

HENRY GEORGE INSTITUTE

121 East 30th Street
New York, N.Y. 10016

Mar. 1, 1989

Dr. Milton Friedman
Hoover Institution
Stanford, CA 94305-6010

Dear Dr. Friedman:

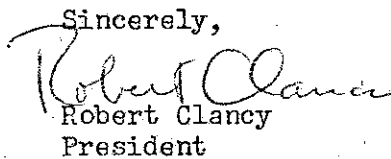
Mr. Edward Burke sent me a copy of your letter to him of Feb. 7, discussing whether a land value tax reduces the price of land. I would like to comment on it.

You handle it as a matter of jumping from a zero tax to a 100% tax on the rent (income) from land, and raise an interesting question about the "mortgage" consequences.

We, however, look at it a bit differently. Gross rent is all the rent, which may be divided between the landlord and the tax. Net rent is what the landlord keeps after taxes. It is the net rent that the landlord capitalizes into a selling price. The tax could be anything between 1% and 100%. It is true that the total collection of rent would reduce the selling price of land to zero. But Henry George proposes that a percentage be left to landlords so they can continue to capitalize and sell - but at a greatly reduced price than today - perhaps even by a cash transaction without a mortgage or a loan.

This is why we say that an increase in the land tax will reduce the price of land - particularly the speculative price - and make it easier to obtain. Enclosed is a supplement to one of our lessons which discusses these matters.

Sincerely,


Robert Clancy
President