Bulge" - Nigel Lawson, the former chancellor of the exchequer, is going down in history as the culprit who introduced

\*"Required income," as measured by The Reward Group, includes consumer goods, fuel, transport and housing. It is based on 31 national prices and 18 regional prices.

a too-generous budget in 1988. He did make mistakes, but these were trivial in terms of the underlying tendencies.

Why, for example, when Lawson acted for the whole of the United Kingdom, was there no similar "bulge" in Scotland? Why, since the deregulation of the financial system in the early 1980s affected the whole of Britain, were the alleged ill-effects not generalised: the boom in asset values in England was not matched by a comparable effect in Scotland.

The explanation for the recession, then, has to be sought in the propensity to push up land prices, such that crippling obstacles are placed in the way of entrepreneurs and workers who want to go about their business. But does it matter whether recent history is now correctly interpreted? Yes, because the new Westminster administration will try and avoid the "mistakes" of the past, and their advisers are already warning about the need to prevent another phase of credit liberalisation.

The temptation to rein in the spending power will now be great. But if the analysis is wrong (which it is), the new strategy is likely to be equally wrong. For the private sector is critically weakened in its ability to finance investment in the upswing (see page 2). This means that the belief by John Major and his chancellor, Norman Lamont, that new growth opportunities will have to be underwritten by the private sector, will prove tragically wrong.

### WHAT POLITICIANS SAY ABOUT ECONOMICS...

#### NIGEL LAWSON

*Ex-Tory Chancellor.* "Well, errors are always made, there's nobody who doesn't make mistakes... But I think it's an illusion to suppose that, if mistakes are avoided - we're talking about mistakes by government now - you won't have recessions. I believe and have always believed... that the economic cycle is a fact of life. There have been these ups and downs throughout recorded history, not just in this country. Throughout the world, there always have been, there always will be."

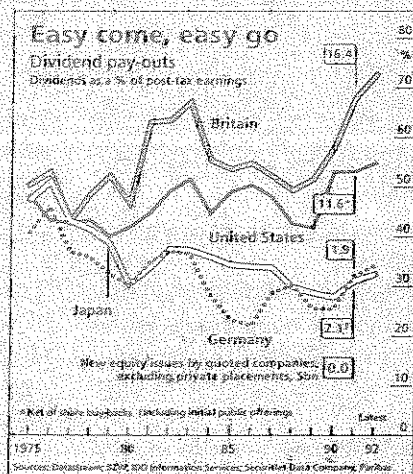
#### DENIS HEALEY

*Ex-Labour Chancellor.* "The older I get the more convinced I am that most of the theories on which economics is based are bunkum."

# GEO-POLITICS (1): THE CORPORATE CRISIS

**WHO WILL PAY** for the recovery? G7 governments are helping the ex-Soviet economies to finance their restructuring, but precious little attention is being devoted to the same problem in the market economies.

Reason: western governments presume that the financial system will perform its traditional duty of supplying the liquid with which to fund the capital investments that are the crucial prelude to full employment. Mistake. It won't happen this time, and as a result the upswing will be seriously undermined.



The world's financial system is in the depths of a crisis, the full extent of which cannot yet be gauged. It all depends - as they are now discovering in Tokyo - on when the taboggan slide in land prices comes to an end. Why?

Because the bulk of bank loans during the late 1980s was advanced on the back of rising land prices. Huge chunks of the value of that collateral have now been wiped out. But the worst is not yet over: there is still a long way to go in the downward adjustment of valuations.

With every percentage decline in land values, the major banks become more vulnerable to bankruptcy and less able to lend when the time comes for the corporations to invest their way out of the trough. Central bankers therefore want to establish an early warning system, to head-off a crisis in one country which could trigger a global domino-effect.

◆ In Britain, according to a new report by brokers County NatWest, the high street banks are under-provisioned

by up to £4 billion to set against shaky loans to property companies. So serious is the situation, argue the brokers, that the Bank of England will have to intervene.

The exposure of British banks to the property sector is estimated at about £17 billion, and County NatWest compares the crisis to the third world debt debacle. When the exposure of foreign banks is added in, the financial sector is exposed to British property companies to the tune of £40 billion.

**SO NOW WE KNOW** what is behind the so-called credit crunch: the downward trend in land prices. But where does that leave the entrepreneurs? They will need to finance the upswing. Their ability to do so will in part depend on the corporate policy on dividends (plotted by *The Economist* - see the inset graph). There is a marked difference between the UK and USA, on the one hand, and the two pact-setting giants (Japan and Germany) on the other hand.

British companies are particularly generous in their dividend pay-outs. Result: their relative capacity to undertake capital investments out of internally generated cash is seriously diminished. In January, Tiny Rowlands paid the price for bucking the traditional trend. He strengthened Lonrho's coffers by cutting 3p off the payout on each share, and investors punished him by wiping a large slice off the Lonrho share prices - and reducing the value of Rowlands' stake by nearly £40m.

