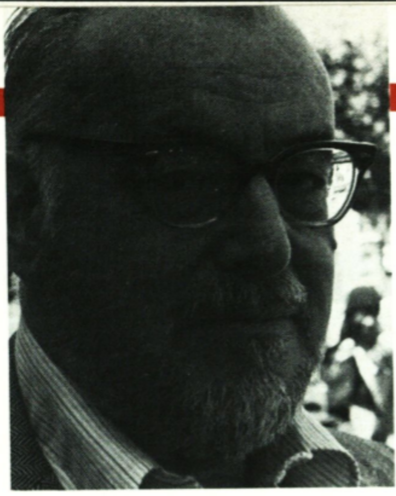

BOB CLANCY writes from NEW YORK

Reaganomics: supply-siders head back to Square One

THE "SUPPLY-SIDE" economists seem to be having it their own way these days. The Reagan Administration supports their thesis of lowering taxes to stimulate production. The American public are in a mood to give "Reaganomics" a chance since so many other theories and treatments have not measured up to promises.

Arthur B. Laffer, chief of the supply-siders, is essentially known for his "Laffer curve" which shows that taxation past a certain point adversely affects both production and public revenue. These ideas were promulgated by Jude Wanniski in his book *The Way the World Works* and now George Gilder has issued *Wealth and Poverty** which has become a best-seller, though a controversial one. An organization has been built around the book – the International Center for Economic Policy Studies – and Mr. Gilder is preparing an edition for British readers.

The thesis of *Wealth and Poverty* is that relieving the rich from high taxes would stimulate the economy since they would invest in productive enterprise. The resulting benefits would not only trickle down but pour down to the less affluent and even the poor. Today's tax system, the author contends, prompts the affluent to protect their wealth by putting their money into real estate, oil, art, gold and other hedges against inflation, which do nothing good for the economy.

WHILE conservatives argue in similar fashion, there are significant differences in Gilder's outlook.

He deplores "Looking out for Number One" (*a la* Robert Ringer) because it seeks to escape from the economy rather than build it up. (The "survivalists", an extreme example of this, are stocking up on guns, food supplies and shelters, against the "coming catastrophe."

Gilder also criticises Milton Friedman and the monetarists for being incomplete and not looking sufficiently at the productive process. And he is not in favour of getting rich at any cost if it is not accompanied by productive activity. He also chides most conservative theorists for being dull and unattractive in presenting capitalism as the least bad of various systems (a "dirge of triumph"), nothing at all to get excited about.

Gilder wants to paint capitalism in brighter colours. His outlook may be called "neo-Carnegie" in that he considers true capitalism to be a giving system, not just taking. He stresses the creative and generous possibilities rather than the piling up of profits, and considers that the traditional "self-interest" of capitalism just leads to the welfare state.

As for the welfare state, Gilder justifiably criticises its programme and performance. Its attempts to redistribute wealth, he says, have reduced incentives, created stagnation and perpetuated poverty.

George Gilder – and the supply-siders – have critics, of course. The Keynesians – now known as "demand-siders", since their remedies for controlling inflation and recession concentrate on that aspect – contend that a Laffer-type tax cut would be inflationary. This stems from the anticipation that savings and tax rebates will result in increased spending. The supply-siders answer that the savings and tax rebates will go into production.

The conservatives also criticise supply-side economics for neglecting a balanced budget. This is one of the stumbling blocks of the Reagan programme with Congressional conservatives. Gilder is unconcerned about such things as national debt and even inflation, saying that increased production overtakes it, and he cites historical cases.

And economists of neither school, including Wassily Leontief, are sceptical saying the idea is not tested, that it is a game plan, and that the result might just as well be more tucking of money into real estate and the other hedges.

THERE ARE aspects to George Gilder's thesis which are commendable.

It is noteworthy at this late stage (with a Marxist-type "breakdown" of capitalism long overdue) that a prominent school of thought can actually become enthusiastic about the possibilities of capitalism if given the right chance. And it does seem extraordinary that a reduction of taxes – taking away a little less of what we earn – should be greeted with such consternation.

Perhaps herein lies a key to the matter. The welfare state has grown bit by bit, has become pervasive, and we have become so accustomed to it and dependent on it that we shudder at even a small reduction of it. This, among liberal Congressmen, is another stumbling-block of the Reagan programme.

Gilder's criticisms of the welfare state are to the point, and yet they miss the point. Bad and bureaucratic as it is, it addresses itself to a situation Gilder does not face – people by and large are unwilling to accept insecurity, unemployment, depression, an abandoned old age, exploitation of raw youth and dependence on the whims of private employers. They

Cont. on P.79

**Wealth and Poverty*, George Gilder, New York: Basic Books, 1981.

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Land Policy in Planning, by Nathaniel Lichfield and Haim Darin-Drabkin, London: George Allen & Unwin, pp. 321, £18.

