

Report Part Title: Front Matter

Report Title: Taxing Land is Better than Neutral:

Report Subtitle: Land Taxes, Land Speculation and the Timing of Development

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Published by: Lincoln Institute of Land Policy (1995)

Stable URL: <https://www.jstor.org/stable/resrep18201.1>

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**Taxing Land is Better than Neutral:
Land Taxes, Land Speculation
and the Timing of Development**

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LINCOLN INSTITUTE PRODUCT CODE: WP95NT1

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Abstract

“Taxing Land is Better than Neutral: Land Taxes, Land Speculation and the Timing of Development”

There is widespread belief among economists that an ad valorem tax on land can generate economic distortions by changing the profit-maximizing time of land development. When markets are perfect, this argument is erroneous. Those who have argued that there are distortions have made mathematical errors. A correct argument is intricate, and involves definitions and distinctions in notation that have not generally been observed. One important insight that emerges from the analysis is that “the rent of land” should be defined not as the net income from optimal development, but rather as the opportunity cost of leaving unimproved land unused. When markets are imperfect, an ad valorem tax on land can change the profit-maximizing time of development. These changes can either improve or worsen economic efficiency. However, since they tend to mitigate market imperfections, the changes in land development induced by an ad valorem tax on land probably improve economic efficiency overall.

About the Author

Nicolaus Tideman received his B.A. from Reed College and his Ph.D. from the University of Chicago. He was Assistant Professor of Economics at Harvard University and Senior Staff Economist at the President's Council of Economic Advisers, before moving to Virginia Polytechnic Institute and State University, where he is now Professor of Economics.

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Acknowledgment

The research for this paper was supported by the Lincoln Institute of Land Policy in Cambridge, Massachusetts.