Strategically, Rowlands was right. For British corporations that continue to rely on the banks for money, come the upswing, will find themselves at a serious competitive disadvantage. European interest rates are high, and - thanks to the Exchange Rate Mechanism - will continue to retard the prospects of investment in capital goods and new products for most EC countries. Relatively speaking, that will not hurt Germany companies. Although Germany has pushed up her interest rates to levels last seen in the 1930s, her corporations retain an edge because, historically, dividend pay-out to shareholders has been at the low end of the scale.

# GEO-POLITICS (2): THE GERMAN PARIAH

THE IMF claims that the global economy is on the verge of recovery. Beware. The "signs" which treasury spokesmen claim to observe in the heavens will take a long time to manifest themselves in new jobs and real increases in income. The unseemly way in which Germany has been turned into a pariah is a far more potent indicator.

Washington (federal deficit \$400 billions) is telling Bonn to cut its deficit! London (where interest rates were raised to record levels, to crush the boom of the 1980s) is telling Bonn to ease its grip on rates on the Euro-money markets.

What this reveals is that the leading economies are rud-derless, cruising downhill on a wing and a prayer. There is precious little that the investor can do in the short-term, except sit tight. But what about the medium term prospects? With inflation NOT about to rescue anyone, where should the money go? When it comes to the "fundamentals," the Germany economy - despite the current labour unrest (the most intense strike action in 18 years) - is the most reliable of them all.

Take equities. In EI's view, there is still a substantial shake-down of prices. During the '80s, prices in Japan, the USA and Britain rose much faster than in Germany; but they also plummeted faster. Fine, for risk-taking speculators; but for anyone seeking solid growth with a minimum of risk, Germany remains the best bet.

How do we account for this relative performance? Not in terms of the fundamentals, for Germany - along with Japan - outshone everyone.

Why, then, the difference in stock prices between Japan

and Germany? Answer: land speculation. In Japan, investors used equities as a proxy for direct dealing in the land market. They speculated in the shares of land-rich companies. In addition, Japanese corporations joined in the land speculation game. The breakdown of motives disclosed by the bar graph (based on data from the National Land Agency) reveals that between 1987 and 1990, half of all land purchases were purely speculative.

So when land prices collapse this has to be reflected in the price of stocks and shares. In Japan, a 17-year rise in land prices came to an end last year. Prices reached unaffordable levels, and are now being reflected in the fundamentals - a drop in industrial output of over 5% in March compared with a year ago, and an emergency government strategy on infrastructural investment to try and keep the economy buoyant.

In contrast with all the other leading industrial economies, land speculation in Germany was minimal. How, then, do we account for the current malaise of the German economy? The problems, actually, represent a "good news" story. The tensions are due to the Republic's investment in the future of an expanded economy. When the eastern half of the country is tooled up, Germany will be unstoppable not just in Europe, but in the world.

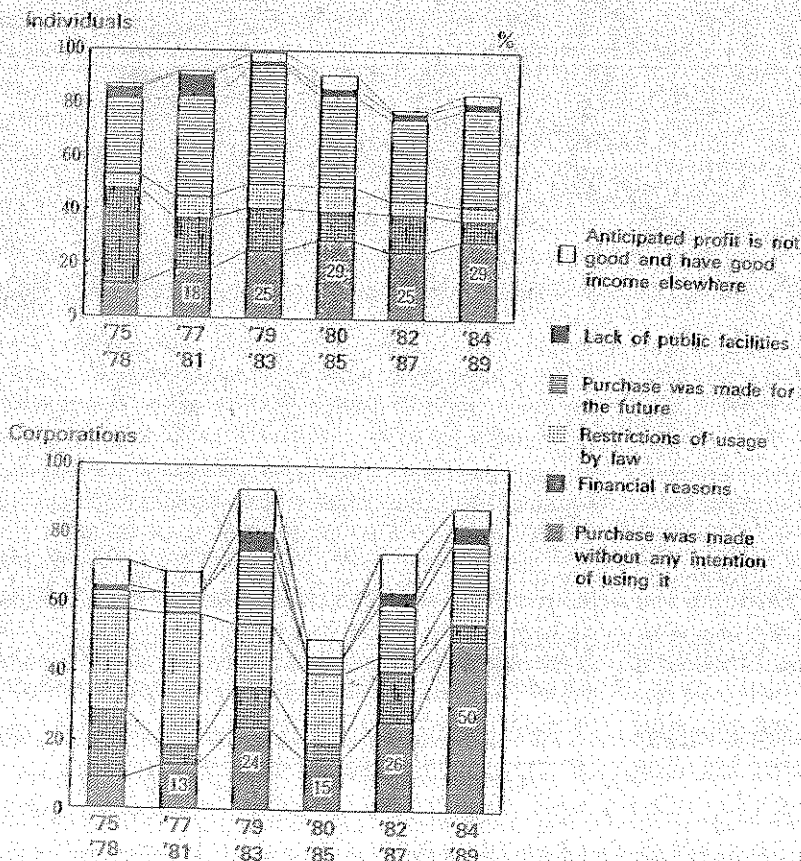
♦ The tensions in the German labour market were predictable - and are explained in terms laid out by Adam Smith in *The Wealth of Nations*. The free market guru demonstrated that when taxes are raised out of labour wages instead of land rents, the distortion in the distribution of net incomes is corrected by the payment of higher wages (which, inevitably, are reflected in higher prices).

