EDWARD J DODSON

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Jude Wanniski, President
Polyconomics, Inc.
Morristown, NJ

Dear Mr. Wanniski:

Not long ago I happened to be engaged in discussion with several business associates concerning the world economy. As a mortgage lender with one of Philadelphia's larger banking institutions, my interests initially centered upon the effects of international monetary policy as conducted by the last several presidential administrations and the recent actions taken by the Federal Reserve -- ostensibly to combat inflation through control of credit. Needless to say, the discussion took on a rather lively tone, each individual contributing according to his or her own personal political and economic viewpoints.

Our discussion eventually led to a heated debate over the role of government as regulator, initiator and controller and the political and economic considerations inherent in such involvement at various levels. It was at this critical junction that one of my acquaintences began to speculate on the possibility that desperation might move the federal government to relent to the pressures for wage and price controls and an acceleration of quotas and tariffs on imports. "Good god", I exclaimed, "even if you can't bring yourself to believe Milton Friedman, there's Jude Wanniski's book if you need more argument against trade restrictions." Perhaps I should not have been surprised when several of those around the table showed clear signs of ignorance at the mention of your name. Several questions followed and in due course I spent the better part of an hour detailing (as best I could) your analysis of "The Way The World Works". As an unapologetic free market capitalist, I was overjoyed at the opportunity to put Keynesian economic theory into perspective with regard to its long-term impact on inflation and decreasing productivity.

One participant in this discussion had read your book, and although he essentially agreed with the conclusions reached by Arthur Laffer concerning the relationship of taxation upon productivity, he injected a very strong argument in support of the hypothesis that economic fluctuations are less the result of taxes in general than on the relative absence of taxes on land and natural resources.

Now it was my turn to listen. Among all commodities available for use by man, he argued, only land (and the natural resources provided thereby) has a fixed supply. We can alter its form but we are not really able to create more land -- the earth is a finite sphere. Therefore, land should be treated differently than those commodities created by man from land. As best as I can recall, he continued somewhat as follows:

> "I have long held the conviction that it makes absolutely no sense to tax unimproved land in the same way as improved land -- that the rental value of the former is a genuinely unearned increment, and that taxing it heavily, while reducing correspondingly the taxes on real capital formation, makes excellent sense on grounds of equity and economics.
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> The lion's share of property taxes now falls on the improvements placed on the land -- houses, apartments, shops, factories and office buildings. In contrast, vacant and underused sites are taxed so low they have become prized tax shelters for which buyers keep bidding up prices. Sky high land prices, in turn, boost the cost of food and housing, two of the prime factors in the current inflationary spiral.
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> Land hoarding needs to be diverted into construction of residential, commercial and industrial improvements. Getting the economy into high gear will boost productivity, increase employment, and expand real wages -- and those are the things that fight inflation in the long run."

What he said seemed to make sense. The cost of developable land in the urban core of Philadelphia is extremely high, yet I recalled the large number of underutilized buildings and surface parking lots which are taxed not according to their site values but according to the procutivity of current use. The City of Philadelphia has lost something in the order of 180,000 jobs to its own suburbs, other states and even foreign locations. For a long time I attributed the loss of industry to a combination of high local taxes, the "white exodus" to the suburbs and the inflexibility of the labor unions. After listening to the above individual speak I started to think the problem over and am now convinced that the most serious problem in revitalizing this city is directly related to the high price of land or its unavailability at any price (economically justifiable). A number of real estate developers with whom I have spoken supported this contention by explaining their choice of suburban sites for construction of high rise office buildings as largely the result of exhorbitant land prices in the city.

Well, sir, you have been had (or, at least I hope you have been). While I am indeed a mortgage lender here in Philadelphia, the above conversation is fictitious. I have created this short drama in the hope of adding a new perspective to your view of the political economy. What I have quoted is in fact an excerpt of comments made during January 1979 by both Alfred Kahn (Chairman of the Council on Wage and Price Stability) and Henry S. Reuss (Chairman of the House Committee on Banking, Finance and Urban Affairs). These two national figures are part of a growing number of political, economic and business leaders who are beginning to understand the severe and constraining impact of the land and resource monopoly upon world economic growth. The solution to this problem was offered as far back as the late 19th century by a today largely unrecognized "economist" named Henry George. George's ideas may have had to wait a hundred years until there was no longer any free land available for the taking. Yet, his idea of taxing land into use is surely the most productive form of taxation possible.

Arthur Laffer referred to your book as the "best book on economics" he had ever read. Without taking anything away from the unique accomplishments of your work, I must suggest that the description must be limited to the twentieth century. The 19th century belongs to Henry George and his "Progress and Poverty".

Through an organization called the "Incentive Tax League" a growing number of Americans are seriously committed to introducing comprehensive tax reform centered on the differential taxation of land versus improvements. Nationally known economists such as Mason Gaffney at the University of California, Riverside and C. Lowell Harriss at Columbia University are leaders in this effort. Through the efforts Incentive Tax League members in the Philadelphia area, land value taxation is being studied by various governmental agencies and political representatives in the City of Philadelphia. Our efforts have also resulted in formal testamony before the Newark, New Jersey Municipal Council this past March and on the state level in the Department of Community Affairs.

The active support of our efforts by the author of "The Way The World Works" would also certainly be warmly welcomed. Should you desire to discuss this vital economic issue in more depth, please feel free to contact me either at the above address or at my office at Provident National Bank (215) 585-6071, or you can contact the Philadelphia headquarters of the Incentive Tax League at 616 S. 10th Street, Philadelphia, PA 19147.

Very sincerely yours,

Edward J. Dodson

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