of the last two decades. It seems quite clear that unless the government produces the right sort of land policy quickly, Japan's magnificent economic triumph, albeit at the cost of social squalor. could turn out to be a sinister firework which might explode in its population's face within a very few years. Instead of concentrating on land appropriations and re-allocations at very high cost, the Japanese government would do well to consider the merits of a taxation system for urban land which facilitates development and provides a healthy income. No one would pretend, however, that with its rigid background of rural peasant proprietorship the country would find land-value taxation an easily acceptable measure in the absence of continued agricultural subsidies.

COLOMBIA

'Costless' Public Improvements—a Nod in the Right Direction

MOST PROPERTY TAXES, whether based on assessments of the value of land plus building or a rental concept of either or both, are used by local governments for their prime source of revenue. Nearly all major public improvements are financed through borrowing in the capital market by bond issue or from special governmental loan institutions.

It is thus tempting for local authorities to spread the load of capital investment over a long period of time by making easy payments from tax receipts. In this way they can undertake more projects per year and in an economic climate of currency inflation they can make substantial gains in the long run.

This system of financing even with the additional costs of loan charges, has the added political advantage of keeping the rate of tax much lower than it would need to be if all projects were financed on a strict cash basis. On the other hand, where as is frequently the case, a greater amount of new capital expenditure is incurred every year, an increasing proportion of tax income is required to finance the greater debts. Since administrative costs also rise with expanding services it is easy to see how the tendency develops for tax rates to be increased annually.

In the rapidly expanding less developed countries there is generally a relative shortage of capital and interest rates tend to be high. In these countries there is also frequently a need for very high expenditure in public works, often occasioned by a dramatic shift in population from the country to the towns, requiring major extensions of public services. Often, however, there is strong resistance on the part of long established town dwellers to face a sudden increase in property tax rates in spite of the fact that property values are rapidly rising—particularly the value of well located sites.

Recognising the political difficulties involved in big increases in tax rates, the government of Columbia has enabled local authorities to raise at their own discretion *impuestos de valorizacion.* These valorization taxes are specific imposts on assured site value increments resulting from limited public improvements. The total amount levied, usually in two annual payments, is completely used up to finance 'once for all" capital projects.

In the city of Medellin, where the system has been used for twenty years, half the annual budget is raised in this way by a special department responsible for planning, valuation and execution of the works. Considerable interest repayments are thus avoided and the difficulties of the capital market overcome. The city now has an impressive network of parks, highways, improved rivers and canals.

Strangely enough, it is the citizens themselves who help to determine the extent of the area deemed to benefit from each improvement. The Valorization Department produces its draft scheme, estimates of cost and its own administrative expenses. Local estate agents and resident groups are then consulted on the delineation of the area considered to be affected and on the tentative divisions of tax burden. After discussion the scheme may be amended or the tax area altered.

This system of taxation is an interesting one and has some of the effects of a site value tax. Owners of vacant or under-used land may, for example, be obliged to sell or re-develop to cover the tax payment and the payment brings home the reality of the value increase arising from the municipal improvements. Commenting on the system recently, *W. G. Rhoads and R. M. Bird, expressed the view that the impact of the tax, levied as it is at a stiff rate over a short period, may have a stronger impact on the real estate market than a regular site value tax. They rightly point out, however, that the valorization tax recovers only the benefits from direct public investment while site value taxation reaches increases in values which arise, for example, out of increased productivity. (This apart from collecting revenue from already established land values.) Moreover, the valorization tax, does not influence the selling price of land to the consumer, although it may discourage speculation to some extent and, by itself, does not penalise development. One of the other merits of the tax is that the Valorization Department is prompted to initial improvements only where the resultant income arising from increased values is sufficient to cover the cost of the scheme and is acceptable to tax payers.

While it could never be argued that the Valorization Tax is an efficient substitute for site value taxation, it has considerable advantages over development levies and capital gains taxes, by relating public works directly to the amount levied and by providing for capital financing.

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*_Land Economics._ W. G. Rhoads—U.S. Embassy, Bogota. Colombia A.I.D. Mission. R. M. Bird—Internattoinal Tax Programme, Havard Law School.