The Bonn government (ignoring what Smith had to say about the price-stabilisation impact of a tax on land rents) has chosen to pay for reindustrialisation in the east out of taxes on people's wages and consumption. Result: workers are seeking a rise of 9%, whereas the government (which wants to have its cake and eat it - i.e., higher taxation without price rises) is defending a 4.7% offer. The result will be a compromise, which will still leave Germany better placed to beat the competition when the export markets pick up in 1993.

The political stresses in the European Community will have to be watched closely by investors. EI forecasts a failure to fully integrate the EC economy in the 1990s, and that the strongest opposition will come from an outward polarisation of economic interests from political aspirations in Germany.

German industrialists are already expressing their discontent with the idea of being tied to the anchors of their weaker competitors in Europe. The richest pickings for investors who get in on the ground floor will be in Germany. The other members of the IMF may continue to complain, but the Germans will force them to solve their problems through domestic action: Germany will not carry the can for imprudent economic activity in the rest of the world!

## JAPAN: INCREASED LAND PURCHASES WITHOUT IMMEDIATE PLANS FOR USE



# WHY ENTERPRISE ZONES DON'T WORK

THE NOTION of the enterprise zone achieved considerable popularity under the aegis of Margaret Thatcher. The idea was to provide entrepreneurs with special incentives to locate in economically disadvantaged areas. The intention: encourage an inflow of investment and new jobs.

Nobody asked the obvious question: why couldn't everyone enjoy the incentives - to raise the level of prosperity across the board? Why assume that the urban "black" spots were exceptional victims of the tax system which required "incentives"?

The slide of the British economy into depression tarnished the concept of enterprise. But in what looks like an act of desperation, it has been polished up for a Scottish area where thousands of British Steel jobs are being wiped out by the closure later this year of the Ravenscraig works.

The British experiment - which also caught on in the USA - failed to produce the expected results. Why? The answer matters, for the Russians are now vesting faith in this notion, calling them "free trade" zones. If the Russian experiment fails, blame will be attributed to the free market - and that would set back the thrust towards reform. So an understanding of the economics of enterprise zones (EZs) has ideological consequences beyond the territorial boundaries of the UK. The USA, for example, now plans to create 50 EZs in the next four years, with "incentives" that include a zero capital gains rate for gains on investment in tangible property.

THE FAILURE of EZs could have been anticipated theoretically, if attention had been paid to the nature of the "incentives". These took the form of tax "breaks". They could not directly favour goods exported out of the zones, for practical and political reasons. In the shops, for sales tax purposes, how can you differentiate (without enormous bureaucratic implications) a TV set manufactured inside an EZ from a similar article manufactured just outside the zone? And how does a government explain to one manufacturer that his product ought to be more expensive (because of a higher tax burden) than his competitor's product?

So the fiscal incentives were directed at the capital and land markets, in the form of lower taxes on the profits of capital, and the cancellation (known in some quarters as a "holiday") of rates - the local property tax. Paradoxically, however, this tax regime militates against the infusion of capital. For under present tax-and-tenure arrangements, landowners can exact

higher land prices or rents, to mop up the extra revenue that was supposed to go into the pockets of the capital-owning entrepreneurs! That's the theory. What actually happened?

In 1981, the Thatcher government designated the first of 25 zones that were to receive 100% capital allowances on industrial and commercial buildings; and the rates charge was abolished. Result: investment activity was not capital intensive; warehouses were the order of the day. This did not create either a substantial numbers of jobs or the conditions for longterm growth in output of wealth.

♦ Rents in EZs soared by up to 50%, compared with levels just outside the zones. The Department of the Environment conceded that this was because "the lack of rates enables the market to bear higher rents" - so firms locating in the EZs lost the "incentive" that was supposed to induce them into the area in the first place!

Equally damaging, however, was the negative effect on enterprise outside the zone. According to an official investigation by Roger Tym and Partners - a firm of London land

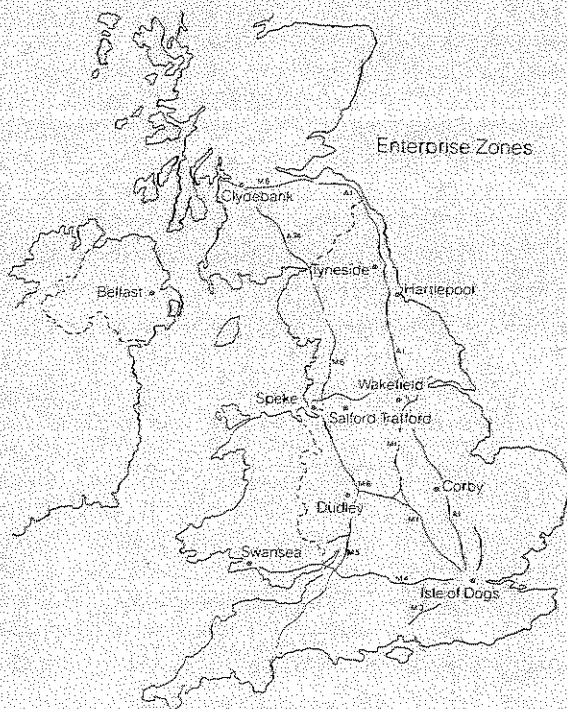
economists - "development gains in the zones are most likely to be offset by reduced activity outside where the private sector was previously active in the area around the zone".\*

