Inflation, Prices, Incomes and Local Government Finance

THE ECONOMIC FALLACY or political lie that attributes inflation to trade unions' and others' successful claims for higher wages is at the root of the Government's prices and incomes policy. Indeed the acceptance of this policy is conditional upon acceptance of the economic fallacy. That the Government and the Government alone is responsible for inflation has been argued repeatedly in these columns over many years, but with a few notable exceptions other views have prevailed.

Now, political writers and economists are beginning to see the light, and as a consequence, the exponents of the incomes policy are finding it difficult to hold their ground. The latest broadside to be fired against the prices and incomes policy comes from a cogently reasoned and statistically supported essay published by the Economic Study Association* entitled "Enquiry into Prices and Incomes."

This paper was initially the joint work of a group of members, but in its final stages it owes much to the direction and advice given by Colin Clark (Director of the Agricultural Economics Research Institute at Oxford) and his colleague, G. H. Peters.

"The fact that all money incomes are rising faster than production," say the authors, "does not necessarily support the conclusion that it is money incomes which are causing prices to rise, since if the internal purchasing power of money is falling for any reason, money incomes will be rising in relation to real production."

The booklet discusses "cost push" inflation and "demand pull" inflation, showing them to be the opposite sides of a counterfeit coin.

The value of this booklet lies not only in its logical exposition of the principles underlying the relation between wages and inflation but in its analysis of current economic and political thinking which has dominated economic policy and the minds of those who have too blindly followed it.

Savings, investment, taxation, the national product, government spending, are all included in the discussion. And for those who like graphs, there is an abundance of them. On the whole this enquiry is a valuable contribution to clear thinking on the subjects of inflation, prices and incomes.

But it is more than that. Under the section on local government expenditure a call is made for the use of site-value rating, not only to provide the revenue for local government's own share of financial liability, but also the Government's share which is channelled to local authorities via grants and which amounts to almost half the total amount required.

The following is an extract from this section:

*14 Essex Street, London, W.C.2. .(5s.).

LOCAL GOVERNMENT IN JEOPARDY

The problem of local finance flows largely from the lack of an adequate and expanding basis for local income. The size and consequence of the lack, snowballing over years, is appalling. In 1966 local authorities' total expenditure reached £4,518 million, while their income from rates was only £1,353 million. The deficit was made up by grants from the central government of £1,561 million, miscellaneous income £650 million, and borrowing £954 million. As shown on Chart 12, 1965 was not an exceptional year. The total debt of local authorities, excluding overdrafts and temporary loans, is now in the £12,000 million range, larger than the entire pre-war National Debt. Under conditions of dear money, the burden of this increasing debt is of necessity aggravated by rapidly-mounting interest charges. An approximate doubling of total debt has meant a trebling of the interest charge. In 1965 interest charged to local authorities' current account totalled £600 million, or 44 per cent of their rate income. In 1956 the figure was £193 million or 35 per cent, and in 1946 £61 million or 23 per cent of the income from rates. Local authorities are facing no fiction of public finance, but the reality of bankruptcy. In context this would mean complete central government control, and an end to the system of government which only half a century ago was a source of pride, admired by the world.

Oddly, in the face of this situation, local finance is one of those spheres where it is politically feasible to take remedial action. Many countries have for a long time based local taxation upon some form of land tax with apparent success. Site value rating has been the subject of political debate, parliamentary enquiries, private bills and Royal Commissions for nearly a century, but with little result. The last Committee of Enquiry, appointed by the Attlee administration, reported in 1952. The majority report did not favour site value rating at that time, mainly because of the financial system set up by the 1947 Town and Country Planning Act. This system of development charges failed to work and was abolished by the 1953 Act.

THE EVIDENCE OF WHITSTABLE

The committee's report included this paragraph: "Any assessment of the product of a site value rate or of the redistribution in rate liability that might occur, can be made only in the light of a comprehensive test valuation, and we emphasise our conviction that it would be essential to carry out such a test before any decision to introduce a site value rate were made."

