GREATER LONDON COUNCIL

Report by the Leader of the Council

The following report is submitted under standing order B21(c) and will be considered on the motion 'That the report be referred to the Finance and General Purposes Committee'.

2 November 1983

RATES, JOBS AND THE GLC

1 Rates are now at the centre of the British political stage. They have been put there for supposedly economic reasons. The Government has maintained that rates, like public spending in general, are inversely related to jobs: the higher the rates the fewer the jobs. The current proposals to 'cap' local authority rates and further reduce the traditional independence of local government are based on this economic proposition. So are the proposals to abolish the GLC and the other metropolitan authorities.

2 The GLC regards this argument as wholly mistaken. We have already shown that the abolition proposals—which offer to replace a single democratic council with a cat's cradle of quangos and expanded Government departments—will substantially increase the cost of metropolitan services. Even in terms of its own economic argument, therefore, the Government's proposals are misconceived. But on top of this, the general economic argument itself is wrong. The Government's sustained attack on local government in London in the last four years has worsened services and destroyed jobs. Already the Council is showing that only carefully planned public investment, funded by borrowing and supported by rates, can repair the damage that this Government has visited on the London economy.

3 There are four distinct parts of the Government's economic arguments on rates and local spending. They tend to be run together (for example, in the recent White Paper) in the interests of a general attack on local government. But they need to be distinguished as follows:

(1) Local government spending is out of control. It has been growing faster than the national economy, faster even than central government itself.

(2) The rise in rates is caused by the rise in local government spending.

(3) The rise in rates and local government borrowing squeezes the private sector and is a major factor in the decline of the British economy: hence the need to control spending, rates and capital borrowing.

(4) A reduction in rates will increase employment.

This report discusses each in turn.

Overspending

4 A recent Confederation of British Industry (CBI) document on rates (Business Rates and Local Authority Spending, August 1983) shows that gross local authority spending in England and Wales rose from 12 per cent. of national production (GDP) in 1965 to an estimated 14 per cent. in 1983–4, having risen to 20 per cent. in 1973–4. Over a slightly shorter period (1965–6 to 1980–1), while the national economy grew by 30 per cent. in real terms (after taking inflation into account), all Greater London local authorities grew by 56 per cent. and their current spending by 97 per cent. In the decade 1965–6 to 1975–6 the GLC's current spending more than doubled, and its total spending rose by 65 per cent. It is figures such as these that are quoted as a prologue to every programme of cuts, local government controls, and now proposals for abolition.

5 These figures are grossly misleading and are known to be by the civil servants and ministers who continue to use them. Changes in the local authority share in national production as measured in monetary terms, are not a good yardstick to measure changes in the local authority claim on real resources. It is changes in the share in physical resources which are critical to the monetarist argument.

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6 The problem is to be found in the way national statistics are derived. To get a measure of how much consumer goods have grown, the statisticians compare the price of a typical bundle in, say, 1965 with the price of a similar bundle now. This gives a measure of inflation in retail prices. Between 1965 and 1982 retail prices rose by more than five times. The same weekly shopping that costs £20 now, would have cost £4 in 1965. The statistician then adds up the value of all retail goods and services now, divides it by the inflation factor, and can then compare how the consumer sector has grown in 'real' physical terms after taking inflation into account. The same is done with investment goods. Between 1965 and 1982 the prices of investment goods rose by 5·4 times.

7 The same procedure cannot be followed for public services which are not sold on the market. It is impossible to compare a bundle of GLC services in 1965 and 1982 by their price, since most of them have no price. An estimate of their current prices is therefore made according to their costs. To get a measure of what has happened in physical terms, we can compare the costs of a bundle of GLC services in 1982 with those of a similar bundle in 1965. For all public services, costs rose more than seven times between 1965 and 1982.

8 There are two factors which cause the inflation of local authority costs to be higher than the inflation of marketed goods and services. Firstly, the inputs used by local authorities have tended to rise in price relative to the inputs of the private sector. This is because the private sector tends to use more of those products whose price has fallen because of increases in their productivity, whereas local authorities use more low productivity inputs, notably labour and land. Labour makes up nearly 70 per cent. of local authority current spending excluding debt interest. In spite of increased productivity in the home, the 'costs of producing' a wage worker have not fallen as fast as the production costs of machinery and raw material inputs used by the private sector. In money terms, therefore, it appears that more labour is being used in the economy relative to other inputs, simply because the price of labour is not falling as fast as these other inputs. In short, if local authorities are more labour intensive than private industry we would expect their costs to account for a rising share of the costs of national production. This is the case even though in physical terms their inputs were growing less fast than the more capital intensive private sector.

9 Secondly, because local authority output is measured by the cost of its inputs, no allowance is made for increases in its productivity. If we took the value produced by the fire service, for example, its increases in labour productivity over the last two decades would have the effect of lowering the monetary value of its output, in line with the falling prices of a sector of private industry which had exhibited similar rates of productivity growth. But if the output of the fire service is only measured by its costs, without allowance for productivity growth, then in money terms, it will appear that the fire service has grown relative to the equivalent private market sector.

10 For both these reasons—necessarily acknowledged by all public sector economists—local services will appear to increase faster in money terms than the private sector, even though in physical terms their share of production has fallen.