♦ Jobs did not materialise in profusion. The zones attracted old-established firms rather than resulting in the creation of new ones. Warehousing (which requires few employees) accounted for nearly half the floorspace: these certainly did not add to the productive capacity of the economy. In 1987, the government admitted that the zones had proved expensive in "cost per job" terms.

The net result was disruptive. The general lesson for

Thatcher's enterprise economy was that shrewd trading in land was the way to make the fast bucks - or, as the report by Tym and Partners put it: "The prior stage of assembling or dividing the land into marketable parcels and releasing it may be rather less attractive in an EZ unless the owner is able to develop and gain the benefits of the capital allowances and rates [property tax] relief or alternatively the land price rises sufficiently to make disposal attractive". This activity did not add much to the total sum of human happiness. The EZs added their fuel to the explosion of land prices, which created the conditions for the collapse from which Britain is now suffering.

\**Monitoring Enterprise Zones*, London: DoE, 1983.



# SCHUMACHER: meta-economics versus the 'idolatry of giantism'

*There is no mystery about why intermediate  
technology has failed to abolish problems  
in a poverty-stricken world,  
argues B.W. BROOKES*



**I**t was just over 100 years ago that an American social crusader drew the world's attention to what he called "the great enigma of our times": the implacable tendency for poverty and hunger to intrude and to thrive in a world in which wealth and affluence constantly rise to new heights.

A century later, advancing science and technology have added relief and contrast to the picture drawn by Henry George. The times have changed, but the enigma has become more stark and conspicuous.

In the 1990s, more consumer goods are being churned out by the semi-automated factories of Europe, America and the Far East than ever before; more luxury food and drink is being consumed, more miles motored and flown, more communication satellites circle the earth than at any time in the past. Yet there are, today, more absolutely poor people in the world than there were in the 1960s; more unemployed and underemployed, more people malnourished and without health care, more children who have never seen a classroom, more people struggling to exist in degrading shanty-towns.

However bright may be the world's general economic progress, the dark blot of human suffering is broader and blacker than it has been since civilisation began.

## FIRST WORLD POVERTY

THE ENIGMA of progress with poverty is by no means confined to the Third World. In the United States, the richest nation on earth, one per-

son in every eight is living at or below the poverty line. In the United Kingdom, some 10,000 people are likely to be spending their nights in cardboard boxes, more than 100,000 families are homeless and one-fifth of the population would be living in destitution were it not for government grants and allowances.

The Third World may be the vortex of the world's poverty, but it is not a total-exclusion zone. From New York to Nairobi, from Buenos Aires to Bombay, degrading, demeaning poverty is apparently woven into the fabric of the free-market economy.

In the past century, a large number of measures prescribed as possible cures for the poverty-disease - and its virus, unemployment - have been tried and tested. The natural process of free trade, essential to reap the benefits of the international division of labour, has been abandoned or shackled, currencies have been detached from their material bases to be "managed", trade unions have acquired power and influence, while socialism has been wheeled out to occupy the economic commanding heights; we have seen nationalisation and privatisation, deficit financing and demand management, social contracts and compacts, free bargaining and controls on wages and prices.

Not one of these widely tried nostras has achieved the radical improvement that their advocates sought. Not one has come near to solving that great enigma.

The socialism-inspired "welfare state" may ensure that its subjects do

not starve, but it no more grapples with the underlying causes of poverty than an aspirin attacks the common cold. Without their government's largess, social conditions in the developed countries would differ little in pattern from those of the Third World.

## REMEDIES

THE LONG LIST of likely remedial measures excludes at least one that was too hot to handle - that might have proved too potent for the comfort of vested interests. It also excludes one that, having enjoyed wide interest but limited practical support in the 1960s and 1970s, was recently given an accolade by one of today's leading environment commentators. In an article in *The Observer* late last year, Geoffrey Lean suggested that the proposals of Fritz Schumacher, whose ideas were launched 25 years ago, merited much closer attention than they were accorded.

Schumacher, a German-born, naturalised Briton, had formally enunciated in his 1973 book *Small is Beautiful* theories first published in *The Observer* in 1965. According to Lean: "His ideas swept the world. But the movement he founded...has curiously failed to take off."

