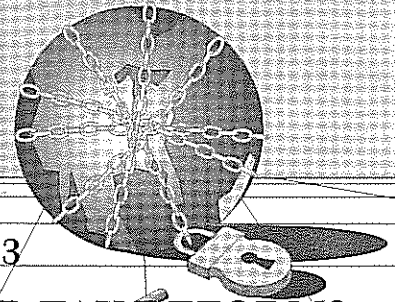


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WILL INDIA LEAD THE WAY IN URBAN LAND TAX REFORM?

A Mission Director from the Indian Ministry of Housing provides some answers

By Scott Baker, New York, NY

[I first met Dr. Mohanty through a personal friend. As we talked it became clear he was well versed in Georgist economics, and even better, was in a great position to do something about it.]

Dr. Mohanty graciously agreed to a written interview, and then a follow-up during late May-early June 2011. Here is the result. I plan to follow-up this intriguing opportunity in the future. It is the author's belief that Georgism will come soonest to those communities and countries who perceive themselves as most in need of fundamental reform, like India, and not, unfortunately for most Americans, the United States. Dr. Mohanty reminds us that his views are personal and not official.]

Scott Baker: Dr. Mohanty, could you please describe your current position in the Indian Ministry, how long you have held this position and what your duties are?

P. K. Mohanty: I belong to India's apex civil service, called the Indian Administrative Service. Currently I am working as the Mission Director, Jawaharlal Nehru National Urban Renewal Mission (JNNURM) and Additional Secretary in the Ministry of Housing & Urban Poverty Alleviation in the Government of India, New Delhi. JNNURM is the national urban mission of India launched in 2005. It involves a Government of India grant support of about \$17 billion to aid infrastructure development in cities along with provision of housing and basic amenities to the urban poor in partnership with States and cities. It contemplates wide-ranging reforms for sustainable urban development and financing. I deal with the implementation of the Mission throughout the country, including scrutiny of project proposals from cities/states regarding housing, slum development and provision of basic amenities to the urban poor such as water supply, sewerage, drainage, roads, education, health, social security, etc., release of Government of India grants, review of physical and financial progress of projects and guidance to cities in the execution of urban sector reforms, including reforms for better municipal management and finance. Currently, the Mission is supporting about 900 cities with about 1500 projects relating to housing and basic services to the poor alone. In addition, there are many city-wide infrastructure projects being financed. I have been holding the position since August 2006

SB: I understand you studied in America prior to starting your position. Could you briefly describe that training?

PKM: I did my Masters in Political Economy from Boston University, Doctorate in Urban Economics from Boston University (with one of the advisors from MIT) and Post-doctorate in Economics from Harvard University. I came on sabbatical and returned back to my job in the civil service after

completing studies between 1987 and 1993. Since then I have held jobs like chief executive of the metropolitan city of Hyderabad, Director of Urban development in Government of India, Director General, Centre for Good Governance and Mission Director (JNNURM), etc. My research has helped me in applying theory to practice.

SB: And when did you first study Henry George? What was your impression of his Single Tax solution?

PKM: I read about Henry George in connection with my PhD which touched upon issues of migration and local public finance. There is a famous paper by Richard Arnott and Joseph Stiglitz which mathematically derives the Henry George Theorem stating that under certain conditions, aggregate rent based on land value (land rent) would suffice aggregate spending by government. George made a lot of sense to me given my knowledge of Indian cities. George was very modern for his time. The assumptions are important as they are the ones on which the Henry George results are based. We have to interpret George in the present day context. Taxation of urban land value makes a lot of sense for cities in developing countries like India where urban land values are soaring and public investment and spatial planning are key factors leading to such rise in land values. The collection of a rent/tax based on land values to help defray the public expenditures that lead to (the) creation (of higher) land values is very sensible and would generate a spiraling process of self-financed urban development. Taxation of land values can be an important way of financing city-wide and regional infrastructure and guiding city development, creating and tapping land value in developing countries like India. George's Single Tax solution needs to be interpreted not in letters but in its spirit. George has an important message for city development on self-financing basis in the case of growing cities of developing countries. First, good taxes like land value taxation need to be tapped first. It is a pity that governments/local bodies in most developing countries are yet to exploit land as a resource.

SB: I understand you know the works of both Mason Gaffney and Fred Harrison, both prominent Georgist economists. Have you been able to incorporate their ideas in your own presentations?

PKM: I have not met them. But I have read about their seminal works. Again their works make a lot of sense for developing countries which are creating land values in cities through planned development including infrastructure. In India we have adopted the strategy of inclusive growth in our current Five Year Plan (11th Plan) realizing that growth would not automatically percolate to the poorest (cont'd on p. 13)

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of the poor and the marginalized sections of society. Some deliberate design of inclusion in the growth strategy is important. In the urban context, the poor are increasingly being weeded out of the urban land market because of skyrocketing land prices and enormous speculation in urban and peri-urban land transactions. As part of the inclusive growth strategy we have proposed the development of inclusive cities under the Jawaharlal Nehru National Urban Renewal Mission where the poor need to have a place to live and a place to work. To make cities inclusive, affordable housing, basic amenities to the urban poor, etc. need to be deliberate parts of city planning and development strategies. Development of regional and city-wide infrastructure, affordable housing and basic services to the poor would require huge investments. Taxation of unearned increments in land values created by growth and city development process would be an appropriate method of creating inclusive cities. India is only 30% urban. The journey from 30% urban to 70-80 % urban would see enormous increase in urban land values and the same could be a huge source to finance value-creating cities and developing them. I have tried to incorporate research findings into practice in some of the positions I held such as chief executive of Municipal Corporation of Hyderabad.

SB: Now that you have this background in Georgism, how do you think it will help with India's budget and infrastructure issues?

