

THE CHANCE OF PROSPERITY

A series of three articles by A. J. CARTER

2. THE BARRIER TO PRODUCTION

"If natural development is checked it must be because there is a barrier between natural resources and the application to them of human effort aided by technology. The way back to economic health and expansion begins with the identification and removal of this barrier to production."



WE HAVE become so used to economic stagnation or at least low rates of economic growth that the goal of steady, sustained expansion seems remote. Wise men shake their heads and wonder how it can be obtained, while some in the Treasury find the prospect of expansion so full of dangers that they would apparently prefer a safe stagnation. It is therefore important to remind ourselves how vital economic growth is, to shake off our mood of apathy, and to strengthen our determination to improve our position.

Economic growth means, or could mean, a rise in the living standards of the people, with all that implies for their material well-being, their happiness, and the quality of their lives. It means the ability to give more help to those in need. It means the capacity to increase public expenditure or reduce taxation, depending on one's political viewpoint. It means that whatever role Britain chooses to play in the world will have stronger economic backing. Perhaps most significant, it means that attempts to secure an equitable *distribution* of wealth will stand more chance of success.

In seeking prosperity it is first necessary to be clear where intervention is needed in the economy and where it is not. The waters of a river do not need to be taught how to flow. If the current is sluggish the prudent irrigator cuts the weeds and dredges the silt.

The potential increase in wealth and leisure is still enormous. Even man in his primitive state could provide himself with food, clothing, and shelter. With the increase in population, the intricate division of labour, the extensive use of tools and machinery, the growth in international trade, and now the arrival of computers and automation, we should marvel that our standard of living is not far higher and our economy far more robust than it is. Instead, we have had appalling industrial depressions, unemployment, poverty, and squalor. What has caused the natural path of progress to be so dreadfully disfigured?

Whatever the situation may be in the future (and I pronounce no judgement on that), there has not been in the past, and is not now, a shortage of natural resources. There is no lack of the desire for more goods and services, nor of the ability and willingness of man to work. There is no lack of the technology to help him. If natural development is checked it must be because there is a barrier between natural resources and the application to

them of human effort aided by technology. The way back to economic health and expansion begins with the identification and removal of this barrier to production.

In a modern industrial society the supreme importance of access to natural resources is commonly overlooked. People who work on natural resources directly, in agriculture, or mining, are few. The denial of access to these resources does not, on the face of it, affect the employment of the building labourer, the man on the assembly belt, or the clerk in his office. Yet the state of the whole economy does depend on the health of the primary industries. Services are paid for out of manufactured wealth, and all phases of manufacture, including marketing and organization, are ultimately dependent on the flow of raw materials. If, for example, there were an interruption in the supply of timber, this would affect not only the employment of carpenters but also that of furniture salesmen. If there were an interruption in the supply of coal and oil there would soon be cuts in power and transport. If there were an interruption in the supply of iron, steelmaking would be curtailed and ships, aeroplanes, machinery, and much else besides could not be built. If there is an interruption in the supply of land for building, all kinds of industrial and business activity will be held up. Finally, an interruption in the supply of water would not only disrupt production but threaten human life itself.

It will be seen, therefore, that any society, however advanced, is utterly dependent on the free access of its people to natural resources and in particular to land surface which gives access to all other natural resources. (Land was defined by the classical economists to include what is above it and below it and the natural elements that affect it.) Where, as in India, land is monopolized by a few, those few become very rich, but there is the most acute and widespread poverty because although there is a vast area of land capable of exploitation, and a vast population to exploit it, there is very little access of one to the other. Where land is in much wider ownership, as in Britain, the extremes are much less, but the same principle applies. To attain natural economic growth and full employment there are many measures required but the very first of them is to secure the free access of people to land. Without that foundation all other policies will fail.

Many countries have plans to spread the ownership

of land by dividing holdings into smaller units. This approach, though helpful in some circumstances, is unsound economically and does not meet the needs of an industrialized country like Britain. Access to land can be physically denied by virtue of ownership, but equally potent as a barrier is the price of land, which can and does rise to a level that producers cannot afford to pay.