Schumacher's approach was certainly unorthodox. Strangely for an economist, he attacked the convention of considering the soundness of an industrial or commercial project on the basis of whether it was economic or uneconomic, insisting that there was a deeper, metaphysical

aspect to such questions which outweighed ordinary material considerations. He envisaged a higher science - he called it meta-economics - whose principles are conveyed by the sub-title of his book: *A study of Economics as if People Mattered*. He argued that giving overriding weight to the needs and circumstances of the people when taking economic decisions would not only bring a much-needed breath of humanity into a cold, conscience-less science, but would give new hope of solving the world's basic social problems.

His antipathy to the conventional ethics of 20th century society was deep. The modern economy, he wrote, was propelled by "greed and envy". Private enterprise, "the most perfect instrument for the pursuit of personal enrichment," was "not concerned with what it produced, but only with what it gains from production."

Such dyspeptic-almost paranoid - condemnation of the process by which millions of ordinary people earn their livings, would strike many as sweeping and blinkered at the same time. However, Schumacher modified it slightly, declaring, on second thoughts, that the degree of acceptable private enterprise varied inversely with the size of the undertaking. For small-scale businesses, private enterprise was "natural, fruitful and just." For medium-scale undertakings, such a system became "strained, unfruitful and unjust" and there needed to be a "voluntary surrender of privilege" to the workers. But in large-scale enterprises, private ownership was quite beyond redemption; it was a system "enabling owners to live parasitically on the labour of others."

### SCHUMACHER'S MAIN IDEAS

SCHUMACHER'S conception of large-scale enterprises as the creation of parasites may indicate some intellectual unbalance, but he was on firmer ground, perhaps, when he attacked the way modern industry, aided and abetted by science and technology, was swallowing up the

world's non-renewable resources - oil, for example.

The continuing resort to bigger and bigger industrial and agricultural machinery, sprawling factories and other industrial installations, amounted, in his eyes, to the "idolatry of giantism." In posing a major threat to the environment, these developments were not only failing to solve the problems of the day, but were adding to them. A new start was needed, he asserted, in which it was essential to recognise "the virtues of smallness."

Linking his advocacy of smallness with his vision of a humanity-oriented style of economics was his attitude to work. To Schumacher, work was something desirable in itself. It should not be "an inhuman chore, to be abolished as soon as possible by automation," but something "decreed by Providence for the good of man's body and soul." Indeed, work and leisure were "complementary parts of the same living process and cannot be separated without destroying the joy of work and the bliss of leisure."

The implications of all this were obvious. If work was absent, then work must be provided. Specifically, he envisaged the introduction and development of "intermediate technology," under which, especially in the Third World, governments would provide large numbers of new "workplaces" - small-scale, decentralised production units - which would bring the work to the worker instead of vice versa. ("If people cannot adapt themselves to the methods, then the methods must be adapted to the people.")

International aid would play an important part in providing the initial capital, but such programmes could be considered successful only if they raised productivity without saving labour. Thus, the importation into Third World countries of modern technology, involving the employment of much sophisticated machinery but few human beings, was to be avoided. Any aid project that promised - or threatened - labour-saving

changes, even in production methods that pre-dated Noah's Ark, was to be given a definite thumbs-down.

### ECCENTRIC AND UNSOUND

THE FAILURE of Schumacher's philosophy to "take off" is hardly as curious as Lean suggests.

To provide "work" in neat packages, as though airlifting supplies to a beleaguered garrison, might make sense as a short-term expedient, but as a permanent solution for large-scale unemployment it hardly gets to first base. Putting people to work producing goods in locations and by methods which are uneconomic and inefficient might seem "human," but the idea offends against human nature, which instinctively strives for sensible and efficient methods.

Moreover, to the extent that production has to be financed by governments, to that same extent is government expenditure on other activities reduced. (To expand the budget by increasing taxes only passes the reduction to the private sector.) Thus, the induced birth of a new Schumacher-style job would almost certainly be a sentence of death on a job elsewhere. Intermediate technology is no ticket to a free lunch.

But this is not all. To survive for long, Schumacher's "workplaces" would need to operate in economic greenhouses, given complete protection from outside competition and nourished with regular and perpetual injections of capital - conditions which no government, in the Third World or anywhere else, would be likely to accept with confidence, let alone enthusiasm. Like the uneconomic, labour-hungry industries of the former East Germany and the short-lived co-operatives set up by some Third World countries, such enterprises would quickly wither away if the barriers against the outside world were removed. Was it, then, any real wonder that Schumacher's brainchild was virtually still-born?

The hard fact is that Schumacher's concept of work was fundamentally unsound. Far from being



FRITZ SCHUMACHER

balm for man's body and soul (as he preached), work, in essence, is no more than a way for man to obtain a living, to support himself and his family at as high a standard as possible. It is doubtless true that, in conditions where labour has lost its bargaining power, work can become so menial, so soulless and so badly paid as to be "an inhuman chore" but, to rectify this, Schumacher would have been better employed seeking the causes of labour's economic weakness rather than by enlisting the patronage of metaphysics.

From his eccentric concept of work no doubt stemmed his choleric attitude to private enterprise. Instead of seeing this as a spontaneous, self-energising machine dedicated to the satisfaction of people's needs and wants, he condemned it as an infernal device for sordid money-grubbing. His grudging approval of it when the enterprise is small raises many questions, not the least of which is "How big is small?" At what point does salubrious smallness degenerate into malign mediumness? What happens, intrinsically, when an undertaking crosses that crucial barrier?

