

LAND and LIBERTY

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COVER ILLUSTRATION

The Wild West was romanticised in the story books, which highlighted the supremacy of the gun totin' Good Guys who banished Evil from the Land of the Free. In fact, the era of territorial expansion and resource exploitation was to have a fatal impact on the formation of the character of the American people. ED DODSON'S analysis: See Page 72.

LVT cure still best

BRITAIN is about to embark on a damaging experiment in fiscal "reform".

Mrs Thatcher's government has abolished the property tax on people's homes. The consequences should be monitored by reformers throughout the world, because the lessons will be enlightening. The dynamics of the property market will be laid bare for all to see and it will not be a pretty sight.

Property owners will capitalise the absence of a tax on houses into higher prices. The government says the switch to a poll tax, in which everyone pays the same amount to fund local services, will result in an increase of 5% in house prices. Most economists disagree: they say house prices will rise by an average of 20%.

RESULT: wealth and income is switched from the poor, who aspire to own their homes, to the (relatively) rich who already own property. People wanting to buy houses will have to borrow larger sums as the price of entry into the privileged market, where tax breaks are already lucrative (and not available to families that rent their homes).

Higher prices are good for builders, in the short-term, as they cash-in on the bigger profit margins they can make from the land they own. But as landowners raise their prices, to mop up these extra profits, there comes a point where fewer people can afford to pay the ruling prices. The housing market shrinks.

RESULT: immobility in the labour market. This has already happened in Britain, which is back in the throes of a new speculative boom in the land market. Unemployed people cannot move to the areas where there are jobs, because they cannot afford the rents or the cost of buying houses.

This has created a large itinerant labour force, which travels south to work during the week, and back north to wives and children at the

weekend. Growth of the economy is stultified, and family life disrupted.

EVENTUALLY, one of Britain's Opposition parties will take over from Mrs Thatcher, and will almost certainly reintroduce the property tax; but not in its old form. What reforms ought to be adopted?

So far, the discussion has been limited to changing the basis of tax assessment from annual (rental) values to capital values. This will not have any dynamic effects.

Britain's fiscal reformers should study the experiment in Pennsylvania, where imaginative city councils are shifting the tax burden from buildings to land values. The effects are crystal clear and eminently desirable.

- Builders accelerate their construction programs.

- Landowners grudgingly release their valuable, but vacant city-centre sites for use by commerce and industry.

- House prices are stabilised.
- The property tax for many home-owners is reduced, as the tax base is broadened to take in the speculators who have been squatting on their sites without paying their dues to the community (who creates the value of land, anyway?)

- The land market is not exactly tamed - the tax rates, as yet, are too low for that - but the move is in the right direction.

Land speculation is an economic cancer; there is no other way to describe its evil effects on the economy.

Like cancer, you don't see it until it's too late; it gets everywhere, and we all pay the price.

However, there is a cure for land speculation: a sensible property tax based exclusively on land values.

One with high enough rates to enable a rational government to reduce the burden of those disruptive taxes which fall on incomes, consumption and capital.