Land Value Taxation and Resource Rent Approach to Financing for Development

This policy paper was co-authored by Alanna Hartzok and Pat Aller and submitted by the International Union for Land Value Taxation to the United Nations Financing for Development Preparatory Process at the NGO Hearings, November 2000.

Public finance policy can be structured to enhance both private sector economic activity and public sector services. A fundamental reform in tax policy can optimize incentives for a productive market economy while also providing money for education, health care and other social services, as well as infrastructure. Such reform promotes a different kind of market system whereby wealth is fairly distributed and basic needs for all are met. Does this sound too good to be true?

We are accustomed to compromise and trade-offs, to sacrifice one goal for another. That a systemic reform can simultaneously promote economies that are both free AND fair may seem to be an impossible ideal. But a public finance perspective, variously known as land value taxation, green tax shifting, or resource rental offers such a reform. It is estimated that approximately 93% of taxes collected worldwide fall on labor and economic production. Removing the tax burden on all forms of labor and productive activity can greatly enhance private sector enterprise, especially small business.

Freed from taxation, workers get increased purchasing capacity and investors more funds to invest. Shifting taxation ONTO the economic base of land and natural resources has other positive consequences. Taxes would function as user fees for what are essentially common heritage resources. Investments in land speculation would be curbed, thus freeing funds for productive activities.

Taxing land sites according to land value promotes urban and rural land reform, providing affordable access to land for homes, businesses and farming. Sufficiently high resource rental fees, captured for public sector benefits, promote more careful and efficient use of natural resources by the private sector. Conversely, the undertaxation of natural resources leads to their over-exploitation. A high access cost for nonrenewable resources can also stimulate investment in renewable energy and other sustainable technologies, as less profit can be made on extracting irreplaceable resources.

Several UN bodies have recommended this approach or urged its consideration. The United Nations Centre for Human Settlements (Habitat) included it in the 1996, as well as the 1976, declarations. The 1996 Habitat agenda states:

> The failure to adopt, at all levels, appropriate rural and urban land policies and land management practices remains a primary cause of inequity and poverty. It is also the cause of increased living costs, the occupation of hazard-prone land, environmental degradation and the increased vulnerability of urban and rural habitats, affecting all people, especially disadvantaged and vulnerable groups, people living in poverty and low-income people. [B.75]
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> Apply transparent, comprehensive and equitable fiscal incentive mechanisms, as appropriate, to stimulate the efficient, accessible and environmentally sound use of land, and utilize land based and other forms of taxation in mobilizing financial resources for service provision by local authorities; [76(d)]
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> Consider the adoption of innovative instruments that capture gains in land value and recover public investments. [76(h)]

The Food and Agriculture Organization[1]s International Fund for Agricultural Development has a global consortium of intergovernmental and civil society organizations, The Popular Coalition, which urges governments to "establish land-tax systems, especially for underutilized land and land held for speculative purposes."

A paper distributed by the UN at the April 2000 prepcom of the Commission for Social Development also urged a land value tax as the most immediately feasible way of coping with global poverty. The author of Department of Economic and Social Affairs Discussion Paper 11, Professor Anthony Clunies-Ross, recommends "full exploitation of the possibilities of taxes precisely targeted on the site value of land and the rents of other natural resources."

The International Union for Land Value Taxation and its 60 member organizations are working to implement these recommendations. The policy is to shift taxes OFF labor and productive capital (thus increasing everyone[1]s purchasing capacity and wealth creation incentives) and ONTO land and natural resources (thus curbing speculation and private profiteering in the world[1]s common heritage). Such a tax shift makes land prices affordable for housing, other basic needs production and infrastructure.

When we fail to tax land values adequately, as they rise during development, and tax wages instead, workers soon cannot afford housing and other basic necessities unless they work longer or go deeper into mortgage debt. What should be the true purpose of a market economy and development - to efficiently provide for the needs of all - is undermined. Under the current model, which commodifies land and resources, land prices become a greater proportion of the costs of production as development proceeds. This primary cause of the widening rich/poor gap demonstrates the law of rent, a concept little understood even within the field of economics. As private profits accumulate from resource rents and interest payments, the gap between rich and poor keeps growing year by year.

Most "poor" countries are not poor. Rather, their people are poor, because the countries[1] valuable land and other natural resources are controlled by only a few. Land value taxation promotes both urban and rural land reform. Land values rise because of population growth or concentration and because of infrastructure and other services provided by the public sector.

Reducing taxes on wages and productive capital while recapturing the increase in land values (resource rents) BACK to the public sector assures both a fair and functional market economy and a continuing source of tax funds for the public sector. The public fund can also be a source of low-interest loan financing to community members. Under this arrangement, the people themselves become beneficiaries of both resource rents and interest payments. The recapture of rises in land value and the revolving of loan monies all within the public sector enables countries to develop with less need for outside funds.