When the economy is booming land prices rise steeply. Owners who might otherwise release their land for use hold it off the market to seek a profit from the increase in its value. The more this is done the greater the shortage of available land, and the greater the rise in prices, which in turn makes speculation even more attractive. With commodities, high prices call forth more production and this brings prices down again, but one cannot produce more land. There is no restraint on the artificial increase in price which must eventually reach a point at which it renders the cost of production prohibitive. It is then inevitable that there are cutbacks in production, closures, and possibly a full-scale depression in which only the dragging down of land prices makes production profitable again. This is the true explanation for the business cycle of boom and slump and the scourge of mass unemployment.

Does free access to land imply an end to private ownership, and if so is the only alternative nationalization, which would give governments complete control over land use?

There are two principal aspects of ownership of land: one is the choice of what to do with it, and the other is the enjoyment of its value. It is perfectly possible to preserve the first of these while acting to prevent the second. This can be done by assessing the value of all land, apart from improvements, and placing a tax on it.

The effect of taxing the value of land would be to reduce its price. If, for instance, a site is capable when put to its optimum use of yielding an income of £1,000 per annum it will have a selling price which is the capitalized value of that figure, say at present £12,500 (the sum which if invested at 8 per cent would yield £1,000), plus a speculative element of perhaps £2,500, a total of £15,000. A tax of 50 per cent on the rental value of £1,000 would reduce the income of the owner of the site to £500 and the selling price from £15,000 to £7,500. A tax of 100 per cent would reduce the income and consequently the price to nil, and land would cease to have a value apart from its value in use. Private possession of land would still be guaranteed, but there would be no advantage in holding land out of use for an increase in its value and, on the contrary, a strong inducement to put it to its fullest use in order to pay the tax. The result would be a substantial increase in the amount of land available for production.

With the underlying barrier to production removed, the ordinary workings of a free market economy should ensure that when resources are available and there is profit to be derived from their use they will be used. There are,

however, certain interferences with the operation of a free market, one of the most important of which is taxation. Taxation can influence the use of all resources—natural, human, and capital—and to attain prolonged economic growth through the maximum use of resources the right taxation policy is essential.

The effect of a tax on land values, as indicated above, is to encourage the availability and more intensive use of land. In this, it is one of the rare examples of a tax whose effects are positive rather than negative. Conversely, the effect of taxes on wages and interest is to retard the most effective employment of labour, capital, and enterprise. Hard work, responsibility, skill and training, initiative, investment, innovation, and risk-taking are all discouraged by a reduction in the net returns they can earn. The conclusion is obvious: that the introduction of a tax on land values should be accompanied by the simultaneous reduction of taxation on labour and its products and on capital.

BRITISH BUSINESS FOR WORLD MARKETS

A GROUP of businessmen have formed an organisation called British Business for World Markets. Their long-term aim is to work for the general removal of trade restrictions. Their short-term aim is to prevent Britain's entry into the Common Market because they believe that a large number of businessmen agree with these views, that it is urgently necessary for this fact to be made generally known.

B.B.W.M. welcomes the prospect of reciprocal free trade with the Common Market countries. They are much concerned about the obligations which membership of the Common Market would entail of setting restrictions on goods from outside the Common Market. This would raise productive costs and thus disable British producers even within the home market. This need to contribute large sums to bolster up inefficient farming in Europe must be a further burden and so would the cost of maintaining the EEC bureaucracy. The members of B.B.W.M. consider that it is exceedingly doubtful whether British industry would even benefit by "joining". While the removal of tariffs against British goods by the EEC will obviously be advantageous, it is most uncertain that this would counterbalance the disadvantage which would flow from increased costs of production. The sponsors of the new movement are sceptical about the "economies of scale" argument, for they contend that only a very few industries would benefit substantially from such economies, and that these industries are perfectly capable of making *ad hoc* arrangements—as the Concorde venture has shown. B.B.W.M. argues that the effect of joining the Common Market on the rest of British overseas trade would be almost wholly disadvantageous.