LAND and LIBERTY

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THE LAND EQUATION

Introduction 23

The Missing Equation
Fred Harrison 24

Economic Forecasting 27

San Diego test bed
Fred Harrison 28

The forgotten factor
INSITE investigation 30

The missing files
Peter Poole 31

LAND PRICE INDEX

Introduction
Ian Barron 32

United States
Paul Knight 34

United Kingdom
Ian Barron 35

Finland
Pekka Virtanen 36

Germany
Henry Law 37

Who takes the prize?
Robert Clancy 38

Computer forecasts
Peter Poole 40

● COVER PHOTO: Floyd Morrow surveys the hill-top land owned by one of San Diego's richest speculators. The value of the land has risen sky-high since the investment of taxpayers' money on an improved highway. Story, p.28.

Radical reform

REAL ESTATE investors were horrified when they read the U.S. Treasury Department's plan to simplify the tax system.

For the proposals, if accepted by the President and Congress, would eliminate or scale down most real estate tax deductions, credits and exemptions.

This would help the Administration in Washington to lower individual tax rates to three brackets of 15%, 25% and 35%.

On the face of it, these proposals make economic sense.

Unfortunately, however, the loss of tax benefits associated with real estate has caused a groundswell of opposition – from big speculators down to small homeowners who know that property values would decrease if these proposals were implemented. Homes, for example, would come down by an estimated 10% of current values.

What's wrong with that? Employees would at the same time pay lower income taxes. Most people, in fact, would not suffer a net loss. But there would be a dramatic and lasting impact on the property market which would ultimately benefit everyone, either directly or indirectly.

For the structure of real estate taxation is the result of decades of pork-barrel politics, and is now a major obstacle to full employment.

In a free enterprise economy, investment should be on the basis of creating maximum welfare and wealth: the market, guided by price signals, is supposed to ensure the efficient allocation of scarce resources.

But real estate investments are too often made on the basis of tax-dodging deals rather than because they add to the sum of human happiness and prosperity. So there is often a net loss of benefits to society.

The land speculator's gain is more than offset by:

● Loss through the irrational disuse of prime sites, or

● Extraordinarily-high rents which kill firms which would otherwise be competitive.

As Lawrence Chimerine, chief economist of Chase Econometrics, recently noted in relation to investment in real estate: "The tax advantages are so favourable that we see money going into projects that don't make economic sense".

So a great deal of entrepreneurial energy, and the skills of an army of lawyers and accountants, are diverted from the business of increasing wealth.

If President Reagan really means what he says about liberating the wealth creators, he needs to start with the tax system and to proceed with the proposals from his Treasury officials who have seen that – because of the tax benefits – too much money has flowed into real estate and thus deprived other sectors of investment funds.

"The Treasury contends free market forces should direct investment to its most productive uses rather than having tax benefits distort investment decisions", reported the *Herald Tribune* on January 3.

The President now has the chance to carry out a radical reform of taxation. As his starting point, he needs to discriminate between taxes on land and those that fall on buildings.

Tax relief for capital improvements and capital in all its forms is justified in terms of urban renewal, job creation and higher living standards.

And it is for these same reasons that taxes on the annual rental value of land should be RAISED: such a tax would direct land to its appropriate use.

This prospect is proved by economic theory; proved by the impact on construction in the five cities of Pennsylvania that have levied higher taxes on land than on buildings; and we believe it would be proved by the econometric work which is now being planned at San Diego State University (which is documented in the following pages).