

Planning Away Our Ills

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ONE peculiarity of influential and prominent persons is that they often want to appear as underdogs. J. K. Galbraith is Warburg Professor of Economics at Harvard, past president of the American Economic Association, holder of public office and a man of wealth and property. One would suppose him to be as near the top as one can get. But he wants us to see him as a champion against the Establishment.

Which Establishment? The neoclassical one. Meanwhile, no doubt, the neoclassicists feel they are underdogs battling the powerful Liberal Establishment.

However that may be, Prof. Galbraith makes clear in his latest book* that he thinks the neoclassical economists are wrong and that the market system is not working the way they said it would. *Economics and the Public Purpose* is the final and most comprehensive of Galbraith's trilogy on economics which includes *The Affluent Society* and *The New Industrial State*.

In the present work Prof. Galbraith tackles the neoclassical claim that the economic system functions in response to the instructions of the market. This thesis was thrown into doubt by the depression of the 1930's, when Keynes issued his analysis of the situation and proposed fiscal manipulation in order to restore the economy. But the Keynesian model also accepted the power of the market and operated through it.

But, says Galbraith, what is overlooked in both models is the "planning system." By this he means the domination of the economy by a few large firms which manipulate the economy, supply, demand, products, prices, wages and consumption. At present the

state is subservient to this system. The market system operates only in unimportant fringe areas.

Prof. Galbraith is adept at coining phrases. "The affluent society" and "the conventional wisdom" were coinages from previous works. He now adds, besides "the planning system," such terms as "the convenient social virtue", referring to the hard work and sacrifice of the small entrepreneur — and of women, too! — and the "self-exploitation" that results from this effort and serves the planning system; the "technostructure" which comprises the present-day industrial set-up operated by the planning system; the "public cognizance" meaning the education of the public to reform.

To highlight his thesis, Galbraith ignores too much the very real influences of the market and of consumer demand, although much of what he describes does unfortunately resemble what is occurring today. But given this, why does he not proceed to tell us why this is so and how a free market may be achieved? The reason is that he is marching to a different drummer. After telling us that the "planning system" exists, he goes on to what he wants. The reader may get a little confused as to which is which for Galbraith advocates planning. But it is to be "good" planning. Government, in cooperation with planning agencies, are to control production, prices, wages, interest rates. The needs for public services are also to be determined and tax rates levied accordingly. Great disparities of income are to be reduced. A broad system is outlined, which Galbraith calls "public control."

Socialism? All right, says Galbraith, let us not be afraid of a word. This is what is needed so let us get on with it.

However, although Galbraith chides economists for believing in the myth of a free market, it must be said that classical economists — and perhaps neo-



* *Economics and the Public Purpose*, J. K. Galbraith, Houghton Mifflin Co., Boston, 1973.

classical economists — did not suppose that the conditions of a perfect free market actually existed. Rather, they advocated it as the system that would best serve the needs of society. Galbraith would be hard put to find any system past or present that conforms to his own planning ideal. He might ponder the words of his rival Milton Friedman: "The fascinating thing is that most proponents of governmental intervention completely agree that all past programmes have been failures. The most dramatic case at the moment is price and wage control. There is not a single example of a success. They have all been failures from the time of Diocletian 2,000 years ago to the present But somehow or other, hope springs eternal that the next governmental programme will be a success."

So if Galbraith can point to governmental programmes and say that's not what he means, free market advocates can look at the system today and say that's not what they mean. But instead of throw-

ing out the baby with the bath water, the job ahead would seem to be to find out what went wrong with the market system and set it to rights.

Wherever monopoly reared its head, certainly that was bad news for the market system. At the base of the economy is land. All economic activities must start there, continue there and conclude there. Because of its vital significance it becomes very valuable and its monopolization becomes very important. More attention to this matter would offer explanations as to what went wrong with the market system.

Yet Prof. Galbraith has managed to issue a complete examination of the economic system and a programme for reform without once mentioning land.

Attention to the land question would certainly change the direction of the analysis and the proposed reforms. Abolition of the land monopoly and related reforms might even demonstrate that the free market system can work after all.

U.S.A.

Problems of the Property Tax

LAND-VALUE taxation receives a substantial boost in *Property Tax Reform** as nine authorities discuss topics that have brought the property tax to the fore in political as well as economic circles. Chapters deal with the pressures for property tax relief, school finance disparities, the central city revenue squeeze, housing problems, zoning abuses, and assessment defects.

"My ideal system of local finance would comprise user charges and land-value taxation," writes Dick Netzer, Professor of Economics and Dean of the Graduate School of Public Administration, New York University. Among user charges, Netzer particularly favours those that would require the instigators of pollution and congestion to bear the social costs of these conditions. To convert the conventional property tax into a land-value tax, he says the first stage should be the "elimination of the existing drastic under-taxation of land relative to improvements."

Mason Gaffney, newly appointed Director of the British Columbia

Institute for Economic Policy Analysis, offers an eight-point agenda for strengthening the property tax, including its partial shift from the local to the state level. He writes that taxing site values and untaxing buildings would stimulate employment, generate urban renewal, economize on public capital, lead to more equitable wealth distribution, afford true tax relief, and help restore confidence in government.

John Shannon, Assistant Director of the Advisory Commission on Intergovernmental Relations, explains the recent rash of state laws providing homeowners and renters with property tax relief. Commonly called circuit-breakers, these laws give tax rebates or state income tax credits when property taxes (or rents in lieu of taxes) exceed a certain percentage of household income. Shannon defends these laws on the basis that they minimize the most burdensome feature of the property tax — its impact on the poor — and thus remove political pressure against more fundamental assessment reform. Commenting on another form of relief, Shannon writes, "Some would argue that the states are preparing (by means of preferential farmland assessment) a

banquet for urban land speculators in order to provide some property tax relief crumbs for dirt farmers." Of thirty-one states with farm tax differentials, only half recapture part of the foregone tax at time of sale.

Considering housing deterioration and abandonment, George E. Peterson finds that, in a number of cities, higher effective property tax rates are imposed on blighted areas than on other neighbourhoods. His surveys suggest that fear of reassessment due to rehabilitation ranks low among the obstacles to renewal. Nevertheless, by creating cash flow problems for landlords, high inner-city property tax rates deter repair, contribute to "the paralysis of market forces" in poor neighbourhoods, and "bear some of the responsibility for perpetuating urban blight," he concludes.

Other chapters are respectively about the legal battles over school finance, the tendency of restrictive zoning to reduce the supply of low-income housing, and ways to put the findings of assessors to better use in urban planning.

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*The Urban Institute, Washington D.C.
George E. Peterson, Editor. \$4.95.