

Economics for real

OCCASIONALLY a book comes along that is full of sense, and this is one of them, writes Ian Barron. Christopher Huhne is economics editor of *The Independent On Sunday*, one of the New Wave newspapers to be launched in Britain.

In his book he eschews dogma and gets down to a hard-headed appraisal of the facts. As such, this volume becomes one of the starting points for a reassessment of the economics of the 1990s.

In terms of policies, in the last 30 years the world has had the lot: from Keynesianism to monetarism to Thatcherism (Reaganism was a simple-minded variety of the latter).

Today, all bets are off: where do we go from here? Huhne argues that the Market v Government dichotomy is ludicrous: "No economy can survive without a measured dollop of both, and the only real question is the correct field of action for each."

Governments, at the very least, have to lay down the rules within which markets can operate; but they are, of course, through their monetary and fiscal policies, also players in the market.

Huhne confronts all the major questions, ranging from the economics of the Welfare State to the Third World debt; from the crippling impact of the EEC's agricultural policies to the causes of the mid-'80s consumption boom that has compromised the Thatcher "revolution."

Most noteworthy, however - because of the neglect which the subject receives from the pens of other economists - is Huhne's treatment of the land market. In six pages he neatly summarises the impact of land speculation on the affordability of housing; the knock-on effects on the labour market,

Christopher Huhne, *Real World Economics: Essays On Imperfect Markets and Fallible Governments*, London: Macmillan, £19.



• Christopher Huhne

and the concomitant influence on wage bargaining; and the quality of life in the derelict inner city.

The correct policy, he points out, is a tax on land values. Tax buildings, he notes, and you deter investment; tax land, and you encourage construction. In the light of this fine contribution, it would be churlish to nit-pick; but it is worth doing so, because the property tax is a live topic in Britain, and will feature as a major policy issue in the next general election.

• Huhne thinks that the dispersed nature of property rights in land may be a hindrance to development; that "a critical mass is necessary". This view, alas, is influenced by the distorted nature of recent urban history, which is the story of the land speculator.

The finest neighbourhoods evolved and renewed themselves organically, building by building, site by site - not, usually, on the basis of large-scale development. The latter strategy was adopted by frustrated politicians who intervened to rectify the failures *not of*

the market but of the fiscal system.

If owners had to pay a hefty tax on the rental income imputed to their land, they would constantly recycle their sites in response to the needs of the community they served - not on the basis of a visionary plan, the inescapable component of the large scale renewal approach which has led to the creation of soulless housing estates and windswept business districts.

• On the land value tax, which Huhne advocates, there is one minor error which bears mentioning because it is currently being used by Labour politicians as an excuse not to adopt site-value rating as the alternative to the Poll Tax.

Huhne states: "The basis of the tax is the value of the site in the use allotted to it by the planning authorities ..." Labour's local government spokesman employs this kind of statement to claim that property developers would conspire with planners to destroy communities by the simple expedient of re-zoning land for more profitable uses.

Well, the Huhne formulation is acceptable if the planners have correctly judged the needs of users. But if they have not, then it is not the new planning permission which dictates the amount that would be paid by the owners of the sites, but rather the market. Or, more precisely: competition among prospective users sets the level of land values. The market reveals those prices, and the Inland Revenue accepts them for tax purposes.

It is to be hoped that Macmillan will publish a paperback edition of Christopher Huhne's book, so that it may be accessible to a wider audience.

ticularly in the appeals procedures.

As things are, many "viewed their experience (i.e. at sessions of tribunals) as one of intimidation, alienation and powerlessness".

How the "share" would help

them to overcome these feelings is open to question, especially when one thinks of the author's admissions that many appellants would gain from receiving free legal representation, and that a high proportion of them fail to

understand their appeal papers.

Altogether there is much to criticise here. An individual's only indisputable and unconditional right is to the fruits of his own labour. To try to sub-

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