

anyhow the sales tax is a bad tax whose only advantage is that it is collected in so many small pieces that the taxpayer is less likely to notice its cost. It comes down hardest on the poor, and its end result is fewer jobs and less production of real wealth, for each one per cent it adds to the cost of living translates into much less consumer purchasing power and therefore less sales, less production, less jobs, and less Gross National Product.

Likewise, the cities can hardly hope to raise the offsetting billions by new or increased taxes on corporate income. For the state and federal governments are already taxing away much more than half the profits of corporate business.

Cities would be foolish to hope they could get the federal government to offset any part of the tax loss from untaxing improvements by increased revenue sharing. For sooner or later the federal government will have to face up to the fact that it is in much worse money trouble than the cities. For years the federal deficit has been running bigger than the total of all the deficits of all our local governments combined!

*Land, The Ideal Revenue Source*

Land is the only taxable that can't leave town to escape taxation. So the only revenue source a city could tap to make up for the revenue loss by untaxing improvements would be to increase

the tax on the unimproved location value of land in the city.

And very fortunately, the result of doubling or tripling the tax on unimproved location values should be at least as good as the results you could expect from untaxing improvements. Low taxes on land get capitalized into high land prices, so some cities like St. Louis where the property tax is too low are in even worse trouble than cities like Buffalo and Boston where the property tax is too high.

Untaxing improvements would provide the carrot; uptaxing location values would provide the stick needed to prod the owners of underused and misused land to put it to better use in order to bring in enough additional income to pay the higher tax.

The unimproved value of non-farm land means what land in any given urban or suburban location would be worth if its past and present owners had never done anything or spent anything to improve it. In other words, it means the value that land in that location derives almost entirely from an often enormous investment of other people's money and most notably other taxpayers' money to develop the community around it, thus making land in that location accessible, livable and richly saleable. For the life of me I can't think of a fairer tax than a tax on the unearned increment from other people's investment.

without control of the money supply is to ignore what is probably the best-documented and most-researched relationship in economics—the relationship between the level of income and the demand for money."

To most of us it is a relief that the continuation of the controversy depends upon so fine an interpretation of the notion of causation—especially if we find the statistical debate too difficult to follow. But those of us who always did believe in a strong connection between monetary expansion and inflation, should still be grateful for simply stated explanations of some of the mechanisms, and of some of the remaining problems.

How, under a fractional reserve system, do the banks influence the money supply? Most textbooks supply an answer which is heavily dependent upon assumptions about the behaviour of the banks and their customers. Are these assumptions universally valid? And what happens if they are varied? Using simple arithmetical examples and with the minimum of (strictly optional) algebra, Professor Bain makes this mechanism understandable to anyone with the persistence and curiosity to examine it.

Why, in spite of avowals of intention to control monetary expansion has inflation proved so persistent a disease? Were the avowals lacking in sincerity, or was there a real problem in learning how to reduce monetary growth once it had gathered momentum? A valuable insight into these questions is provided by this latest revision of Professor Bain's book. "That a lower rate of monetary growth is a *sine qua non* for price stability is not seriously in dispute. Argument centres on how to bring this about without exposing countries to intolerable economic costs and political strains." This may appear to shift the centre of interest from common-sense economics to financial technicalities, and thus again to move the argument to areas beyond the scope of the layman. But the clarity of Professor Bain's explanations are such that one feels that, without having to understand every detail, the essence of the problem is made clear.

## A Persistent Controversy

NORMAN AYCLIFFE

THE theoretical differences between the Keynesian economists and the monetarists have narrowed considerably. Keynesians and monetarists agree that a sharp or persistent increase in the stock of money will be associated with a broadly proportionate increase in prices. Non-inflationary monetary expansion can take place only if there is a background of unemployment of both labour and capital. Persistently rising prices cannot take place without associated monetary expansion. Given this much agreement the layman might be forgiven for wondering what there is left to argue about. To most of us,

the question of causation, strictly defined, is of little importance so long as the matter of prevention and cure have both been settled. Yet the controversy continues. In a recent paperback\* an attempt at a balanced position is put in the following terms:

"To argue that monetary expansion is the sole cause of inflation is to ignore the social and political factors which cause governments to permit that monetary expansion to take place. But to believe that inflation can be cured

\* *The Control of the Money Supply*, A. D. Bain. Second edition 1976. Penguin Modern Economics Texts, £1.25.