After the manner of government, no official action was taken. In 1963, a professional body conducted a pilot survey at Whitstable, financed from private resources. The results answered most of the committee's objections. It was shown that site values were of the same order of magnitude as orthodox rateable values, that the work involved in valuing sites only was much less than by the orthodox method, and that it could be accomplished speedily.

What is of importance to this enquiry is the extent of the redistribution of the rate charge likely to be affected by site value rating. The pilot survey shows that in the case of Whitstable Urban District, assuming no large-scale exemption, rates on houses, bungalows, flats, and

maisonettes would be reduced by 50 per cent under site value rating, compared with the present orthodox method. The main political argument against reducing central government grants to local authorities is, that the increase in rates which would necessarily follow would place an intolerable charge upon house-holders. On the best evidence available, it appears that the introduction of site values as the basis for the local rates would enable local authorities to double their rate income without any increase in the aggregate rate charge falling upon householders. In such circumstances central government grants could be dispensed with.

Costs of providing local services such as housing, schools, and sewage farms would certainly be reduced. A major problem in local affairs is the purchase of suitable land; the rating of site values would increase the quantity of land on the market and deflate its price . . .

Results obtained from one small town in the south-east of England are not sufficient to form the basis for policy to cover the whole United Kingdom. But the pilot survey does suggest that the introduction of site value rating as the basis of local taxation would enable the full responsibility for meeting local expenditure to be placed on local authorities and those who directly elect them. It follows inevitably that local expenditures would be pruned, wastages reduced, while the operation of the rate itself would bring about some reduction in the costs of providing many services. Further, since site values themselves are dependent in part upon the quality and quantity of public services in the area, local authority expenditure would directly affect their income base. With a statutory limitation on poundage to be levied, the possibility arises of subjecting local authorities to the same discipline, demanding efficiency and restraint in expenditure as currently applies in the private sector.

By itself, the reform of local government finances is unlikely to have a significant effect in reducing the impact of public authorities' expenditure on the national product. Indeed, if site value rating were introduced merely as a means of providing additional taxation, it would do little or nothing towards solving the fundamental imbalance within the whole economy. It is vitally important that any saving made by the Chancellor of the Exchequer from stopping grants to local authorities should be disbursed in such a manner as to reverse the post-war trend of increasing taxation to meet increasing expenditure.

OPPORTUNITIES FOR TAX REDUCTION

On the basis of the 1966 figures, the reform of local finances would show as a saving of up to £1,561 million to the central government, so presenting the Chancellor with a number of opportunities for tax reductions and reform. For example, National Health and Insurance contributions totalled £1,797 million in 1966, and although the scheme may have originally been envisaged as insurance, today these contributions form part of aggregate taxation as much as any other particular item. Employers' contributions are a non-selective (apart from age and sex) employment tax, and it would be more honest and efficient to amalgamate them with the SET. In practice both are paid and collected together and there would be advantages in keeping them together in the accounts. Employees, self-employed and non-employed contributions are poll taxes. Much is made politically of the regressive nature, as at present levied, of local rates, but these so-called contributions are much more so. For an employee earning £14 a week after PAYE the rate is five per cent, for one earning £28 a week it falls to 2½ per cent, and so on. They should in justice be abolished. At the 1966 rates this would represent a loss of income to the Exchequer of £895 million, but after adjustment of income tax the net loss would be less.

Coupled with such a step could be the abolition of family allowances, making a gross saving of £156 million, plus a further £5 million a year in administration expenses. At least 60 per cent of families currently pay more in National Health and Insurance contributions than they receive by way of family allowances, and would be better off on balance. Not more than about 15 per cent. would definitely incur a loss on balance, and these and any other cases of need could be compensated by increasing the child allowance forming part of unemployment pay, pensions, national assistance and tax allowances.

So a start becomes possible, without creating small pockets of hardship, in dismantling the expensive Robin Hood arrangement mistakenly labelled welfare. Saving on administration expenses is important since these have been growing rapidly. For example, so far as family allowances are concerned, in ten years the total paid out as allowances has grown by 30 per cent, but administrative expenses are up by 80 per cent.