11 There is no single price index which takes account of both these factors in local authority production over the last decades. But if we compare all local authority spending (as deflated by a general government price index) with national production (GDP deflated by the general price index) we find that:

— between 1964 and 1980 the national economy grew by 38 per cent. while local spending only rose by 14 per cent.;

— the share of local authority spending in GDP fell from 15 per cent. of GDP in 1964 to 11 per cent. in 1980;

— between 1974 and 1980 local authority spending collapsed by 14 per cent. in real terms.

These figures understate the extent to which local authority services have fallen behind marketed goods and services over this period.

12 To find the real costs of local authority spending, we need to make some further adjustments to the figures. First, we should exclude debt charges, which in the current year make up 32 per cent. of the GLC budget. This is a purely financial relationship between local councils and the owners of money capital. It is only when money is spent that it becomes a claim on the country's material resources. Money is only a bit of paper or an entry in a ledger. The fact that council spending rises because of the cost of monetary borrowing does not mean that it is using more material resources, only that money lenders are increasing their returns at the expense of the public. One of the characteristics of the current economic crisis is that there is too much money capital. It cannot find a home for investment at a required rate of profit. This is why there has been an outflow of money from this country, and a general preference for lending to public bodies (both here and abroad), and for investing in property or goods with expected long term appreciation. In short, the rising debt payments by the GLC are not an accurate measure of the GLC's claims on national resources.

13 The effect of deducting debt for Greater London is shown in Table 1:

TABLE 1

Growth of Total Real Spending in Greater London, 1965–6 to 1980–1 percentage changes.

	All spending	*All spending excluding debt*
GLC	13	3
Inner London boroughs	104	78
Outer London boroughs	49	39
All London authorities	56	45

For the GLC, debt charges in terms of 1980–1 prices rose from £157,000,000 in 1965–6 to £269,000,000 in 1980–1. Over the same period debt charges for all local authorities in Greater London rose from £530,000,000 to £1,256,000,000, a rise of 137 per cent. In other words a fifth of the increase of all local spending in London over this period was accounted for by rising debt charges.

14 We should also make an allowance for tax paid to the Government by local councils. Most significant is the employers' contribution on national insurance. This aspect of local council spending merely recycles money to the Government. It is clearly quite inappropriate to include it when measuring the effect of local spending on national resources. We have no figures for the GLC, but in one recent study of East Sussex county council it was found that national insurance payments rose from 1·5 per cent. of total council spending in 1969–70 to 4·1 per cent. in 1977–8.

15 We also need to make an allowance for purely financial transfers, other than debt. In the case of the GLC it is the fares payment which is particularly important. The reason for the subsidy of London Transport (LT) fares in the current year is the economics of London's transport system, both public and private. Cost benefit analysis confirms the benefits for the economy of subsidizing London Transport. Quite apart from the general benefit of cheaper travel to ordinary Londoners, the Fares Fair policy improves productivity for London's transport system taken as a whole. The reason for subsidy is that the operation of the private market in transport does not adequately reflect social costs and benefits. The increase in GLC spending accounted for by the increase in fare subsidies should therefore be deducted from an assessment of the increased use of real resources by the Council.

16 In the case of the GLC comparisons are difficult over the longer period because of the recent transfer of housing stock. But the significance of the points I have made can be seen from the GLC spending figures for the years of greatest increase in local government spending, from the mid-1960's to the mid-1970's.

TABLE 2

GLC Total Expenditure (in constant 1980–1 prices):

	Percentage change 1965–75
Gross spending	65
Gross spending net of debt charges	51
Gross spending net of debt charges and LT subsidy	5

If we make an allowance for GLC contributions to taxes on its employees, the rise in real spending over the period was near to zero at a time when the national economy grew by some 30 per cent.

17 In the more recent period, 1978–9 to 1982–3 the GLC's spending has actually fallen by 14 per cent. in real terms as shown in Table 3.

TABLE 3

GLC Spending 1978–9 to 1982–3

	Change in percentages
GLC gross revenue expenditure	—12
GLC capital expenditure	—18
GLC total expenditure	—14
GDP at factor cost	No significant change

Note:

GLC figures are actual expenditure figures adjusted for inflation according to the local government pricing index produced by the Department of the Environment.

18 These are astonishing figures. They contradict the government's claim that the GLC is an overspender. Rather, GLC total spending has fallen by one seventh, while the economy has remained stationary. Furthermore GLC spending *like local government spending more generally has grown more slowly* than that of central government. Even if we include the present year with the sharp increase in revenue spending expected because of the London Transport fare support, GLC gross revenue spending in cash terms (not allowing for inflation) grew by 88 per cent. in the period since 1978–9, as against a growth of 101 per cent. for central government, and of 80 per cent. for local government as a whole. This represents a fall in real spending by the GLC (of 1 per cent. after taking inflation into account) a fall in real local government spending and a rise in central government spending, during a period when the economy, as a whole, is expected to have grown by 3·5 per cent. So much for the claim that it is local government spending that is out of control.

19 *Equally striking, there is no basis for the claim* that local government has been taking a growing share of the economy over the longer term. From the mid-1960's local authority spending rose more slowly in real terms than national production, and fell dramatically between 1974 and 1980. Between 1965–6 and 1975–6 the GLC's real spending remained virtually stationary. For all London local authorities from the mid-1960's until 1980, growth of total real spending, excluding debt and London Transport subsidies, rose by 38·7 per cent., almost exactly the rate of growth of the national economy (GDP rose by 39 per cent. between 1965 and 1980).

