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THE COLLAPSE of Reaganomics is an object lesson in the way political economists correctly identify problems – but remain blind to the obvious conclusions.

Today's policies are mere shifts away from the failed policies of the last two decades. They stop well short of fundamental reforms.

In this exclusive report, *Land & Liberty* reveals how, in 1976, Ronald Reagan came close to embracing land value taxation . . . and why, in the end, the contender for the U.S. Presidency backed away from radical change.

Report by FRED HARRISON

AMONG the key reasons for the rise in global unemployment, the bankruptcy of a few nations and the prospective collapse of some banks are:

- The emergence of major imbalances in the share of aggregate income, and
- A shift in the tax burden to employment and investment.

This is the appraisal outlined in the latest report from the Paris-based Organisation for Economic Co-operation and Development.[1]

The first point to note is that these are not two separate problems; they are intimately related.

The second point is a conclusion that is so obvious that it leaves one open to the charge of being disingenuously naive. Since there are three factors of production only, if the tax burden is too heavy on labour and capital, this would imply a need to redistribute the burden away from wages and from interest on capital investments – and on to rental income.

No such conclusion is drawn by the OECD, however, which is why policy formation in the industrialised countries is in a state of chaos.

And no better illustration can be offered than the fiscal confusion that abounds in Washington today.

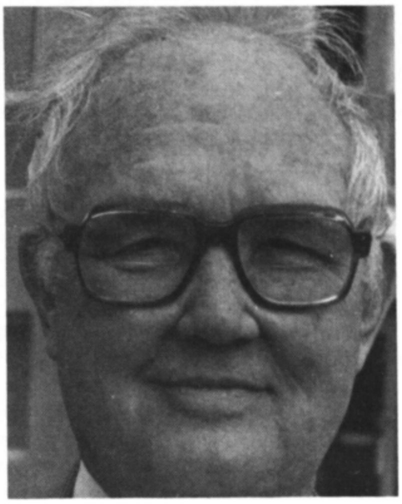
RONALD Reagan was elected as President because he promised to cut taxes. He pushed through a 25 per cent tax cut spread over three years.

According to Reagan's advisors, this would lead to a "supply-side" boost to the economy; there would be more investment and jobs, as people saved more in the private sector.

Reagan and Land Tax

SIDETRACKED!

● Pres. Reagan – he was finally got at



● Thomas Curtis – he aroused Reagan's interest

Instead, unemployment continued to rise, and the output of goods and services slumped. By last summer, an increasing number of top officials in the administration began to panic. Some of them even resigned.

On August 18, the President went on coast-to-coast TV to seek moral support from the electorate for his new plan to *increase* taxes by a huge $98.3 bn.

President Reagan, of course, insisted that this was not a reversal of his original policy, but with mid-term Congressional elections coming up in November, he could not confess to failure.

What will be the net effect of these tax increases/decreases?

The final outcome will be a $335 bn cut in taxes over the next three years. In 1983, the average household will be better off to the tune of $788.

Can any predictions be made about how this money will be spent?

Part of the money will boost imports: the low levels of stocks and factory capacity utilisation means that U.S. producers will not be able to respond quickly enough to meet increased consumer demand. Higher imports, of course, are not designed to encourage higher domestic employment levels.

In the main, however, larger net incomes will stimulate the land market. This is the conclusion to be drawn from the evidence of the 1960s, following the Kennedy tax cuts.[2]

The same thing happened in the 1920s, when Andrew Mellon, the Secretary to the Treasury, slashed the top tax rates from 73 per cent down to 46 per cent in 1924. The land boom of 1925 is a well-documented phenomenon. People were flush with money, and so they turned to land speculation in a bid to make themselves millionaires overnight. The general recession followed soon afterwards.

SUPPLY side economists, of course, do not draw causal connections between tax cutting/land speculation/recession. The Mellon tax cuts are regarded as fine examples of what ought to be done by the Reagan Administration.[3]

The only way to neutralise the rent effect, to give tax cuts on labour and capital a chance to work their way through to higher employment and consumption levels, is to introduce a policy of land value taxation.

We can reveal that Ronald Reagan came very close to adopting this fiscal policy as part of his presidential programme.

In 1976 the chairman of the Reagan Group at the Republican Party's convention in Kansas City was Thomas Curtis, a Washington lawyer who served 18 years as a Missouri Congressman.

It was at this crucial convention that Curtis managed to arouse the interest of Ronald Reagan, who was pushing his claims to the White House.

During conversations, Curtis pointed out that land value taxation was the only policy that increased its tax base: as the money was spent on public projects, so land values increased, which increased taxable capacity.

In contrast, Mr. Curtis pointed out that other forms of taxation *reduce* the tax base, for they are disincentives to wealth creation and employment.

"I had Ronald Reagan pretty well agreeing with one on this," Mr. Curtis told *Land & Liberty*, "but then he was got at by some others."

Mr. Curtis now criticises the fiscal furrow ploughed by the President. "He was responsive to the idea of the land tax. But then a different element, the American Entrepreneurs Group, got his ear. This is a Think Tank in Washington where the supply side economics came from."

Thus ended the one real prospect of converting the U.S. President to a constructive programme of fiscal reform. Now, with the confusion of Reaganomics Mark I, we are threatened with a variation on the theme.

Reaganomics Mark II is likely to take the form of a change to a single, "flat tax" rate. This is rapidly gaining converts in the U.S., and the President finds it an interesting proposal. Senate Finance Committee chairman Bob Dole (Republican: Kansas) says: "It will be a big 1984 issue."

THE HIGHER net incomes retained by employees and capitalists will not lead to a 1925-style speculative boom, because of the depressed state of the economy; the psychology is wrong for a big binge.

But the pressing need, today, is for a marked *cut* in income received by land monopolists – a redistribution of aggregate income, as the OECD would put it, in favour of employment and investment.

The higher net incomes, however, will flow into the land market. Prices, therefore, will be kept buoyant. And economic recovery will be postponed until irrational forces exert their influence and income is redistributed with the maximum of economic disruption and personal agony.

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2. Fred Harrison, 'Why the supply-side strategy will fail', *Land & Liberty*, March-April 1982.
3. Bruce R. Bartlett, *Reaganomics: Supply-side Economics in Action*, New York: Quill, 1982, Ch.8.