Community package to benefit everyone

A HIGH tax will do one thing, reduce the quantity of that thing – with one exception, a high tax on land. Land in its natural state, especially as space, has not come into existence because someone paid to get it produced. Yet we pay a very high price for the use of some land. When we do so, the payment does not go to someone for creating the land.

Perhaps the person who gets the payment, and certainly prior owners through history, will have invested money and effort in making the parcel and the neighbourhood more desirable. Something of what present users pay will represent compensation for such investment. Most urban land, however, brings prices which are vastly greater than the worth of such inputs.

The amount paid will generally exceed whatever was needed to get the land (broadly defined) in its present state. What city today has more land because the average price which people must now pay is three or four times that of a generation ago? If more of the payments for land had been channelled into the local government treasury, the land as space would still be available. For the future is not such action sensible?

Price has an economic function other than getting things produced. That other function consists of guiding the use, of preventing waste in consumption, of allocating resources according to their relative productivities and scarcities. A "high" price for some land is essential for guiding it to the best available uses.

• The virtuous impact of land value taxation is explained by C. LOWELL HARRISS, Professor Emeritus of Economics at Columbia University, New York.

A good market in land, one built around prices, is important for inducing the most productive use of this resource.

To assure efficient allocation of land, the user must pay; but the owner need not receive all that is paid. Therefore, government can take much of what the user pays, while keeping pressures and incentives for efficiency in use. But not take all.

Present owners have made outlays in good faith and ought not to be deprived of investment made in accordance with established rules, except as noted below. Moreover, an owner must feel confident that his effort in finding a use yielding more return will bring *him* benefit.

As private owners get less and the public treasury obtains more, the price system would still allocate land use. The effective supply of land would go up in the sense that more would be offered on the market. And the tax rate on buildings and machinery could be kept much lower than perhaps otherwise – as in the United States, where much man-made capital is taxed more heavily than seems to me desirable.

Investment by owner (or tenant) – or by a land developer – in improving land ought to be treated as the input of capital. To the extent practicable, such inputs deserve the same tax consideration as investment in structures.

Over the longer run, landowners would get less of the increment in land values. The general public would get more. On this score, the equity results commend themselves. The community can capture in taxes some of the values which it has created – including values resulting from local government spending on streets, schools and other facilities. Localities can obtain funds to pay for local government by absorbing part of the values created by society.

Socially created values would go for government rather than private uses. The localities doing most to make themselves attractive would have most of this revenue.

As for the future, the tax on land value above present levels would be almost burdensomeless, except as owners of land and their heirs get less "unearned increment" from rising values. Where land values drop, the annual tax at the higher rate would decline.

The necessity of paying higher tax on land would put pressure on the owner to get the best income possible – "higher and better use."

process by adopting taxes that raise prices higher than is necessary for the sake of efficiency.

LVT is the one tax that falls on the surplus income (rent) and *cannot be passed on to either the wages of labour or to the profits of capital;* it is a tax that remains where it falls – on the annual rental value of land. The British Treasury recently explained this process:

The effect of taxes depends upon the demand and supply elasticities of the commodity being taxed. For example if the supply is very elastic the main effect of a tax is to increase the market price; if the supply is very inelastic the main effect of the tax is to decrease the net of tax price. The supply of land, for example, is relatively inelastic and the usual long term effect of property rates (taxes) is largely to reduce rents and land values (Treasury 1984: 9).

This economic fact of life ought to be borne in mind by Soviet reformers. The economic consequences can't be ducked; the failure of governments to

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