

THE GROWTH POLICY THAT IS OFF-LIMITS

THE BAREST GLIMMER of an insight into the restructuring of the British tax system was revealed by Chancellor Clarke in his budget speech. He wanted to "raise revenue in ways which do the least damage to the economy. In some cases, taxes actually do some good, by helping markets work better and by discouraging harmful or wasteful activities".

For the past 250 years, economists have clearly identified the essence of such a strategy. For the last eighty years, alas, that policy has been off-limits for governments. Could it be that the environmental lobby is unwittingly pushing the chancellor in the direction of the one policy that would let him achieve his ambitions?

Mr. Clarke is to introduce a tax on the disposal of waste in landfill sites. This should raise "several hundred million pounds" a year, starting in 1996. The purpose, said Mr. Clarke, was to encourage people to reduce waste. But the government does not intend to increase the burden on business, for he plans compensatory reductions in the cost of employing labour - by reducing national insurance contributions paid by employers (a tax, by another name, on the employment of people).

The landfill tax is a result of the awareness of the need to conserve natural resources. It stems from the influence of the environmental movement, which has pitched its propaganda at easy-to-see targets like the volume of waste churned out by the industrial economy. "A landfill levy will be a key economic instrument in the field of sustainable waste management," says Environment Minister John Gummer.

But will the government now generalise its concerns so that it can reshape the structure of taxation to give everyone the benefits of such a fiscal philosophy? The way to achieve this is to shift taxation off wages and profits - or production and consumption - and onto the rent of land.

This is a policy that economists ignore when they advise governments. For example, it was ignored by Todd Buchholz, who was Associate Director of the Economic Policy Council under President Bush. He had the opportunity to revisit what is acknowledged to be the least damaging method of raising public revenue when he wrote *New Ideas from Dead Economists* (Plume, 1990).

When he was challenged to explain his omission by Prof. C. Lowell Harriss (President of the New York-based Robert Schalkenbach Foundation), Mr Buchholz said: "The next time I have the opportunity to revise the text on Henry George, I will point out the virtue of taxing inelastic capital, such as land, rather than taxing elastic, man-made capital". Henry George was the 19th century social reformer who campaigned on the need to treat the rent of land as the principle source of public revenue.

Buchholz refers to land as "capital". It isn't.* In doing so, economists encourage policies that undermine strategies for balanced growth based on resource conservation and squeezing the maximum productivity from economic activity.

The significance of this error is revealed in the failure to create jobs.

The construction industry - a leading sector - is being obstructed from pulling the economy out of the recession with the minimum of pain. The struggles in the housing industry illustrate the point.

• In the US, the housing market is slowing down. The National Association of Realtors reports that the sales of ex-

isting single family homes rose by a seasonally adjusted annual rate of 3.91m in October. This is a drop from the 3.97m in September.

• In Britain, a decline in construction costs has been more than offset by an increase in land prices. Buyers have kept out of the market, resulting in a slowdown in sales in the summer and autumn. Result: a decline in the demand for household goods produced by industry.

According to the Inland Revenue (whose data on the regional trends appears in the table), builders are restocking with land, but they are no longer "prepared to bid up prices except in favoured locations such as the Home Counties, where marked increases in value have been seen for sites within striking distance of the M25".

In the absence of a rational fiscal strategy, the land market will continue to wreak havoc with the economy. And Mr Clarke's aspirations will be whistles in the wind.

* For a trenchant critique of the neo-classical strategy for confusing public policy by treating land as capital, see Mason Gaffney and Fred Harrison, *The Corruption of Economics*, London: Shephard-Walwyn, 1994.

Percentage change in prices 1 Oct 1993 to 1 Apr 1994	SECONDHAND HOUSING		RESIDENTIAL BUILDING LAND	
	6 months	12 months	6 months	12 months
	1. Scotland	+1%	+1%	+5%
2. Northern Ireland	+2%	+5%	+3%	+15%
3. North	0%	0%	+2%	+4%
4. North-west	0%	0%	0%	+1%
5. West Midlands	0%	0%	+6%	+8%
6. Wales	+1%	+2%	+6%	+10%
7. South-west	0%	0%	+6%	+12%
8. Outer London	+3%	+4%	+6%	+13%
9. Inner London	0%	+1%	+4%	+13%
10. South-east	+1%	+2%	+7%	+18%
11. East Anglia	0%	+1%	+5%	+24%
12. East Midlands	0%	+2%	+6%	+14%
13. Yorks & Humberside	+1%	+2%	+12%	+14%