20 What these figures have attempted to measure is changes in physical production. In Table 4 we present some indications of physical changes in local authority services in London from the mid-1960's up to the early 1980's, in contrast to changes in the outputs of private sector goods shown in Table 5. What we see is a sharp fall in some services, notably public transport, residential care places for the elderly and the younger physically handicapped, and a massive slump in house building. There have been modest increases in line with national growth in school staffing, places for children in care, day nurseries, and the home help service. Only a small number of items have grown at a much faster rate: care for the mentally handicapped (following legislation in the early 1970's), the main meals service, and places in sheltered housing schemes and in adult training centres. Only through the most distorted lenses could it be said that these figures show an unwarranted growth in local services in comparison to the cascade of manufactured goods depicted in Table 5. All the evidence points in the opposite direction. Many of the local services most needed in the 1980's have not kept pace with the growth of the national economy. Yet even now they stand to be cut on the grounds that their provision has curbed the growth of the private sector. This is the first piece of monetarist audacity.

TABLE 4

Changes in London's public services 1965–6 to 1980–81:

	1965–6	*1980–81*	*Percentage change*
Bus passenger journeys (millions)	1,896	1,183	—38
Rail passenger journeys (millions)	657	559	—15
Dwellings started by local authorities	22,042	1,934	—88
Teacher/Pupil ratios (ILEA):			
primary	28·1	17·5	38
secondary	16·6	14·3	14
Proportion of day pupils taking dinners (ILEA)	51·3	59·2	15
Children in care	13,970	16,052	15
Adult training centres (No. of trainee days, thousands)	549*	896	64
Mentally handicapped : Adults in residential care	1,429**	2,209	55
Mentally ill: Average in residential care	1,134**	1,394	23
Younger physically handicapped in residential care	1,442**	1,123	—22
Elderly in residential care	19,204**	18,149	—6
Day nurseries: No. of child days (thousands)	1,289*	1,513	17
Home help:			
cases	90,490**	118,577	31
hours attending cases (thousands)	10,000*	11,628	16
Main meal served (thousands)	6,505*	11,423	76
Homeless households acceptances	11,944**	15,615	31
Places on sheltered housing schemes	13,219**	19,441	47

*1970–1, **1975–6

Figures are for all London borough councils and the GLC. Total figures have excluded those borough councils for which any one year's figures are not available. Hence, total figures for London are in many cases higher, but the above data allow a robust comparison for the majority of local authorities for which both sets of figures are available.

Rates

21 The Government and its supporters have recently added insult to injury by equating the rise in rates with the rise in real local government spending. Lord Cockfield was guilty of this in his speech to the Chartered Institute of Public Finance and Accountancy (CIPFA) conference in June 1983. The CBI's August 1983 document quotes a 40 per cent. rise in business rates between 1980–1 and 1983–4, and uses this without comment to lead into a demand for improving the efficiency of local government.

22 The facts are these. Central government has effectively financed its increased spending not by tax increases but by cutting the rate support grant. Local authorities have had to increase rates as a consequence, in spite of the fact that their real spending was falling. The real rise in rates is not just the result of the Government's rate grant policy. It is part of a policy to get ratepayers to finance increases in central government expenditure. The ratepayer is bearing the cost of the Government's disastrous economic policy (which has trebled social security payments in four years) and the rise in defence spending. The Government then suggests that it is local councils who should be blamed.

23 The figures bear repeating, for the period of the current Government, 1978–9 to 1983–4:

Central government		
cash spending	up 101 per cent.	
perceived spending (tax)		up 94 per cent.
Local government		
cash spending	up 80 per cent.	
perceived spending (rates)		up 125 per cent.

24 In this period the Government cut local authority grants and subsidies by £3,600 million. Without that, tax would have had to be increased by 4 per cent. in the £, which would have meant an overall tax rise of 102 per cent. in line with the growth of central government spending.

25 London (and the metropolitan counties) have been hit particularly hard. Over the last three years London has lost £1,200,000,000 in grants, and has had to raise the rates accordingly. When we add this to the declining rate base in some boroughs, and the resulting severer levies on those that remain, the principal cause of the London rate crisis is clear to see. The suggestion that London's rate rises are the result of Council overspending is the second great monetarist audacity.

TABLE 5

Increases in Number of Manufactured Goods

		millions	
	1961	*1971*	*1978*
Carpets (sq. yards)	67	132	170
Divans	1·41	2·04	2·30
Watches	3·0	4·2	6·7*
TVs mono	1·5	1·6	0·75
colour	—	1·5	1·7
Vacuum cleaners	1·4	2·6	2·8
New cars	n.a.	1·3	1·6
Motor bikes	n.a.	0·14	0·23
Dolls	2·0	6·4	16·6
Indoor games	3·1	8·3	35·8
Beer (gallons)	1,030	n.a.	1,440**
Wine (gallons)	28	n.a.	100
Spirit (proof gallons)	16	n.a.	38
Tobacco (lbs)	259	220	218*
Gramophone records LP	20·4	72·3	106·2

Notes:

*1977

**1980

n.a. = figures not available.

Source: Annual Abstract of Statistics; Social Trends; CIPFA.

Crowding out

26 The core of the Government's argument is that rates, like central government taxation, in general handicap the growth of the private economy and therefore jobs. If rates are paid by consumers, this cuts demand for private sector goods, leading to overcapacity and redundancy. If rates are paid by companies, this cuts profit and new investment. The Council's capital spending similarly weakens the private economy. If it is financed by borrowing on the money market, there would be that much less money available for private industry, and interest rates would go up. Some companies might even lend their own funds to local councils rather than reinvest them on their own account. The general proposition is that there is a given amount of money available for spending in the economy. Some may go on consumption and provide the 'demand' for private industry. Some may go on private investment and encourage growth. Local government rates and capital borrowing are a threat to both. In the favoured phrase of the monetarists, local government spending 'crowds out' the private sector.

