

LAND and LIBERTY

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COVER PHOTO

Mikhail Bronshtein, an Estonian university professor, pictured in London where he spoke on the land rental crisis in the USSR. See story Page 35.

WORLD-WIDE TAX TURMOIL

DESPITE Adam Smith's strictures on taxation, politicians remain resolutely opposed to anything that resembles a sane system for raising public revenue.

That remains true for all market economies, and doubts persist about whether the former socialist countries of Eastern Europe will be able to grasp the historic opportunity now before them.

If Professor Bronshtein gets his way, the USSR might make the right decisions (see facing page). But will his correct analysis be swamped by the internecine warfare between Gorbachev and Yeltsin?

THE WEST fares no better in the ideological muddle that confronts the citizen in his pursuit of the Good Life. Look at the problem from the two sides of the economy.

On the demand side, Britain is fast crashing into the worst recession since 1974. Caused, in the main, by the boom in land prices. So what does the Chancellor the Exchequer do in his March budget?

He adds 2½% to VAT (which will protract the slump in retail sales) and relieves the tax burden on property (which will increase land prices): that's the distilled sense of a battery of highly paid economists in the Treasury.

On the supply side, Germany needs to boost output from businesses in its newly acquired territory. So the Bonn government is to lower business taxes in the east - without preventing a significant slice of the profits from being funnelled into the land market. Growth will occur: but far more slowly than would be the case if all of the profits were reinvested in job-creating capital investments.

In microcosm, the chaos in tax policy is dramatically illustrated by the trauma of Hartford, Connecticut, where Manager Raymond Shipman has cottoned on to an

effective way of resolving some of his problems: he wants to knock down low-income housing and displace into other cities the occupants who rely on welfare payments.

Neat. And it might work, for Hartford; but won't solve the problem across the United States.

Mr Shipman attributes part of his city's problems to the state's tax policies. So he has devised a clever way of raising additional income to help bankroll his city: impose an income tax on non-resident workers.

Mr Shipman has not worked out that this strategy just might drive away the employees who are generating Hartford's current incomes! And where would that leave the residents of Hartford?

BUT ought we to berate the policy-makers? They are making the best of the resources at their disposal.

Including the ideas that are laid before them by the people who are supposed to do the thinking: the scholars in the Ivory Towers.

And the thinkers, unfortunately, continue to fail to spell out a practical vision of how to solve the multiplicity of problems that challenge politicians.

Economists, in particular, know the facts of life: they merely have to refer to the basic principles articulated in Adam Smith's book. Smith argued that the most effective tax should impose the least pain on the producers of wealth; should be cheap to collect, and ought to conform to people's sense of fairness.

He also identified the one tax that was "peculiar" in that it satisfied all his criteria. A tax on the unimproved value of land.

Economists understand the virtues of this fiscal policy, yet they decline to promote it in their discussions with politicians.

Peculiar? Or what?

COMMENT by the Editor