

Opinion **Tax**

## The case for a land value tax is overwhelming

Natural resources are quite different from the capital stock created out of human effort

**MARTIN WOLF**



Dogwalkers outside Abingdon in Oxfordshire. The political power of landowners, big and small, is why the arguments of great economists have been ignored for so long © Planet One/UIG/Getty Images

**Martin Wolf** YESTERDAY

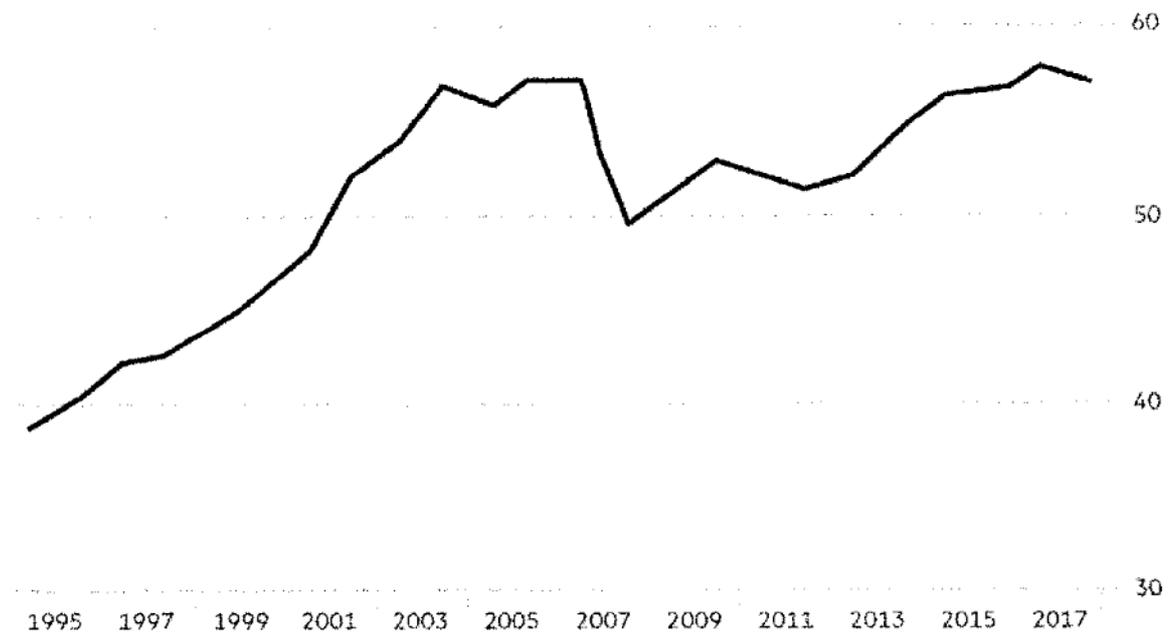
I have long been a supporter of taxing land value. Such a tax would be economically efficient and morally just. But it has been politically impossible: the landowning interest, which now includes a large part of the population as owner-occupiers, has been too strong. This is a tragedy. Now that western politicians are struggling with low growth, stressed public finances, high inequality, intergenerational tensions and an unstable financial system, they need to consider such a fundamental change in what is taxed.

The idea of taxing the rental value of land is most closely associated with the 19th-century American Henry George. But Adam Smith, David Ricardo, James Mill and his son, John Stuart Mill, all shared the same view. Thereafter, foolishly, economists began to incorporate land (which includes all non-produced natural assets) into produced capital. This then led to the neoclassical “two factor” models of the economy, which are grossly misleading. As a result, taxes on land were increasingly considered in the context of taxes on wealth, even though natural

resources are quite different from the capital stock created out of effort and foregone consumption.

### The share of non-produced assets in the UK is nearly 60 per cent of total assets

Per cent



Sources: ONS, Kumhof, Tidleman, Hudson & Goodhart (CEPR 2021)  
© FT

A paper published by the Centre for Economic Policy Research in 2021, entitled “[Post-Corona Balanced-Budget Super-Stimulus: The Case for Shifting Taxes onto Land](#)”, provides a superb overview of all the relevant arguments for today. Its authors have also provided an excellent summary in [VoxEU](#).

