

# Land-Value Tax and the Timing of Development

Some environmentalists think that land-value taxation promotes too much development, but in fact LVT promotes an efficient use of land.

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**Fred Foldvary, Ph.D.**

Economist

One argument that is put forth in opposition to land-value taxation (LVT) is that it promotes too much real estate development. Lands that are better left wild or in agriculture get developed into housing or commercial use. But LVT has the opposite effect: it promotes an efficient use of land.

Land use today is inefficient because vertical development is tax-penalized while horizontal development is subsidized. Many cities have underused land such as surface parking lots next to tall buildings, or one-story buildings next to those of multiple stories. Such use is socially wasteful when the neighborhood rent is greater than the rental income of a plot of land. Landowners often keep their plots underused when land values are rising, since they hold an appreciating asset that has a low carrying cost, paying little in property taxes.

Let's analyze the timing of development in a pure market economy, in which most of the economic rent is collected and spent for public goods and cash dividends to the residents. The tax on land value is independent of any development. The economic rent of a plot of land is based on the revenue left after paying expenses on the improvements. If the demand to use that plot is low, the rent will be low, and there is no economic pressure to develop the land more intensely. If one story is optimal, a second story is not built, because the tenant will not pay the rental that covers the cost.

Environmentalists fear that ecologically valuable land would be developed with LVT because the development generates the financial rental that covers the economic rent. If that were true, there would be no front and back yards, because owners would build there to obtain more use and rental. But people get value from yards, so they don't disappear now, and would not vanish if the land were subjected to full LVT.

With complete LVT, all landowners pay LVT, including the owners of parks and wilderness, which includes governments. People value these areas, so they would support them with LVT. The question regarding conservation is, who decides which areas are to be preserved? Ideally, a panel of expert ecologists would decide which lands are worth preserving, but they would be selected by a political process that would be biased.

Wilderness areas can be designated in two ways. First, conservation organizations buy lands to preserve the ecology. With limited funds, they buy what their experts believe are the places with the greatest ecological value, such as with endangered species. Second, governments designate lands as wilderness preserves or human-use parks. The governmentally chosen places could be confirmed by this process:

1. Economists calculate the economic rent if the area were developed.
2. The jurisdiction conducts a demand revelation, in which people report the most they would pay to have that preserve.
3. If the total benefit is greater than the rent, the area is preserved. Anyone whose stated value changed the outcome compensates the jurisdiction for the net loss of value.

The parks and preserves pay LVT, but it is rebated back to their budgets. That way the people know what it is costing them, and also know that the benefits are greater than this cost.

After designating the parks and preserves, the private sector should be free to develop the area based on economic dynamics. LVT does promote development when land is held out of use for speculation, but that development is socially useful. As LVT promotes more compact cities, there is less sprawl, so while there may be more overall development, there is also more land for farming and wildlife.

The development of the fringes around cities is subsidized by government providing public goods paid for mostly from wages. With no taxes on wages or capital yields, full LVT eliminates the subsidy to horizontal development and the tax penalty for vertical in-filling. LVT promotes optimal development.

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The rental value of land is derived from a) the efficient exploitation of agglomeration effects.  
b) a preference for locational amenity over spending on alternative goods and services.

Therefore there is a Laffer Curve of planning whereby in order to maximise aggregate land values, development has to be balanced by preservation/enhancement of our shared environment.

This is what all good developers know when they are trying to maximize their profits. Only under a LVT only system of funding public services, the State would become landlord and have to balance these needs in order to maximise revenues.

This is good, because policy would not only be focused on delivering GDP growth. As collector of rents the State would be directly competing in the market against private suppliers of goods and services for our spending, so we'd benefit from better urban and rural environments too. LVT is based on choice not coercion, which is why it aligns incentives instead of distorting them. Planning included.

High land values are a good thing. They only go bad when capitalised into private rental income and selling prices as this leads to the twin evils of inequality and inefficiency (the true cause of symptoms like housing affordability issues for some groups in society). This isn't something that has occurred to economists who continue to blame planning for all our ills in the housing market.

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# Fred Foldvary, Ph.D.

## Economist

**FRED E. FOLDVARY, Ph.D.**, (May 11, 1946 — June 5, 2021) was an economist who wrote weekly editorials for [Progress.org](#) since 1997. Foldvary's commentaries are well respected for their currency, sound logic, wit, and consistent devotion to human freedom. He received his B.A. in economics from the University of California at Berkeley, and his M.A. and Ph.D. in economics from George Mason University. He taught economics at Virginia Tech, John F. Kennedy University, Santa Clara University, and San Jose State University.

Foldvary is the author of *The Soul of Liberty*, *Public Goods and Private Communities*, and *Dictionary of Free Market Economics*. He edited and contributed to *Beyond Neoclassical Economics* and, with Dan Klein, *The Half-Life of Policy Rationales*. Foldvary's areas of research included public finance, governance, ethical philosophy, and land economics.

Foldvary is notably known for going on record in the *American Journal of Economics and Sociology* in 1997 to predict the exact timing of the 2008 economic depression—eleven years before the event occurred. He was able to do so due to his extensive knowledge of the real-estate cycle.

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