There can be no convincing

answers to these questions. For Schumacher's categorisation was arbitrary, artificial and unreal. Every productive enterprise, irrespective of size, brings together the factors of production - land, labour and capital - and, assuming a free market with no element of monopoly, its earnings will be shared - albeit unequally - by these three factors. Schumacher failed to perceive that whereas the returns to labour and capital reflect a contribution to the effort of the enterprise, for which the reward is competitive and defensible, the return to land reflects no such contribution, being merely a peremptory exaction from the net earnings.

Schumacher's condemnation of the owners of large-scale enterprises for "living parasitically on the labour of others" should, more properly, be applied to all enterprises, large, medium and small, but only in respect of the receipt of land-rent, since this, though legal and sanctioned by society, is clearly an unearned rake-off. It is income that arises from an immoral privilege - the dubious ownership of natural resources - rather than a fair return for a contribution made.

The overriding impression of

Schumacher, from a study of his main work, is of a man so exercised by the potential of his remedy, and so impatient to see it in operation, that he neglected to analyse fully the malady for which he was prescribing. Captivated by the prospect of seeing his "intermediate technology" absorb the throw-outs of the free-market system, he neglected to consider why the system should produce such flotsam in the first place. As a result, he produced a "longstop" solution, a puny palliative that ignored the system's Achilles heel and merely provided a tortuous means of absorbing its victims. One suspects that, faced with the problem of people falling over a cliff, Schumacher would have organised an efficient ambulance service, whisking the injured to hospital, but doing nothing about the erection of a fence at the cliff-top.

### HIS PERCEPTIVE CONCERNS

ALTHOUGH he showed, in *Small is Beautiful*, that he was not above a little cheating to bolster his thesis, Schumacher's sincere concern for the victims of poverty cannot be doubted. In the Third World, he correctly saw the danger of the emergence of two conflicting societies, polarised between rich and poor. He also warned of the social upheaval threatened by the mounting mass migration from country villages to unsanitary shantytowns on the outskirts of bloated cities. He even pin-pointed some of the proximate causes of Third World poverty, such as lack of capital, lack of natural wealth and deficiencies of education. But nowhere did he seek its underlying causes. He noted that, in the main, the poor of the Third World "have no land and no prospect of ever getting any," but he failed to track down the origin of their deprivation. Nor did he pursue the moral question of landownership or the part that the large-scale commandeering of natural resources by the powerful few plays in the pauperisation of the many.

Schumacher's book has sold over four million copies and has been

studied in every corner of the globe. Yet it yields two major questions which are long overdue for answer.

### TWO MAJOR DOUBTS

\* First, why did he condemn private enterprise, root and branch, when only one facet of the system is susceptible to criticism? How did a perceptive, informed scientist of such calibre come to miss the vital distinction between, on the one hand, the fair rewards of labour (for manual, mental and managerial effort) and of capital (for the provision of capital equipment) and, on the other, the exactions made for the use of land, i.e., for the use of natural resources provided by the Creator?

\* Second, why did he produce a scheme dependent on government subvention or the charity of the outside world, to provide artificial jobs for the cast-offs of the free-market system, without seeking the kink in the system which produces those cast-offs? Why did he not spot the shameful flaw that puts millions of families in the permanent grip of idleness and poverty?

### BLIND ABOUT LAND

WITH HIS experience of conditions overseas he must surely have been aware of the grotesque, one-sided distribution of land in most countries of the Third World. He must have seen for himself, in many Latin American countries, the vast haciendas of the ruling families with their many square miles of land held idle or for speculation, while penurious peasants in their thousands scratch bare livings from scraps of near-barren wasteland. He must have been aware of the constant pressure in those countries for land reform. Why did he ignore the evidence that a just system of land tenure would have meant a new deal for the underdogs of those societies, yielding them the prospect of real jobs instead of the mere hope of fabricated, precarious jobs contrived by intermediate technology?

Since Schumacher died in 1977, precise answers to these questions are now unlikely. But those who support his proposals should ask themselves whether intermediate technology could ever promise to solve that great enigma; could ever be a substantive and permanent remedy for unemployment and poverty. Or whether it is just one more entry on the list of makeshift expedients that offer to the world's deprived merely a passing dribble of short-term relief.

#### References:

1. Henry George, *Progress and Poverty* (1879); New York: Robert Schalkenbach Foundation, centenary edn., p.10.

2. Child Poverty Action Group (cited in *The Daily Telegraph*, 23 October, 1991).
3. *The Observer*, 10 November 1991
4. In Chapter III(4) of *Small is Beautiful*, Schumacher quotes Leo Tolstoy as supporting his view that educated people should consider themselves as servants of their country: "I sit on a man's back, choking him and making him carry me, and yet assure myself and others that I am very sorry for him and wish to ease his lot by any means possible, except getting off his back." Tolstoy's words (in *What Then Must We Do*), however, were written, not in the context of education, but of the burden exerted on the worker by the landowner.

