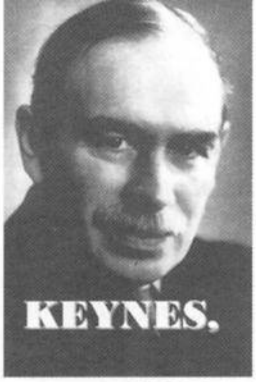

AND TAXES...

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John Maynard Keynes was right about much, but he was wrong in one critically important area. He thought that the expansion of industrial production and the service sector meant that the central importance Adam Smith, David Ricardo and even John Stuart Mill had given to "land" as the primary factor of production no longer applied. He failed to recognize that the owners of natural resource lands and prime urban locations were becoming increasingly powerful "rent-seekers." A key reason was (and is) that many entities holding large amounts of land as assets are engaged in some other activities besides being landowners. With only a handful of exceptions (Nobel Prize winner William Vickrey being the most notable), economists have joined Keynes in this error in judgment. The result has been almost no pressure from the economics community for changes in tax policy that would significantly reduce the "rent-seeking" rewards derived from land speculation and land hoarding.

All societies pay a very heavy price for this failure in the form of periodic land market crashes after a prolonged period (as the United Kingdom, Australia and the United States are currently experiencing) of rising land prices, fueled by cheap and readily available credit.

The Japanese have been going thru the consequences of just such a land market crash since the late 1980s. Japanese tax policy regarding land was -- and remains -- exactly opposite of what ought to be public policy. The Japanese impose no annual taxation whatever on land values at all, allowing the rental value of land to be fully privatized and capitalized into the selling price of land. Japan then imposed a confiscatory rate of taxation when land parcels changed hands, greatly discouraging a competitive market for land (and causing land to be leased rather than sold for development to avoid taxation).

Some years ago, I engaged Arthur Laffer *("Land value tax is the one tax to which the Laffer Curve does not apply")* in correspondence over this very issue. Mr. Laffer expressed agreement with me that at the core of "supply-side" economic performance was the Henry George proposal for society to collect "rent" as public revenue.

Political scientists use the term "disjointed incrementalism" to describe how public policy is made in the United States. This term applies well to the United Kingdom as well. Economics professor Paul Samuelson, in his basic text on economics, concludes that the taxation of "rent" -- and a policy of reducing and/or eliminating the taxation of material assets (e.g., buildings, equipment, fixtures), earned income flows and commerce -- make perfect sense from the standpoint of economic theory. He put the decision outside the realm of economics and into the realm of politics.