Examples of land value tax and resource rent approach to financing for development:

- Harrisburg, the capital of Pennsylvania, was in 1980 on the Federal list as the second most distressed city in the United States. The city gradually reformed its municipal tax policy by shifting taxes OFF of buildings and ONTO land site values. Now taxes on buildings have dropped and land is taxed five times more heavily. With land sites freed from speculation and underuse and buildings less burdened by taxes, labor and capital went to work restoring the city, now considered to be one of the highest quality of life cities in the US.
- Seventeen other municipalities in Pennsylvania have put this policy in place, all with proven benefits of economic regeneration as indicated by increased building permits and other criteria. This approach generates steady urban renewal in Sydney, Australia. Hong Kong and Singapore capture land rent primarily by nationalizing land and renting it out.
- There has been some experience with land value taxation in urban areas of nations of Eastern Africa. Some cities in the Republic of South Africa have had benefits from collecting a portion of land rent as revenue. The Land Resettlement Minister of Namibia is currently working to implement this approach. It is also under serious consideration by the Russian parliament, the Duma.
- The Alaska Permanent Fund is an excellent example of the use of resource rents to not only finance government but to provide an ongoing fund for both public investments and cash payments to citizens.

Under the Alaska Constitution, the natural resources of Alaska belong to the residents of Alaska and are to be used, developed and conserved for the maximum benefit of the people. In 1969 the state auctioned off the drilling rights on tracts of land at Prudhoe Bay. The original $900 million was spent to provide for basic community needs like water and sewer systems, schools, health, education and other social services. In 1976 the voters approved a constitutional amendment to establish the Alaska Permanent Fund, which required that a set percentage of wealth from state-owned mineral resources be preserved to benefit future generations of Alaskans. While the principle cannot be spent without a vote of the people, it must be invested to generate earnings.

By 1999 the Fund had a balance of $26.4 billion and investment earnings of $2.5 billion, more than double state oil revenue.

In the United States, the Fund is larger than any single endowment fund, private foundation or union pension trust. It would rank among the top 3 percent of the Fortune 500 companies in terms of net income. It is one of the largest lenders to the U.S. government. A large portion of these well-managed funds are paid out as citizen dividends to each man, woman and child who has resided in Alaska for at least one year. From 1982 through 1998 the dividend program paid out almost $7 billion to Alaskans through the annual distribution of per-capita dividend checks. Dividend payments this year 2000 are the highest ever - $2000 for each individual.

These public finance principles apply at the global level, too. The Commission on Global Governance recognized that global taxation is needed "to service the needs of the global neighborhood." Global taxes, based on the use each nation makes of global commons, could include: (1) taxes and charges on use of international resources such as ocean fishing, sea-bed mining, sea lanes, flight lanes, outer space, and the electro-magnetic spectrum; and (2) taxes and charges on activities that pollute and damage the global environment, or that cause hazards across or outside national boundaries, such as emissions of CO2, oil spills, dumping wastes at sea, and other forms of marine and air pollution.

A Global Resource Agency, similar to the Alaska Permanent Fund, could collect global resource rents for distribution and investment. This would provide a stable source of finance for UN expenditures for peacekeeping, environmental preservation and restoration, and to finance justice institutions such as the World Court and the International Criminal Court. Some of the revenue might be distributed to all nations according to their populations, reflecting the right of every person in the world to a "global citizen's income" based on an equal share of the value of global resources.

A Global Resource Agency with this mandate would:

- Encourage sustainable development worldwide;
- Provide substantial financial transfers to developing countries by right and without strings, as payments by the rich countries for their disproportionate use of world resources;
- Help to liberate developing countries from their present dependence on aid, foreign loans and financial institutions which are dominated by the rich countries;
- Reduce the risk of another Third World debt crisis; and
- Recognize the shared status of all human beings as citizens of the world.

This land ethic and policy has potential to benefit all and has deep roots in the history of economic justice. A full Jubilee 2000 and beyond plan would not only reduce or eliminate debt, but would also promote systemic reforms in land tenure and taxation. This is the kind of "structural adjustment" the people of the world really need.

The Financing for Development process could further this tax shift approach by:

1. Worldwide education and information,
2. Encouragement of implementation on the local and national level, and
3. The creation of a body of experts to assist with the transition to this policy.

The International Union for Land Value Taxation and its 60 member organizations are ready to work in partnership with the Financing for Development process, UN agencies, member states and other development NGOs for the implementation of this fundamental tax shift.

Children from the village of Odi on the Nun River, Bayelsa State, Nigeria.