Center for the Study of Economics

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Mr. Jack Kemp
U.S. House of Representatives
House Office Building
Washington, D.C. 20515

Dear Mr. Kemp:

Your February 10th article in The Wall Street Journal proposes several important reforms to the world's monetary system, the second of which is to "lower tax rates on labor and capital". That heavy rates of taxation on productivity discourage production and hence growth is a lesson still not learned by too many politicians worldwide and their economic advisers. I simply question whether you have stopped short of including an equally important element in a program for growth.

The dialogue between those who generally support a market-responsive as opposed to a government regulated political economy has yet to address the structural role played by tax policies toward land, as the third factor of production (ie., land as defined to include all natural resources as well as the physical earth). Adam Smith, writing for an essentially aristocratic, landowning class, carefully sidestepped this issue, although economic historians recognize his admiration for Francois Quesnay's "physiocratic" attack on the concentration of land and natural resource ownership. Capitalism, as a theory of political economy has unfortunately inherited through Adam Smith only the "laissez-faire" portion of Quesnay's doctrine of "laissez-aller, laissez-faire". Quesnay boldly challenged the status quo, arguing however not for land reform or land redistribution (which has yet to produce real social change) but for the capture of community created values (Ricardo's "rent") through the mechanism of taxation.

One application of this principle has been to restructure local property taxes, collecting the revenue solely from land (or "site") values and removing from taxation the value of improvements. There is substantial research to support similar treatment for the value of privately-controlle natural resources. Heavy rates of taxation applied to land and natural resources should induce production, thereby reducing the raw material proportion of production costs. Combined with minimal tax rates on wages and production, the potential for growth would be substantially enhanced.

Sincerely,

Edward J. Dodson
Economic Analyst

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cc: Wall Street Journal
Steven B. Cord

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