THE TRICK OF THE TRICKLE DOWN THEORY

by Peter Poole

INTERNATIONAL civil servants are beginning to panic about the state of the world. Their global overview persuades them that something new is needed if social chaos is to be avoided. The Organisation for Economic Cooperation and Development is beginning to speak bluntly about the failures of existing approaches to tackling problems (see page 6 above).

The OECD has published a report on "The Challenge of Urban Regeneration" which wonders "Why do our urban areas continue to be faced with problems of persistent concentrations of disadvantage alongside relative affluence?" The OECD experts reflect on the "trickle down" notion that has been favoured by official policy. This maintains that, if we shape incentives that encourage those at the top, benefits will percolate down to those at the bottom as the economy grows.

Charlie McConnell revealed in his introduction to the OECD's report, "The OECD believes that too many of the top-down policies and programmes `introduced in the postwar era have attained a disturbingly low rate of effectiveness', including the cost of not involving the local community." The OECD, in a 1992 report (*The Economic, Social and Environmental Problems of Cities*), had stated: "The best way to deflect people from a sense of alienation towards their cities and from a sense of anxiety about their future is for them to feel able to influence what happens". Dissatisfied with orthodox approaches, the OECD sponsored a conference in Birmingham, England, to define new approaches. The result was a restatement of platitudes about the need to involve local communities. What do we make of this:

"Ways must be found of developing the necessary infrastructure and resources if success is to be replicated and built on. The public, private and voluntary sectors have a key responsibility and role here."

And: "Governments must adopt a funding strategy for community involvement infrastructure, otherwise there is a real danger that the advances made will not be sustained".

Talk of "adopting integrated socioeconomic policies and strategies in urban areas for the public authorities at the different levels of administration" boils down to more of the same: an appeal for a formal, state-based paternal approach to alleviating urban suffering. Nowhere do the OECD experts propose a systemic reform that would liberate people to rebuild their lives in their communities.

THE BLIND spot in urban policy relates to the use of land.

The experts agonise about everything under the sun: funding, education, community-based projects, social behaviour, political involvement - everything except the one issue that matters, which is the supply and price of land.

Look at the most basic of needs: housing. What better way to stimulate urban renewal and economic prosperity than to enable people to build their homes? Self-build: there is a way to raise self-esteem and upgrade the quality of the living environment. There is a true "bubble up" strategy! In times of recession, people should be encouraged to build homes rather than stand in dole queues. And in Britain, at least, that is what some people want to do. But, reported the *Daily Telegraph* (March 9): "The rising price of land is threatening to halt self-building - the fastest-growing sector of the housing market". Research by Savills, a leading firm of estate agents, has revealed that the price of residential land jumped by 23% during the first half of 1994. That is more than 10 times the rise of the average house price last year (as calculated by Nationwide Building Society).

Is it surprising that prospective home-builders are having difficulty finding plots at affordable prices?

IF governments really want to stimulate urban renewal, they ought to develop new policies for the land market. There is one policy only that would provide a comprehensive solution to issues ranging from incentives for the individual to financing infrastructure: shifting the way public revenue is raised off wages and profits, and onto the rent of land.

This was the subject of analysis in *The Economist* by Dr. Mary Cleveland of the University of California (Berkeley). She wrote to the newspaper to point out that its article ("Hell is a dying city", Nov.6, 1993) failed to explore the opportunities presented by tax reform. *The Economist* had sought to advise its "ideal candidate, Mayor Bright of Metroville".

Dr. Cleveland responded: "Mayor Bright finds that although state law requires that all property should be assessed for taxes at `fair market value', in reality it is assessed at wildly varying fractions of fair market value if it is taxed at all. In poor neighbourhoods, the city practises a fiscal scorched-earth policy: assessments are so high relative to actual value that taxes drain owners of the cash needed for repairs and ultimately force them to abandon their buildings. In good single-family neighbourhoods assessments tend to be low. Owners of large chunks of commercial property also enjoy particularly low assessments. In addition, Mayor Bright discovers, one-third of Metroville's property is not on the tax rolls at all since it belongs to religious or non-profit organisations. Ultimately, Metroville's property tax base is not so much eroded as maladministered".

WITHOUT property tax reform, urban implosion will continue. Where it is slowed up - as in London's Docklands - the renewal is at heavy fiscal cost without commensurate benefit to the local community.

Tax-grabbing governments drain other areas to shift money into poverty-stricken locations. Under such schemes, central governments will not yield control over how the money is spent. The "trickle down" philosophy, in other words, continues to be the dominant justification for shaping policy and deceiving people into thinking that something will be done, one day, to save the inner cities.