27 What makes such 'crowding out' critical is that the Government sees public services as unproductive. It is only private industry that counts. As Mrs Thatcher put it in 1978:

> 'High public spending, as a proportion of GNP, very quickly kills growth. . . . We have to remember that governments have no money at all. Every penny they take is taken from the productive sector of the economy in order to transfer it to the unproductive part of it.' (*Hansard 25–7–78*). Note that it is not just the growth of public spending which is at issue. It is public spending in general. Even if we show that real local spending has not grown, the argument still remains.'

Every penny of local spending is taken from the private sector. It thus threatens growth and, therefore, jobs. It is in this sense that monetarists argue that rates are inversely related to jobs.

28 There are four main points to be made about this argument. Firstly, we are not living in an economy where all resources are fully employed. If teachers or London Transport workers are sacked, they cannot find a job in private industry. Private industry has a labour surplus not a labour shortage. With 400,000 unemployed in London, with 15 per cent. of industrial and commercial building space empty, with bankrupt machinery being exported or melted down for scrap, it is grotesque to suggest that London's council spending is taking resources away from the private sector. The economics run another way. The Manpower Services Commission (MSC) estimates that every unemployed worker costs the Government more than £100 a week in benefits and tax foregone. The real cost to the economy of local council labour is far less than the wage. If, furthermore, we take account of the output lost through not employing the average worker, then the loss to the London economy of every unemployed worker is some £220 a week. Public sector employment, as Keynes and Roosevelt realized in the 1930's, is a way of increasing social output at comparatively low real cost.

29 Secondly, the use of rates to fund council employment is likely to expand effective demand rather than cut it. The reason is this. The proportion of income saved tends to increase the higher your income. If you redistribute income from rich to poor, this cuts savings and increases consumption (and therefore effective demand). This is the likely effect of rates funding public services. Rates fall more heavily on middle and high income groups. If these rates are then used to pay wages of manual workers, with higher rates of spend, then consumption will have risen in the economy as a whole.

30 Thirdly, council spending funded by borrowing from the city does not imply there is less for investment in industry. There is no given stock of money in a modern economy. Banks can create credit to fund profitable ventures. The problem as I noted earlier, is that there are not enough profitable outlets for the city in private industry. That is why London bankers point out that there is no shortage of finance in the country. In the past money was hoarded at a time of economic crisis. Now it is exported or invested in assets with hope of long-term appreciation (such as land). Loans to local government have benefited the city because they have given them a secure rate of return, when private industry was becoming increasingly less secure. Furthermore, in terms of the flow of capital, the GLC has been a net contributor to the city rather than a net borrower. Between 1977–8 and 1982–3 the GLC received £681,000,000 from the money market and repaid £1,057,000, a net flow to the city of £376,000,000 This can hardly be seen as 'crowding out'.

31 Fourthly, and centrally, local government spending cannot be dismissed as unproductive. Much of it has arisen because the private market cannot or will not carry out certain economic tasks adequately; housing, education, road building and maintenance, public transport, traffic management, strategic land use, planning, flood control, building control and trading standards. They are part of the economy and contribute to national productivity. Without good council provision in these spheres, we will soon see how private profitability falls when roads are congested, skills die out, or London is flooded.

32 Many council services are not directly related to production but human needs. I resist the suggestion that councils should simply service national production. At the same time many of our services do contribute to production and have been put under public control because of the inadequacies of the private market.

33 The cause of Britain's economic crisis is not to be found in the sphere of local government services. It is lodged in the crisis of profitability in private industry It is because of low rates of profit that investment has dried up over the last decade. For this reason, too, both financial and industrial capital has moved overseas. The monetarists are trying to solve the crisis at the expenses of the level of wages and the conditions of work in private industry. This is the reason for Mrs Thatcher's initial policy of high interest rates and the high price of sterling. She now wishes to cut wages and services in the public sector, so that she can cut taxes and rates on private capital and thus improve profitability. As a project this fails to address the major issue in the British economy; the restructuring of industry. Even in its own terms, Mrs Thatcher's project on the rates is set fair to fail. Not only does every part of the monetarist economic argument against local councils lack foundation, but in practice, the attempt to restore profitability via cutting services, rates, and even abolishing the GLC itself, will cut employment, reduce profitability, and worsen the already acute economic crisis in London.

Rates and Rent

34 As the recession has deepened since 1979, there has been a sustained campaign by industrial and commercial interests to cut business rates. The CBI have played the anchor role in this campaign. In London the Aims of Industry have produced a pamphlet on it. The London Chamber of Commerce and Industry (LCCI) has run business surveys on it. Their arguments are similar. Quite apart from the general impact of public spending on the national economy they argue that London rates are a major factor in the decline of jobs in London.

35 The recent CBI document (August 1983) makes a number of proposals to reduce the incidence of business rates:

- — a ceiling on business rate increases
- — partial business de-rating
- — abolition of rating on empty business premises
- — mothballing relief for partially-used business properties.

By these measures, it is suggested, the loss of jobs would be reduced. The same approach underlines the Government's attempt to restore employment in depressed areas through enterprise zones. If rates are cut, business will move in, develop land and property, and create jobs. There is the same simple question: fewer rates means more jobs. It is not merely a case against rates rising faster than the national economy. It is a case against any rates at all. The abolition of rates in the enterprise zones takes the general argument to its logical conclusion.