## FROM WASTELAND TO PROMISED LAND

### Liberation Theology for a Post-Marxist World

by

Robert V. Andelson and James M. Dawsey

Foreword by John D. Davies, Bishop of Shrewsbury

The Church has often been criticised for complacency over the plight of the poor. Liberation theology, the most significant theological development of the past generation, has been an attempt to counter that criticism, but it has lost much of its credibility recently because of its Marxist leanings.

The authors of this important new book regard liberation theology as a sincere attempt to tackle the problem of the persistence of poverty amid advancing wealth but that it fails, because of its reliance on the Marxist critique of capitalism.

This book offers an alternative critique, one which draws on the biblical perspective on land and the proposals of the 19th century American social reformer Henry George.

*"I have been waiting for this book for thirty years."*

- The Bishop of Shrewsbury

Order through bookshops.

Published -

\* in USA, Canada and Australia, by Orbis Books, Maryknoll, New York 10545, price \$16.95. ISBN: 0 88344 793 2.

\* in the rest of the world, by Shephard-Walwyn Publishers Ltd., 26 Charing Cross Road (Suite 34), London WC2H 0DH, price £9.95. ISBN: 0 85683 133 6.

# BOOK REVIEWS

## A TAX TRADE-OFF FOR VOTES

*Politics and Psychology:*

*Contemporary Psychodynamic Perspectives*

Joan Offerman-Zuckerberg (editor)

New York: Plenum Press, 1991

WITH the presidential candidates now blazing their trails across the United States, we search with difficulty for qualitative differences between the policies of Democrats and Republicans.

Voters long ago rumbled the ritualised aggression on the hustings - which is why so many refuse to vote. What can the parties do to revive participatory democracy? Herbert Barry III, the Professor of Pharmacology and Physiology at the University of Pittsburgh who is President of the International Psychohistorical Association, advances one idea in his contribution to this book.

Democrats "can broaden their appeal by accepting the Republican policy of lower income taxes". Yes, but how would Democrats make up the lost revenue? "A preferable source of government revenue is the land value tax, which continues to be advocated by many economists," he suggests, citing Henry George's *Progress and Poverty* (1879). He drives home the lesson: "The Democrats can propose higher taxes on the value of land accompanied by lower taxes on the products of human labor and enterprise, including income taxes, sales taxes, and taxes on the value of houses and on other improvements of property. This would obtain more revenue from large corporations and other wealthy landowners without impairing the incentives for individuals to maximize their earnings."

IAN BARRON

## IS SOCIALISM DEAD?

*Socialism - the Great Delusion,*

Arthur Moss,

The Self-Publishing Association Ltd.,

Upton-upon-Severn, Worcs., £14.95

IS SOCIALISM dead? No. In Britain it is alive and well and living in the heart of not only the Labour Party but in the Conservative and Liberal Democratic parties too.

Socialist ideas have entered into our blood stream and circulate at an almost subconscious level, so that we do not question, for example, that over a third of our national income should be taken by the state and, after an army of bureaucrats have siphoned off a large portion of it, be redistributed according to a formula related to something called social justice.

It does not occur to us that if we allowed our economic

system to operate naturally this redistribution would not be needed (nor, indeed, would the non-productive bureaucrats). Unfortunately, Arthur Moss's book fails to reveal the stumbling block that prevents this happening. However, it is an important work in that it examines the bright ideals that gave birth to Socialism and traces the hard facts that brought about the downfall of its more thoroughgoing manifestation, namely, Marxism.

The failure of this has been universal. And where it existed in its most extreme form the failure has been catastrophic. One has only to look at the USSR, to Eastern Europe, to Cuba, or to any of the African Communist countries to see that. China's apparently hard-line Communist economy survives only because it is rapidly, if discreetly, adopting capitalist methods. If it doesn't it will break up just as the USSR has done.

Capitalism has serious flaws which make it imperfect, but the knowledge that in general people have a higher living standard in capitalist economies than those in communist ones make it an acceptable alternative.

Arthur Moss points out that the old British Labour Party was, in its vital aims, founded on sound harmonious: on adequate food and shelter for all; on care for the sick and for those unable to find work. But socialism didn't know where to stop.

From nationalising monopolies it went on and wanted to nationalise all large enterprises. Egalitarian propositions threatened to ensure that what all cannot have none shall have. It could not accept the fact that human beings are naturally competitive, are not equal either in desires or abilities, and that society is innately hierarchical.

No sooner, for instance, did the USSR dispose of its aristocracy than it replaced it by an elitist, privileged and equally hierarchical bureaucracy. Incentive was replaced by fear, freedom of the individual by a collectivist command structure and opposition by death (estimates from fifteen to sixty millions in the USSR). The delusion that this was freedom and justice was fostered by a corrupt educational system and by highly organised propaganda.

Mr. Moss believes the spread of effective democracy to be a vital step towards ultimate freedom. In particular he feels it essential that the United Nations Organisation should become more democratic. A problem, as he acknowledges, since well over a third of its member countries are tyrannies.