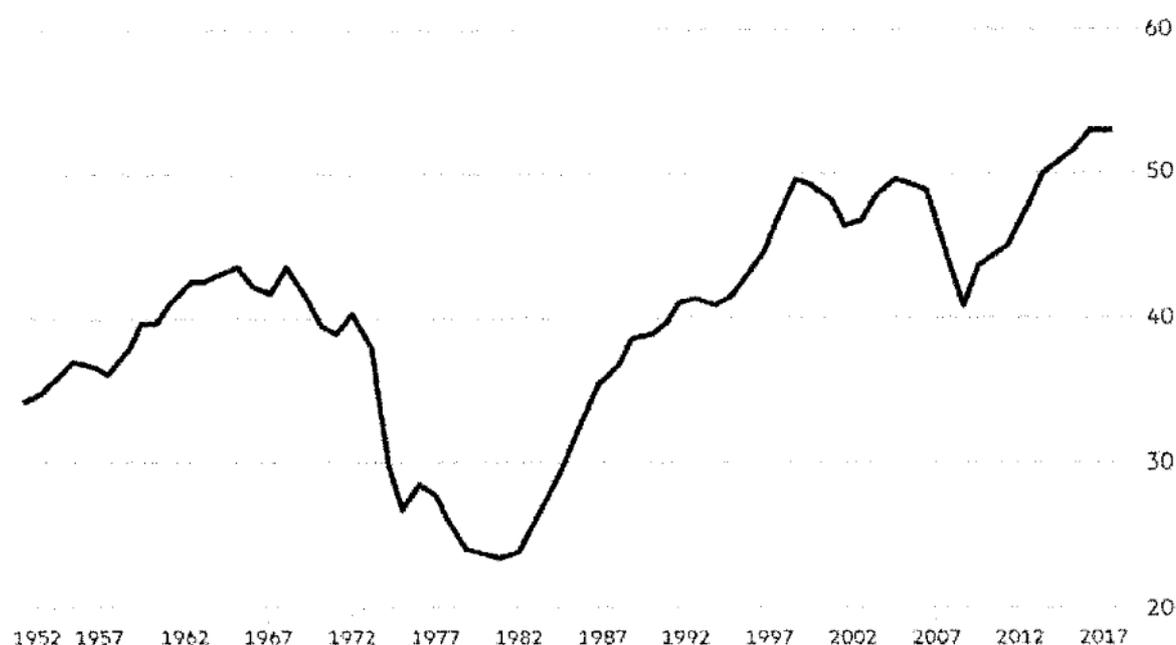
The moral case for separating the return on natural resources from that on other assets is that the former pre-exist human efforts. Their value depends on the latter, but most definitely not on those of their owners. The land under my house has, for example, increased enormously in value over the past few decades. I did nothing to earn this. It was the result of the efforts of all those who contributed to making London richer, including, of course, the public at large, through their taxes. A large part of the agglomeration value of productive cities is in this way captured by those who happen to own the land.

In economics, it has long been understood that it is sensible to tax factors of

production whose supply is unaffected by its price. The stock of reproducible capital is the opposite of that. In a globalised economy with free movement of capital, such assets are extremely hard to tax, as is also true for mobile human capital. In both cases, the attempt to do so risks reducing the supply of capital and so incomes. But it is not hard to tax land, which is by definition immobile.

### The value of non-produced assets in the US is over 50 per cent of total assets

Per cent



Sources: BEA, Federal Reserve, Kumhof, Tideman, Hudson & Goodhart (CEPR 2021)  
© FT

A further argument for taxing away much of the rental value of land is that the credit system now mainly finances land ownership. In this way, rents on land are converted into interest on unproductive debt. Speculative bubbles in land also drive the credit cycle, to devastating macroeconomic effect.

Not least, many governments now need to raise more revenue, ideally in ways that do not reduce prosperity. Again, socialising much of the yield on land is an obvious way to do this. Moreover, the tax base is huge: in the US and UK, the value of “non-produced assets” is more than half of total assets. The same is true in many other countries.

None of this would matter much if in practice the potential gains from shifting away from taxes on produced capital and labour were not large. But they are. The authors of the paper estimate from one simple model that an increase in the tax rate on the value of land from a level of 0.55 per cent to 5.55 per cent, with

reductions in taxation of produced capital and labour of 28 and 10 percentage points, respectively, would raise output by 15 per cent relative to trend. If policymakers want to promote growth, this is an obvious place to start: tax unearned rent far more and capital formation and people's work far less.

The political power of landowners, big and small, is why the longstanding arguments of great economists have been ignored for so long. But there is also the intellectual mistake of mixing land together with produced capital as if they were the same thing. Some argue, in addition, that valuing land is practically impossible. But this point is incorrect. As the paper shows, it is possible to value land if governments wish to do so.

Evidently, there would be sizeable transitional problems, not least the changes in the valuations on which mortgages have been agreed. One way around this could be to introduce the new taxes on land only on values *above* those of today. Another would be to phase in the new taxes slowly.

Crucially, if there exist reforms able to make the country as a whole better off it is in principle possible to compensate the losers we care about and still make everybody else better off. There are few such policies. Be bold. Try this one.

*[martin.wolf@ft.com](mailto:martin.wolf@ft.com)*

*Follow Martin Wolf with [myFT](#) and on [Twitter](#)*