36 The Council has already produced a number of studies which provide evidence that conflicts with that of the business organizations. At the aggregate level, rates made up only 0·6 per cent. of turnover in manufacturing industry, under 2 per cent. of gross value added, and only 3 per cent. of the total wages and salary bill (data for 1974–9). Between 1975 and 1981, non-domestic rates fell in real terms by 20 per cent. Since then they have risen because of the reduction in central government finance of local government. Even so, the size of the increase is dwarfed by other factors, both conditions in the market economy itself, and taxation changes. The increase of value added tax from 8 per cent. to 15 per cent. in 1979 is one example. Another is the National Insurance Surcharge which yielded £3·5 billion in 1980–1, more than all local authority rates on industry and commerce. Rates in short are a marginal factor in business costs.

37 A survey of 19 announced or probable head office movements in Central London in late 1982 (*IEC 643*) indicated that rates were not an evident factor in any of the decisions. Far more significant was the level of property rents, and the restructuring of head office operations. Another recent survey (1983) of large empty commercial properties in the City of Westminster showed similar results. Of the eight respondents, all listed the reorganization of their head office as the major reason for moving, some because the head office had become too large, others because of headquarters rationalization. Three moved elsewhere in the City of Westminster, two referred to the high level of rents, and only one, British Airways, mentioned rates, along with rents, London weighting, and the need to rationalize, as a reason for moving (in their case to Gatwick).

38 The head offices and other city offices in question were all owned by large companies. It is the medium and smaller companies who have been most vocal about rates, and for whom the CBI primarily speaks. These are the companies who have been particularly hit by the recession and who clearly consider themselves price takers rather than price makers. They see rates as an addition to costs which cannot be passed on in prices. An increase in rates thus means a decrease in profits. Prices are set by other forces unrelated to rates.

39 It is generally true that rate rises cannot be passed on in higher prices. But this does not imply that a rise in rates means a fall in profits. The key point about rates is that they are a tax on property. A

rise in rates leads to a fall in rent and therefore the price of property. Rates are inversely related to property prices, not industrial profits. This central fact is one that has been almost wholly ignored in the discussion of rates.

40 The economic mechanism is as follows: The level of rent in a city tends to rise as one approaches the city centre. This is primarily because a business or its customers save the cost of time and transport if they are at the centre. Hence enterprises will pay a premium for their position near the city centre, much as a farmer pays a premium for better land. If now a tax is put on the prime site, it will not raise the market price of this site. The market price will be determined by the costs savings of being located in this prime site relative to some no-premium marginal site on the city boundaries (or now with better transport, farther afield). All the tax on the prime site does is to lower the price that the enterprise is willing to bid for that site. It is true of the effects of taxes on agricultural land (as 19th century economists of the industrial interest pointed out), as it is of taxes on urban land. A tax on land is therefore a tax on *rentier* landlords not a tax on industry. It is landlords who should be opposed to rates, not productive industry.

41 In the short run the industralist may lose. If he or she has signed a lease with a fixed rent, then an increase in rates during the period of the fixed rent will be an extra industrial cost. But in the past decade rents have been subject to increasingly shorter periods of review. An increase in rates should mean a fall in the market rent at the time of the rent review. Similarly, if the industrialist has bought a piece of land, then an increase in rates will lower the market value of that land, since market value is determined principally by the level of rent. The loss in this case is not an industrial loss. The industrialist loses because he or she has been playing the role of *rentier* and has been caught on a falling market. A rise in rates will therefore only cause temporary difficulty for a business that pays rent for its property at a level which is regularly reviewed.

42 It is in this context that we should assess the results of certain business surveys on the significance of rates to employment. A survey by the North East London Employer's Group found that 8 per cent. of the 101 respondents were moving, 5 per cent. were closing, and a further 9 per cent. were considering moving or closing as the result of rates. Another survey by the LCCI of 505 businesses in 1981 reported that 38 per cent. of the sample had cut employment as the result of rate increases over the past five years, and that 37 per cent. said they would reduce new recruitment. 22 per cent. said they would reduce or close down their activities in Greater London. These figures have been used again and again in the attack on rates by commercial interests, yet they contradict the evidence of the small significance of rates in total business costs, and the two surveys of office movements cited earlier.

43 Subjective intention surveys are, of course, of questionable reliability when the parties concerned have just received a supplementary rate demand (as was the case in the LCCI survey) and when they see their responses as part of a campaign against rates. This aside, these results reflect the strong squeeze that monetarism was putting on small firms. 59 per cent. of the LCCI's respondents said that rates were a major cost, and the LCCI pointed out that this reflects the position of small firms not large ones. Caught between high interest rates, cheap imports and a declining market, the death of small businesses under monetarism increased sharply. The supplementary rate may have caused the closure of marginal firms; but the characteristic of small firms sectors is that new births have consistently replaced closures. This is true of London as it is of the country as a whole. A firm that could not pay its supplementary rates bill would be replaced by one that could. There is no reason to believe this will reduce overall employment.

44 The same is true of employment cutbacks. If output is reduced in line with employment, it will be substituted by other firms taking on more workers. There is no economic reason whatsoever to believe that a tax on property will lead to a general reduction of employment. A tax on labour will tend to lead to a substitution of capital for labour. A tax on property would tend to lead to a substitution of capital and labour for property. Though a tax on property appears to the small business person as the cause of cutbacks in labour, the overall result in the sector will be quite otherwise.

