

able for the sake of relative price stability, if it was the only tool available. It isn't. The solution has to be found in fiscal policy.

TAX-CUTTING has been one of the government's most popular policies, but the 1988 budget is blamed by Opposition politicians for the current crisis. In fact, it is impossible to attribute the growth in consumer demand to the increase in disposable incomes which fed into the economy late in 1988: by then, Britain was already robbed of the longterm benefits of Thatcher's attempt at a supply-side revolution.

The error in fiscal policy was to ignore the land market. The classical economists, from Adam Smith and David Ricardo onwards, spelt out that if you improved productivity the net economic benefits would show up as higher land rents.

This economic law has been effectively disguised both by the prejudices of post neo-classical economists and by the trend in tax policy over the past 200 years. The shift towards a tax structure biased against the incomes that people *earn* concealed the way in which land values rose as entrepreneurs improved the capacity of the economy.

Costing the Earth begins the process of proving that a tax on the annual rental value of land is the only policy that could prevent a recurrence of the traumas now being inflicted on the British economy.

POLL TAX THREAT TO LAND MARKET

NEXT YEAR the weakening of the economy ought to be reflected in a weakening of rents.

In the course of the traditional rent cycle the peak in the rate of increase in land values signals a depression by 18 to 24 months - hence the prediction of a crash in '92 by the London-based Centre for Incentive Taxation.

This time, however, the process is further complicated in Britain by the introduction of the Poll Tax. The abolition of the residential property tax will deepen the impact of the land market as landowners respond to the logic of the market.

This is reportedly already happening: the Poll Tax comes into existence this year in Scotland, where private

landlords have been accused by Shelter, a housing charity, of demanding a windfall profit estimated at over £40m a year - because the residential property tax is no longer payable.

The sum will be measured in hundreds of millions of pounds throughout the UK, when the basis of local taxation is changed for England and Wales next April.*

The change will buoy up the rental value of residential land and protract the economic problems at the turn of the decade. What would happen if a tax on annual rental values was quickly introduced?

Empirical studies in the United States and Australia verify that this would have several im-

mediate beneficial effects of a counter-cyclical nature.

The house construction industry would be given a new lease of life by the spontaneous release of vacant sites that are being held idle for speculative purposes, and by the fact that the value of capital improvements would not be liable for tax.

As the land value tax rate was incrementally raised the government could reduce the damaging forms of taxation that inhibit personal incentives and deter people from investing their savings for the future.

* Nick Cohen, 'Landlords "profiting from the poll tax"', *The Independent*, May 99, 1989.

Margaret Thatcher is not in the pocket of the landowning elite that traditionally manipulates the Conservative Party - but does she have the courage to confront the most powerful forces in Britain and radically transform the tax system in favour of people who earn

their incomes?

Without this reform it will be impossible for a radical free market government to institute changes of a permanent nature. The cyclical property booms will continue to periodically disrupt the supply-side, distort individual incentives and encourage governments (no matter how reluctant they may be) to intervene and "manage" the economy.

Margaret Thatcher has to either adopt the land value tax, or perform one of the most embarrassing U-turns of modern politics and return to the Stop-Go policies of yesteryear.

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