On the basis of the 1966 figures the Chancellor would have had a further £800 million to be used to adjust the employment tax and other company and self-employed taxes. Adjustments and reliefs would be advisable, since the sites used by shops, hotels, public houses, banks, cinemas and offices would become highly rated. One of the arguments put forward by the Chancellor in support of the SET was that service industries did not in general carry a reasonable share of taxation. A site value rate would remedy this with much finer selectivity. For example, a Cornish hotel would not pay the same weight of tax as one in Piccadilly.

LAND COMMISSION A STEP BACKWARDS

It is incredible that in the face of mounting difficulties, successive governments have been allowed to remain apathetic to the reform of local finances, since this appears to be a key to the solution. It is now fifteen years since the report of the Committee of Enquiry on the Rating of Site Values was published; it is fourteen years since the development charges were abolished; and four years since the Whitstable Report showed that site value rating might be a practical proposition. It is perhaps understandable that a Labour government now wedded to socialist theory should not wish to promote such measures. Reforming local finances on the lines suggested would strengthen the position of local authorities; while inherent in socialism is the idea of centralised power and control. In this respect the Land Commission Act 1967 puts the clock back twenty years, for included in the Act through the "betterment levy" is an attempt to appropriate to the central government a possible base for an adequate local tax. Many authorities doubt the practicabiliy of the new Act, and the Conservative Party has promised repeal upon return to power. It is difficult to understand why the whole subject remains untouchable as far as Conservative governments are concerned, unless it is that emotions roused at the turn of the century still run strong. Such matters are raised from time to time in the Liberal Party, but their parliamentary members prefer to talk of the structure of local government rather than its financial base and its implications for the national economy.

RATING OF EMPTY PROPERTIES

THE LOCAL GOVERNMENT ACT 1966 provides that, if the local authority so resolves, half rates will be payable on buildings in its area unoccupied after three months, and new houses unoccupied after six

months. At the end of 1966 only one local authority had so resolved.

Since then it has been announced that fifty-nine authorities are now rating unoccupied property and fifteen others had resolved to do so from April 1, 1968.

Unhappy Birthday for the Land Commission

ON APRIL 6 the Land Commission celebrated its first anniversary with the record of having collected £500,000 in betterment levy at a cost of £3,200,000 and having become the owner of only two acres of land. *The Daily Telegraph*, April 5, reported Mr. W. H. Cauthery, the Commission's Director as saying: "We shall have to be judged by what we do in the next few years rather than in our first year, which was bound to be very largely preparatory."

Of the £3,200,000 spent, £950,000 was for preparing a survey of available land and negotiating to buy. Staffing the Land Commission (1,400 civil servants) and expenses accounted for the rest. But in addition to this more than £1 million has been spent on the Commission's behalf by other government departments, such as the Inland Revenue, which helps to collect the levy.

The Land Commission's chief setback has been the scarcity of suitable development land to acquire. Builders, it seems, have most of it in their hands already.

Apart from land shortage, the Commission blames compulsory purchase delays for the fact that after its first year it owns only two acres. Negotiations for a total of 1,500 acres are in progress, but, says the *Telegraph*, this is a far cry from the claim made by Mr. Willey, the former Minister of Land and Natural Resources, that the Commission would have to provide land for 500,000 houses each year.

An indication of the book work involved is given by the following figures of the 1,100,000 transactions notified to the Commission this year. District Valuers estimate that 90,000 cases might be liable for levy. The Commission has so far examined 60,000 of these and charged a levy in only 3,250 cases.

"Contrary to the Government's claim that the Commission would stabilise the price of land," concludes the *Telegraph*, "prices are continuing to rise. Even outside the London area a plot for a new house or flat has reached £1,000 or more. Before the advent of the 40 per cent levy, the price of an equivalent plot was generally £700 to £800 in areas of sustained demand."

We continue to predict that this pusillanimous Land Commission Act will suffer the same fate as the financial provisions of the 1947 Town and Country Planning Act.

ON TARGET!

"I'VE HEARD enough about the poor Europeans and how they might retaliate to import quotas. What more could they do to discriminate against our goods?

"The Common Market isn't a free trade group, you know, it's the greatest bunch of protectionists on earth."

—Washington official quoted
in the *Evening Standard*, March 15.