45 Only in so far as rates lead to a switch from London to non-London locations could it affect London employment. 20 per cent. of the LCCI's sample said they would move elsewhere. This response does not accord with the evidence from studies of firms who have actually moved. Moreover, if rates only add to property costs in the short-term (since property prices will fail to compensate for a rise in rates) rates are unlikely to be significant factors in moves which are based on comparisons of long-term costs. In short, the LCCI survey reflects nothing other than the anguish of the small firm in the economic crisis, faced with the ruthlessness of the market that had been unleashed on them by a Government that professed to champion their cause.

46 The central point about rates is that they are a reduction from rent not an addition to it. The moment this central point about rates is acknowledged, the CBI's proposals look threadbare. Partial

business de-rating and a ceiling on business rate increases will merely lead to an increase in property prices rather than a long-term increase in industrial profits.

47 The abolition of the rating on empty premises reduces the costs of holding empty premises. The most serious effect of this will be to reduce the supply of premises on the market, delay the restructuring of land use and raise the general level of property prices. For London's employment this is disastrous. Currently, 15 per cent. of industrial and commercial property in London is empty. Much of it is held in the expectation that property prices will rise because of the growing scarcity of urban land over time. What is needed is progressive increases in rates on these properties: a normal rate for six months, then rising by 50 per cent. for each successive period of three months in which the premises remain unsold. This would force the property on to the market, lower the price, and dampen the pressure that high property prices are having in driving employment out of London.

48 Mothballing relief on partially-used business properties merely cushions firms from restructuring their property holdings. If the premises are unused because the asking prices attract no buyers, then mothballing relief will merely increase the asking price since it cuts the firm's cost of holding the property. If the premises are due to be filled by the firm itself, then the issue is one of scheduling which the firm should be encouraged to improve.

49 In all these cases, the attempt to improve profits by reducing rates merely sustains or increases rents (and therefore property prices) and leaves the level of business profit untouched.

Enterprise zones

50 The clearest example where these mechanisms can be seen in action are the enterprise zones (EZ). These were announced in Geoffrey Howe's 1980 Budget speech and introduced by the Local Government Planning and Land Act in 1980. The 15 initial zones were almost all in depressed areas in the conurbations. Planning controls within them were to be streamlined, various tax concessions were offered including exemption from development land tax and, of prime importance, there was to be exemption from rates on industrial and commercial property. The zones were seen by Geoffrey Howe as an experiment. Most important, from the viewpoint of this report, they are a test of the use of rate reductions as an instrument of job creation in London and other cities.

51 By the time the second official monitoring report on the enterprise zones was published in April 1983, it was clear that the land tax and rate exemptions, and the reduced costs of development, were tending to increase property prices. In Wakefield, rate relief was worth about 80p. per sq. ft. Rents within the zone went up by 50p. per sq. ft., the difference representing in part the locational disadvantages of the zone. Rents outside the zone remained constant. On Clydebank the major developer, the Scottish Development Agency, sets subsidized rent levels by not taking the value of the various zone exemptions into account in setting the rents. This effectively undercuts 'competing speculative developments by the private sector'. Even so, the level of rents of Clydebank had risen to £2 per sq. ft. by 1983, compared to £1 per sq. ft. in 1980. In Dudley, the designation of the zone coincided with a downturn on the local property market. Rents outside the zone fell by 90p. per sq. ft. Inside the zone, however, rents remained stable. There is a similar picture in Belfast North Foreshore, and at Trafford (in the latter) rate relief was worth 75p. per sq. ft. and standard rents outside the zone fell by about 50p. per sq. ft. In Corby there was a rise in rents in the zone by 30p. with the new town commission further cutting rent free periods from two years to one year. In Hartlepool, as in Clydebank, the main developments have been public corporations, and this may explain in part why rate relief of 53p. per sq. ft. has been followed by rent increases of only 25p. per sq. ft. In Salford rents are reported to have risen slightly and remained static outside the zone, although little floorspace has as yet been marketed.

In Swansea, where much of the zone land has been reclaimed by public bodies, Tyms reported that rents were similar inside and outside the zone, but that development in the neighbourhood around the zone had dried up. There is other evidence, however, which suggests a different pattern. Welsh Gold reported being asked for £2·10 per sq. ft. inside the zone compared to £1·30 outside. There are reports of similar differentials in Gateshead and the Isle of Dogs. In the latter a 1·6 acre site just outside the zone was sold for £135,000 per acre in February 1983, while prices within the zone were reported in the range of £140,000–£160,000 and were expected to rise to £200,000 before long. (*Standard*, 21 February 1983).

52 The overwhelming experience of the enterprise zones, according to the evidence we have, is that rate reductions plus the other exemptions have had the effect of raising land values. The landowners, particularly where they are public bodies, have not raised rents to the full measure of the exemptions. They have kept a margin to ensure they undercut land outside the zone. As a result, the developments that have taken place in the zone have been largely at the expense of the area outside. Tyms found that nine of the ten entrants to the zones had come from the same county, and 85 per cent. said they had no intention of going outside the region. This is the background to the large number of transfers into

the zone from the neighbourhoods around, and for the dangers of property blight outside the zone which have been the subject of complaint by the property industry. Enterprise zones can therefore be seen as less about accounts job creation than job distribution within an area, and income redistribution from taxation (rates) to landed proprietors. The overall annual amount of lost rates in the first eleven zones was £5,000,000 (at 1981 prices), much of it a direct transfer to landed property.

