LVT is a tax, or if you prefer a charge, on the annual rental value of land ignoring any improvements made to it. The charge is levied regardless of whether the land is put to use or not. It is levied regardless of whether a rent is actually paid or not because an imputed market rental value can usually be assessed for those sites that are owner occupied.

Q *A tax usually increases the price of the article or service upon which it is levied and is thus passed on to the consumer. Surely, then, a tax on land value will increase the price of, or rental value of, land?*

A **A tax usually does increase the price of articles and services. Land value is different because it has no cost of production. The rental value of land is often called "economic surplus" and as such a tax upon it is absorbed.**

All the great economists agree upon this but let's put it another way.

To increase the price of anything "demand" must increase relative to "supply" or "supply" must shrink relative to "demand". As land is a natural resource its supply is fixed and so a tax will not affect the market rental value. Also, to imagine that rent may be increased as a result of LVT assumes that the owner could raise a market-determined rent on a whim. This is not possible.

Naturally enough, change of use in planning permission or zoning may alter the supply of certain land uses, but overall supply remains fixed.

Thus demographic pressure as a result of increased population and of course increased longevity means greater demands will be made on natural resources. Therefore, over the long term, the value of land will tend to rise and take an ever increasing proportion of the total wealth produced.

Q *If land, or indeed any natural resource has no cost of production, how and why does it command a price or economic value?*

Qs AND As LVT

JOHN JAMES addresses questions on land economics

A **Not all land commands a price to use it. Location is everything.**

The value of a site for a house is affected mainly by local infrastructure, such as: the supply of water and energy, roads, hospitals and schools, etc. How would the value of your home fall if these amenities were not available? It is the investment by public and private bodies which determine the price you'll pay for a plot of your own. Land value is a creation of those around us; it is not created by the owner but by the public at large. Ethically speaking, land value is a public value, and the user has to pay it to enjoy the benefits others provide. Taxing that publicly created value puts it into the public purse.

Q *Surely, then, by virtue of the tax staying put and being paid by the owner, land must become more of a liability and to some extent less of a capital asset?*

A **That's about right. Owning a piece of mother earth is a responsibility. A regular tax will be discounted by would-be buyers as the price they pay will not only bring the benefits of the location, it will also bring a tax liability. Thus the purchase price of land will fall. Also, the owners of vacant or under-used land will be encouraged to use it properly or sell it to those who would use it properly and pay the tax. This will tend to increase the amount of land available and thus prices will tend to stabilise or fall.**

? If you want answers to questions on land economics and fiscal policy, please write to John James at *Land & Liberty*.

■ **Colloquium participants (*l to r*): Back row: Mason Gaffney, Ron Banks, Joseph Hyde; middle Row: James Armstrong, Martin Ricketts; front row: Fred Harrison, Michael Gilbert, Nic Tideman**

Tax Reform: The Big Bang Route

ECONOMISTS MET in London to explore the challenges associated with an accelerated rate of introduction of land value taxation. A two-day colloquium held at Sarum Chase, Hampstead was hosted by the School of Economic Science, and participants included representatives from the London-based Centre for Land Policy Studies and the New York-based Robert Schalkenbach Foundation.

Issues explored included the impact on the banking system of the elimination of land as a collateral asset, and the priorities for reducing taxes currently paid by people out of their wages and savings.

Dr. Martin Ricketts, professor of economics at Buckingham University, stressed his interest in rent-based fiscal reform as part of the need for tax competition among countries.