The author believes in the efficiency of a well-informed free market. He also stresses the need for a philosophy commensurate with the dangers of the times. If, as he suggests, a body be set up of people chosen for their impartiality and for their disinterested pursuit of truth, then perhaps the land question would find its rightful place in such a philosophy.

GEOFFREY LEE

# AMERICA

## Middle class blues

PHILADELPHIA Inquirer reporters Donald L. Bartlett and James B. Steele wrote a nine-part series examining the dismantling of the USA called "America: What Went Wrong?". It appeared in The Philadelphia Inquirer from October 20 to 28 1991, and was so popular that it is being expanded into a paperback book with the same title, *writes Sandy Cameron from Vancouver*.

The main theme is that "those who have the power to make the rules by which the economy operates have...rigged the game...to favour the privileged, the powerful and the influential. At the expense of everyone else." Corporate leaders generally criticise government, and then use it shamelessly to get the legislation they want. Ordinary citizens often hold the view that government couldn't run a two-car funeral, and sometimes we are not well-informed about the legislation that shapes our lives. Also, we are led to believe that "the market" dictates what happens to our economy, and that there is nothing we can do about it.

Bartlett and Steele show the American working/middle class that they are being clobbered by legislation that works against them. The case is made in plain language with many concrete examples from the lives of people who have become unemployed, poor, and desperate.

In the authors' view, the approximately 34 million individuals and families in the U.S. who earned wages and filed federal tax returns for 1989 reporting incomes between \$20,000 and \$50,000, represents the heart of America's working/middle class. The median family income in the U.S. in 1989 was \$34,213.

Bartlett and Steele demonstrate that the rules which govern the corporate game (agenda) have (1) created a tax system that is firmly weighted against the working/middle class; (2) granted subsidies to businesses that create low wage jobs that are eroding living standards; (3) undermined longtime stable businesses and communities; and (4) placed home ownership out of the reach of a growing number of citizens. In short, the working/middle class is being dismantled.

Part 5 of the series is on deregulation, and we in Canada could learn much from the disasters to the trucking and airline industries in the U.S. after deregulation. Since deregulation in 1978, a dozen airlines have merged or gone out of business. More than 50,000 of their employees have lost their jobs. Since deregulation of the trucking industry in 1980, more than 100 once-thriving trucking companies have gone out of business, and more than 150,000 workers at those companies have lost their jobs.

The last article is about the lobbying of special interest groups such as corporations. In Washington, 11,000 organisations are lobbying Congress, and the great majority of them speak for the rich. The lobbyists not only push for legislation that benefits the wealthy, but they stop legislation that might move America in the direction of a more democratic society. For example, it is because of such lobbies that Congress has failed to rewrite the laws that permit wealthy citizens to pay combined income tax and social security taxes at a rate well below that paid by

individuals and families earning less than \$20,000 a year. It is because of such lobbies that Congress has failed to do anything about the 40 million Americans who are going without health care insurance and millions more who have insurance that provides only limited protection.

Although these articles are about the dismantling of the American working/middle class, they are relevant to Canada, because the same process is happening here. Writers such as Linda McQuaig in "The Quick and the Dead" have documented the Canadian corporate agenda. To build global solidarity, it is important to know how ordinary folk are being clobbered in other parts of the world.

Bartlett and Steele predict that the 1990s will be as disastrous for the working/middle class as the 1980s, and that the corporate global economy will be to the 1990s and beyond what corporate restructuring in the U.S. was in the 1980s.

Unless, of course...

\* 'America: What Went Wrong?' is published by Andrews and McMeel in Kansas City, Missouri.

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## BRITAIN'S BIG ISSUE

While thousands of homeless people sleep in the streets at night, over 760,000 houses and flats stand empty in Britain. There are an estimated 638,000 empty houses owned by private landlords, 83,000 by local councils, 31,000 by government departments and 16,000 by housing associations.

## GEORGE GOES JAPANESE

A CLASSIC 19th century book on political economy written by social reformer Henry George has been re-published in Japan. *Progress and Poverty*, originally published in 1879, became one of the best-selling non-fiction works ever - and one of the most widely-read books on economics. It has now been translated by Prof. Yoshisaburo Yamasaki, emeritus professor of Kobe University, and published last year in Tokyo.

In Budapest, the Hungarian translation of Henry George's *The Condition of Labor* has also been re-printed. This was followed by the publication of a book which was written by the late Sos Aladar 50 years ago. Mr. Aladar was an advocate of the philosophy of Henry George. Because of the world war, publication was interrupted, and the MS gathered dust until last year. It was presented to the press by Goncz Arpad, the President of Hungary, who had been a friend of the author.

According to Balazs Konya - who is now seeking support for the publication of his Hungarian edition (with an English translation) of *Perspectives of Henry George's Thoughts and Ideas* - the new interest in the Georgist philosophy is timely.

He told *Land & Liberty*: "The very rapid political changes occurring in the world - especially in Eastern Europe - make it necessary to reappraise all the practical possibilities concerning Henry George's teaching."