53 The enterprise zones were announced as an experiment. The results are suggestingc conlusions opposite to those favoured by the Government and the CBI. Cutting rates, completely, partially or by putting a ceiling on business rate increases, merely transfers funds from the public exchequer to landlords. Inasmuch as the economic rent received by landlords is a return to their monopoly, our concern should be to reduce this rent since it is an unproductive drain on the rest of the economy. Cutting rates increases it. If we wish to reduce rents, then my earlier analysis suggests that one effective way would be to increase rates not lower them.

54 Cuts in rates therefore threaten jobs in London and other cities for three reasons. Firstly, they discourage a reduction in property prices which have often been a major factor in closures, particularly manufacturing closures within London. A reduction in property prices would be one of the most effective instruments for preventing closure and job loss. Secondly, zero rating of empty property discourages the productive reorganization of urban land, and thus weakens industrial competitivity. Thirdly, the rate loss costs jobs producing services in the public sector. In principle the windfall gain for landlords could result in further local employment either in luxury consumption industries, or through further investment locally. But privately held money capital has, on balance, been shifting abroad rather than being invested in the domestic economy. This is in strong contrast to local authority expenditure which almost entirely takes place within the local area. In employment terms, therefore, rate cuts will mean net losses of jobs in London. Where windfall property profits are spent locally, the effect will be a substitution of jobs in luxury consumption, and we would expect speculative property development, at the expense of the services supplied by the London borough councils and the GLC.

55 The aim of rate cutting as proposed by the business lobby is to offload the cost of local services on to domestic tax payers. As in previous depressions, the private sector aims to shift the burdens of its own crisis of profitability on to working people. In the 1980's as in the 1930's one form this takes is an attack on public services—the wages and conditions of those who produce these services, and the range and quality of the services themselves. Avoiding tax is one means of shifting the burden. One of the roots of business hostility to rates is that they are difficult to evade. Whereas accountants have ensured that major companies pay little or no corporation tax, there is no similar help they can give to get companies off their rates. In 1983–4 the CBI estimates that businesses in the UK will pay £6 billion in rates, compared with only £4 billion in mainstream corporation tax. There could be no clearer justification for rates as a business tax. It is one which cannot be avoided.

56 To cut rates or indeed any of the corporate contributions to public spending solves nothing. The private sector's crisis of profitability can only be resolved in two ways: firstly, by taking whole sectors out of the market economy and organizing them rationally in terms of resources producing for need secondly, in the private sector's own terms, by massive falls in capital values, industrial reorganization and increases in productivity. A policy of cutting corporate taxes contributes nothing to this end.

57 In summary, rates properly used increase jobs rather than destroy them. It is cutting rates which is the greatest threat to jobs in London.

58 Rates are a means of providing jobs for people in London who would otherwise be a net addition to the unemployed. At a time of high unemployment, the real cost of this labour (in terms of what they would otherwise have produced, or what they could not have otherwise consumed) is low. So is the real cost of offices within which they work, and many of the input which they use. In money terms, rates are a deduction from land values, consumer income and/or company profits. If rates were abolished, some portions of these would work their way through to London employment; some new property investment, some spending on London based products, even some business re-investment. But much of the money would not be reinvested in London, or if it was spent, would not be spent on items made in London. Money which is held as rates will ensure jobs in London. That same money in the form of business profits, property gains, personal savings or luxury consumption will not. Nor will the use of that money for local services pre-empt private investment. Money is not a fixed quantity. It can be increased through credit creation by the banks. If a profitable opportunity can be seen to exist credit will be available.

59 In any case the GLC was a net contributor of funds to the money market between 1977–8 and 1981–2. We also showed that cutting rates merely increases property prices. It is high levels of property prices that has been a major factor in the decision to close or move out of London, both in manufacturing and offices. An increase in business rates which served to lower property prices would be one of the most effective instruments for defending jobs in London. A fall in rates would help to destroy them.

Summary

60 This report has argued the following:

- over the last 20 years local spending including that of the GLC has risen less fast than the growth of the national economy. There is no case whatsoever for suggesting that the increase in local spending is responsible for the crisis of profitability in the private sector;
- the present Government has kept down taxes by funding increased central Government spending through a rise in rates. It has used the cut in the rate support grant to bring this about, making it appear that it is local government which is responsible for the larger growth in spending, whereas it is in fact the Government. The major cause of the real increase in London rates is the Government's withdrawal of grant;
- cuts in local spending have destroyed employment rather than created it. Local spending has not reduced effective demand for London's products, nor the money capital and labour available for private investments. If London Transport workers are sacked, they will not readily find work elsewhere. A cut in the fare subsidy, will increase private spending on less efficient means of transport. A cut in rates more generally may lead to some expansion of demand for London products, but some of the increased income will be saved, and some will be spent on non-London products. Local Authority spending ensures both revenue and capital are fully used for employment in London; and
- a cut in rates will mainly increase property prices. Rental income will also have high leakages out of London, thus leading to a net loss of employment.

61 In the seventies, while manufacturing was in decline, public spending and the growing tourist trade sustained jobs in London. The high value of the pound hit tourism from 1979. At the same time monetarist attacks on state spending in the city—local and national, central government and the public corporations—cut work and led to a trebling of unemployment in four years.

