

Diagnosis and Remedy

FRANK OTHICK

IN *Wrong Diagnosis — Wrong Remedies* (Economic and Social Science Research Association, 25p), a very readable and attractively presented booklet, Anthony Carter reaches an interesting conclusion on the solution to our economic problems. It does not lie in the salvation of membership of the European Economic Community; it lies, in his opinion, in the taxation of land values.

This may seem too grandiose a claim for one element, even though it is an important one, in our tax structure. But his belief in the efficacy of this form of taxation is not based on too limited a use of land taxation. He sees it as a means of reducing other taxes which are clearly disincentives. His case is based on an analysis of what is wrong and the substitution of more effective sources of public revenue which will also serve to put it right.

Inflation is, as he puts it, the necessary condition for the wage-price or price-wage spiral. To stop it, and the spiral that embodies it, all that is required is that governments should cease to practise it. They should balance their budgets and not resort to financing deficits by making more money available. Full employment is desirable, and in his view the soundest way of maintaining it is to ensure a thriving economy, and without false starts and falsified hopes. It can, he believes, be secured without inflation.

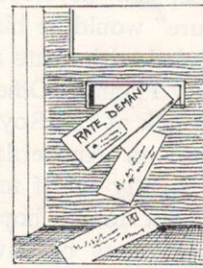
It is public mismanagement of finance which has to be corrected, a reversal of policies of over-spending with the attendant currency debasement. Away with economic stagnation or poor economic growth. Away with disincentives that encourage these things. The potential increase in wealth and leisure is still enormous. Land is an indispensable factor in all forms of production, and when good land for any purpose — agricultural, commercial or industrial — ceases to be available for effective use (less politely called hoarding), then less suitable land has to be used, productivity suffers and living standards are depressed.

He suggests as an example urban building land where scarcity leads to the enrichment of those with a financial interest in it at the expense of those who do not. To attain prolonged economic growth through the maximum use of resources the right taxation policy is essential. In Mr. Carter's opinion the effect of a tax on land values is to encourage the availability

and more intensive use of land. The effect of taxes on wages and interest is to retard the most effective employment of labour, capital and enterprise. Hard work, responsibility, skill and training, initiative, investment, innovation and risk-taking are all discouraged by poor rewards. Reduce taxes on labour, its products and on capital and tax land values instead. That, very broadly, is his case.

Sometimes we may seem a long way away from using this source of revenue. But with the present limit on sources of local government revenue, the fresh impetus to the search for a justification for reducing central government's share of local government services, the consequential transference of financial burdens to local authorities, the economic and social consequences of land hoarding as well as the currently high level of disincentive income tax, we may, within measurable time, find that for good economic and social reasons an attempt is made to get a factual picture of this much discussed, often misunderstood, potential source of revenue to enable governments to loosen up on others, especially income tax.

It has been left to the Rating and Valuation Association (in 1963) and to the Land Institute (in 1973) to search for evidence of site-value rating in practice in restricted exercises, restricted only because the research funds were limited. One day a government genuinely believing that information, not political prejudice, is the basis of sound judgement will encourage and help finance research on a scale which matches the importance of this particular search for information. As things stand our knowledge of the practical implications is incomplete. But even the limited research projects have blown away some of the cobwebs of neglect. The Land Institute's report on its 1973 site valuation exercise, due for publication this summer, may blow away some more. But ultimately a bigger exercise, or series of exercises, will be necessary for a full appraisal of the revenue prospects, the valuation difficulties, the redistributive nature and the consequential effects on land tenures of site-value rating to be made. It should be undertaken now, when



the need for information on this possible source of local revenue to ease the calls on national revenue is so urgent.

Reprinted with the kind permission of the *Local Government Chronicle* (June 15).