Is there need for planning in an efficient land market?

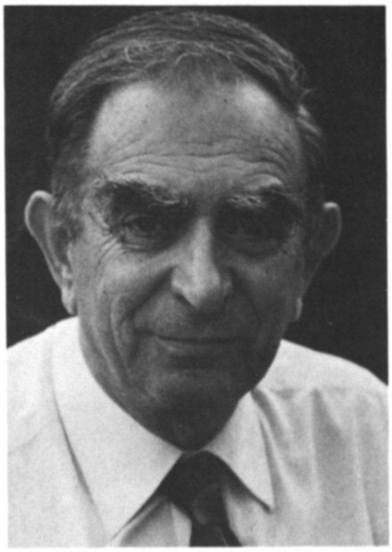
THE economic and social significance of land is under-rated by policy-makers. Superficial interest is occasionally expressed, as evidenced by the sorties into (usually ill-fated) legislation. But few politicians attempt to systematise their efforts at defining a rational framework for the operations of the land market.

One of the obstacles to a clear appreciation of the nature and scale of the problem – let alone the definition of solutions – has been the dearth of up-to-date comparative material.

The book by Lichfield and the late Darin-Drabkin is, therefore, an important compendium. It provides a global guide to the full range of policies, from bureaucratic planning to fiscal policy. So, despite its price, it is an essential addition to the library of any serious student of land.

The most valuable section, which was prepared by the late Haim Darin-Drabkin, is the appendix: an international survey of land policy measures, with a useful bibliography.

The book is weakest in its economic analysis. The attempt to be even-handed produces some nebulous conclusions. This can be illustrated by



● **Haim Darin-Drabkin**

the attempt to evaluate the role of speculation on the land market.

We are told that "While there could be some support for the view that land speculation is not entirely anti-social, nonetheless it is most important on occasions for the community to control excesses which flow from it."

Where do the benefits end, and the "excesses" begin? Well, the authors agree that speculators "clearly have an anti-social role in terms of land prices," but how do we identify the turning point in social acceptability?

There are errors. The British Labour Government's land legislation in 1975 and 1976 was not, "in essence . . . Henry George's single tax as a curtain-raiser to municipalisation of all development land" (p. 4).

The capture of economic rent for the benefit of the community would not "reduce drastically the incentives to the private sector to take part in development" (p. 159). Providing entrepreneurs receive a rate of return on capital improvements which was comparable to the yields that could be expected from other forms of investment, development would continue and, probably (as the authors note in the case of the Sydney business district), intensify!

The authors also seem to think that an annual tax on land values would lead to the destruction of privately-owned buildings of historic or architectural importance which might otherwise have been retained. Who decides the historic status? If owners sought public recognition that their structures should not be demolished in favour of optimal economic use of the land, and if – through the democratic process – this recognition was forthcoming, preservation orders would be granted which would reduce the market value of the land, and therefore the tax obligations!

Heavy weather is made of the *importance* of the planning process (insufficient emphasis is placed on the virtues of a freely-functioning market). One suspects that Nat Lichfield (Emeritus Professor of the Economics of Environmental Planning, London University) has a scholarly interest in promoting the art of planning.

This study is long overdue. We hope that the publishers will find it worth their while to commission Lichfield to revise the book for a second edition within the near future to take account of the latest developments in a field of knowledge which is vital to the formulation of sound economic and social policies.

Paul Knight

REAGANOMICS: cont. from P.80

have been there before, in a system not unlike the one proposed by Gilder and supply-siders.

Wealth and Poverty ends where *Progress and Poverty* begins. Henry George's work, more than 100 years ago, began by noting the wonderful advances in productive power that had been unleashed since the industrial revolution. But poverty persisted. The problem of distribution had not been solved. And George showed how the solution lies in an understanding of the laws of distribution. (One might note that the very term "supply-side" suggests an incomplete economic framework.)

Gilder criticises "distribution" as though it only means "redistribution." That is, as if it means that the government takes from some and spreads it around to others. But distribution needs to be understood in terms of fundamental economics: the primary distribution of wealth – rent to land, wages to labour, interest to capital.

Even the processes of production as envisioned by Gilder could use a dose of fundamental economics. For the idea that we must depend on the rich to get production going is a modern version of the wage-fund theory – the idea that wages are paid by capital. (It must be admitted that this notion is shared by many today, on the Left as well as on the Right.) As Henry George pointed out, labour produces its own wages and needs only access to land, not the gigantic organisation of capital.

George Gilder's thesis does represent an improvement on what we have been treated to over the past few decades. But unless we pay some heed to Henry George's message, a supply-side remedy will only land us back again to Square One.