NEWS AND COMMENT

WHEAT AMONG THE CHAFF

Israel

A RECENT PAPER given by Dr. Nicholas Kaldor (Kings College, Cambridge) at an international conference in Israel* provides an opportunity for a closer examination of the views of one of Mr. Wilson's leading economic advisers. Dr. Kaldor sees the difficulties of developing countries as problems of wealth distribution against a background of need for investment in a large number of non-revenue producing services such as communications, education and public health facilities. Taxation systems must be used, he considers, for encouraging investment in the social and economic infrastructure which will reap only relatively long term but important rewards. Since taxation must be derived from the surplus wealth above that which is required for minimum essential consumption, the taxation potential of a country depends to a large extent on the existing inequality in the distribution of national income.

"The owners of land," Dr. Kaldor stated, "are high spenders and as a consequence a high ratio of resources may be devoted to unnecessary consumption. Similarly, in countries where fortunes made in the course of industrial development escape taxation a much higher proportion of profits is devoted to personal consumption."

Since developing economies have a large percentage of their population employed in subsistence agriculture and since future expansion depends not only upon the development of industrial potential but on increased agricultural output to supply emerging urbanism, Dr. Kaldor argued that agricultural taxation policies have an important part to play as production incentives. Remarking that the historical and traditional forms of annual agricultural taxation expressed as a percentage of produce per acre had declined from an approximate 10 per cent average in many European and Asian countries to a current levy in India of 1.5 per cent and in Turkey of 0.2 per cent., Dr. Kaldor stated that "an annual tax on land would yield not just revenue but the *right kind* of revenue." Facing objections that agricultural land taxes could be unjust in their incidence, he emphasised that a progressive system would be based on the "potential output" of the land thus giving maximum incentive for efficient farmers to make improvements and expand output.

Failure to tax the agricultural sector efficiently in developing countries has meant an increased burden on expanding industries, usually by way of regressive indirect taxes on mass consumption articles.

Dr. Kaldor then passed on to contemporary lines of economic reasoning to point out that generally taxes on profit as such did not necessarily bring about a better distribution of wealth where reinvestment in industries catering largely for the wealthy followed. In such circumstances the rich get richer without improving the standard of living of the mass of population. Dr. Kaldor argued that "added value" taxes were preferable to commodity taxes and general profit taxes. In his view, however, the key to wealth distribution also rested on progressive income tax coupled with capital gains taxes, wealth taxes and inheritance taxes. Such taxes, he emphasised, required a strong and incorruptible tax administration of highly paid officials.

It is a pity that while looking at the essential problems of developing countries and acknowledging the importance of land for agriculture this scholar has neglected completely the importance of urban land utilisation and the effect of systems of land tenure on the economic structure and on the accumulation of wealth. While no doubt land rent would show in the "income" balance sheet of a "progressive tax system" and while some profit from land transactions would be recovered by capital gains taxes and inheritance taxes, Dr. Kaldor, like many of his contemporaries, is endeavouring to shut the proverbial stable door after the horse has bolted. The key to the unequal distribution of wealth and its perpetuation in developing countries is not to be found in sophisticated and complex tax systems but in attacks on source monopolies. In this connection the introduction of *ad valorem* taxes on all land rent and the simultaneous abolition of all artificial restrictions of free choice and competitive opportunity would do much to favourably tilt the wealth balance.

*The Rhovot Conference on Monetary and Fiscal Problems in Developing Countries—Reported by the *Jerusalem Post*.

ORIGINS OF LAND VALUE

Bahamas

"THE INVESTMENT POTENTIAL in land ownership in any area is closely bound up with (a) the rate of population growth and (b) the availability of land. This is the simple law of supply and demand. Prove that for various reasons the population of an area is increasing. Prove that the area is limited. Then the increase in land values is in proportion to the population growth in that area."

These words of wisdom might have been lifted from Henry George's *Progress and Poverty*. In fact, they have been lifted straight from the advertising literature of a