62 In current conditions local state spending funded by the rates will tend to increase employment not reduce it. It cannot by itself secure full employment since the amount of land rent to be taxed through the rates is limited. Nor will local spending as such solve the problem of growth in the private sector. That requires more active intervention. The task of the GLC's employment policy is therefore twofold: firstly, to use rates and surplus money capital to expand jobs in London; secondly, to use these funds to restructure industries directly on behalf of those who work in them and use their products.

The Role of the GLC

63 In terms of jobs, the Council has expanded employment in services which directly serve the needs of Londoners.

For example, we have employed 249 firefighters since we came to office. We have reorganized the Council's direct labour building department—the London Community Builders—to work on the deteriorating housing stock within the GLC. A recent study estimated there was £7,500,000 to spend on house improvements to bring London's housing stock up to minimum standards, and yet there are 32,000 building workers unemployed in London. We have expanded employment for childcare workers and so on. So far the Council has created an estimated 800 jobs producing services which meet human need.

64 Secondly, through the Greater London Enterprise Board, the Council has intervened in a number of sectors of the London economy in order to maintain jobs. We saved 120 jobs in Austin's furniture factory in East London. We have recently saved a clothing factory employing 50 workers and re-tooled it and it is now expanding. To date we have supported more than 90 enterprises, 25 of them co-operatives, who will provide more than 1,200 jobs in reorganized competitive enterprises.

65 Thirdly, we have provided jobs for about 2,000 building workers to construct or renovate industrial premises which will accommodate more than 4,000 new jobs in modern surroundings.

66 Fourthly, we have provided funds to employ trainers to service over 2,000 training places on GLC supported schemes. This is at a time when the Government is cutting its support for good quality training, along with many firms.

67 Our employment policy has been in operation for a little over a year, yet in that time we have set in train 10,000 jobs in the economy, much of it financed through loans or equity which we can expect to be repaid.

68 The Government's proposal to cap rates and abolish the GLC threatens this policy. Because of the increased costs of the post abolition proposals, employment will if anything be expanded. But it will be the employment of civil servants, and the staff of quangos rather than the employment of people directly meeting people's needs.

69 Nor can these policies be fully carried out by the London borough councils.

The White Paper on abolition had this to say:

'Borough and district councils already have powers to assist industry in their areas. The Government considers therefore, that no specific arrangements are required to replace the role of the GLC and MCC's in assisting local industry and in drawing on the Urban Programme or Urban Development Grants.' (P.11).

70 We have no dispute on the question of powers. The issue is rather one of capacity. The GLC as a London-wide authority performs three critical roles which cannot be performed adequately at the level of the boroughs:

(1) Strategic. The Council has recruited a specialist staff responsible for developing London-wide strategies for the main sectors of the economy. For example, the Council has undertaken major research on cable, energy, housing, engineering, food, bread, cleaning, printing, clothing, audio-visual industries, banking and insurance, construction, telecommunications, distribution and river freight. In some cases the need is to present a London dimension to sectors which are planned nationally (telecommunications, energy and cable for example). This is particularly important when the central government departments have no person or unit responsible for considering the impact of sectoral change on London. In other cases, it is a matter of initiating programmes of action, and for providing a context for borough initiatives. For the work as a whole there are clear economies of specialization which only a London wide authority can provide.

(2) Intervention. For intervention which aims at restructuring sectors it is necessary to act on a London-wide scale, and with substantial funds. Some sectors are concentrated in a small number of boroughs (cargo handling and clothing would be examples) but most are broadly distributed. A medium sized factory of, say, 500 workers is likely to require well over £1,000,000 of investment funds. Hounslow's entire 2p rate amounts to only £926,000. Even if this was raised to 4p as the White Paper suggests, this would severely limit Hounslow's ability to intervene to prevent major shut-downs. The situation would be even more serious for those boroughs with a large number of medium to large size plants. The Greater London Enterprise Board has a budget of £30,000,000 in the current year. It also has a specialist staff of 60. The central constraint on industrial intervention is skilled staff to put rescue packages together, with a wide range of people, each a specialist in one part of the final package. If this staff of 60 were to be broken up by putting two in each borough, there would be a sharp loss in effectiveness. There are economies of specialization and scale in the preparation of intervention packages.

(3) Training, and other specialist support. The Council's initiatives on training, on support for co-operatives, for the unemployed, for women's employment, and so on all require specialist teams which could not be adequately provided at the borough level. Training schemes in particular often need large funds (the Charlton Skill Centre cost £1,000,000) and, given mobility of labour between boroughs, it makes most sense to have some of these functions performed by a London-wide authority.

There are then reasons to do with the size of support funds, specialization of staff, and industrial or labour interdependence between boroughs which argue for a London-wide body to promote these policies, and provide a context and support for borough initiatives.

71 It is critical too that these London wide functions be subject to democratic control. Economic policies and practices are the subject of vigorous controversy and should not be settled by civil servants, or stifled by national politicians. Not only should locally elected politicians be responsible for the direction and achievement of the employment programme, but any strategies will have to involve those who work in the industry, if the plans for intervention are to have substance and widespread support.

72 In the face of the monetarist onslaught London has found itself like Matthew Arnold's character, 'wandering between two worlds, one dead, the other powerless to be born'. The GLC, along with other metropolitan councils, has been demonstrating that there is an alternative to the destruction caused by the Government's market monetarism. In spite of the Government's restrictions and penalties, the Council has shown, brick by brick and job by job, what can be done with an interventionist policy geared to jobs and needs. But this is not enough. What it needs now is not the destructive attack of Westminster, but support and the extension of its strategic powers.

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