PKM: George's theory is very relevant for countries like India. India has 5161 cities and towns. All the local bodies have access to taxation of property which includes land. However, urban local bodies are faced with difficulties in finding resources for the development of city infrastructure and services. They have not exploited land as a resource. Land value taxation (whether capital value based or rental value based) will be an important means to finance infrastructure in India's cities. I see the significance of Georgism in the context of financing of local public goods and services.

SB: I understand you and some other ministers have formed a working committee to try to implement the Land Value Tax in India. Could you tell us a little more about that? How does it work? Are there regular meetings? How do you rate the chances of being able to implement a Land Value Tax – both locally and, ultimately, nationally?

PKM: There was a National Committee called High Power Expert Committee on Urban Infrastructure under the chairpersonship of eminent economist and public policy analyst, Isher Judge Ahluwalia for assessing city infrastructure needs and suggesting ways of financing city infrastructure development in India. This Committee has recommended the use of land as a resource as one of the key measures for the development of infrastructure in India's cities. To quote from the Committee's Report (2011) "The Committee also reiterates its recommendation on vacant land tax which has great potential considering that cities are expanding boundaries, and land values of erstwhile rural lands are appreciating very fast.

While private developers should be encouraged, government should adequately tax the developers to ensure that the increased land values are used for development of infrastructure in and around the developed areas".

Many other studies have also suggested land monetization as a key method for financing city infrastructure needs. What shape exploitation of land as a resource will take is under debate. Lessons from Georgism would be important. However, we need to have a lot of discussions with experts and policy makers as to the form of exploiting land as a resource. LVT has to be interpreted in a generic way as no one size will fit all. India is a huge country with different systems of city finances in different States. Political economy is important. Georgism has to be interpreted in the political contexts of these States. I think we need to apply land taxation in the context of the political economy of our country and history of our states and local bodies as political decision-makers have to buy in the land taxation argument. Economic reasoning will not be enough. Personally I am working on a paper on land value taxation.

SB: Could you tell us a little more about these "local bodies?" Do you foresee any municipalities in which LVT would *not* be effective? If so, why not? George teaches us that LVT is infinitely scalable, so are there other obstacles to implementing LVT and how could these be overcome, if they should be?

PKM: India is a Union of States. The local bodies are constituted under State laws. In 1992, the Union Government took the initiative of amending the Constitution to accord the status of a third tier to local bodies. However, the local bodies remain...products of State laws. They are at different stages of evolution. Most local bodies or municipalities have property tax as their primary source of income. Property tax comprises of a general tax based on land value and service-related taxes – for water, drainage, street lighting, roads, garbage disposal etc. Already provision exists for various forms of land taxation but the source has not been exploited adequately due to various reasons, many of which are political. I believe that land needs to be leveraged to generate resources for growing infrastructure needs and spending for capital works. Large cities with sky-rocketing land values can resort to land value taxation in the sense that land is taxed at a rate higher than built-up property. This would also promote development and discourage speculation. The case for LVT has to be taken up with local mayors, state administrators and political decision makers. I believe that gradually a realization about the importance of LVT would come. But we need to undertake education and orientation exercises at all levels. The land owners need to be convinced that they get better off with land value taxation and dedicated expenditure on spending for infrastructure.

SB: Visitors to India, like myself, are sometimes startled to see shantytowns abutting thriving cities, even great municipal structures, like airports. These, from what I understand, are essentially nearly rentless areas, yet living in such close proximity to city centers confers significant advantages over living in more distant, rural areas, particularly in a country where most people do not have cars and public transportation is often filled to capacity, or more. Is this a good way to house the poor, or is there an alternative, and would that alternative be along Georgist lines?

PKM: Many shanty towns/slums are on highly valuable land. We are making efforts to develop these on Public-Private-Partnerships with private (continued on p. 14)

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developers commercializing part of the lands and constructing affordable homes on the other parts. There have been some success stories on PPP. But we need to promote the same in a big way. This would require a conducive legal framework, which is being developed by some states. Efforts are on by many cities as to how to build affordable homes in slums with the involvement of the land owners and private developers.

SB: From what I understand, the majority of rural dwellers do not have the means to pay any kind of tax, Land or otherwise. Would these then be considered marginal lands, under the Georgist definition, and not taxed at all? If so, how do you expect to raise necessary revenues for these areas?

PKM: Land value taxation is an evolutionary process. It needs to be developed in a gradual manner in any developing country where land value is evolving. If we do not tax lands where value is exorbitantly high and moot a proposal to promote land value taxation across the board in a big way, the proposal will not be acceptable by any group. The conditions of the rural poor and agricultural workers are much more appalling than of city dwellers. Thus, a proper strategy would be, to start with, use land as a resource, mainly for infrastructure development works in large cities where land values are already high and further values can be created systematically duly linking with infrastructure development, tapped and used to finance city development in a sustained manner. Cities when developed can generate resources for rural development and poverty alleviation in both rural and urban areas.

SB: Looking back across the world to the U.S. what do you, as someone who has studied here, and has family here, yet who holds an important position in India, see as the biggest political obstacles to economic reform, in particular, Georgist Land reform, in America?

PKM: The only problem I see is that people are asset rich but income-poor. This problem, common with all asset taxation, is the same everywhere. People will have to pay taxes out of current income. Land value taxation at points where value is realized is more acceptable than on idle property. Thus, a low rate of taxation on land value in the case of any asset taxation is desirable. The history of land value taxation in the United Kingdom reveals that there are many vested interests which oppose taxation of land value, increment in land value, development value, planning gain etc. in spite of all the theoretically elegant arguments advanced by Adam Smith, David Ricardo, James Mill, John Stuart Mill, Pigou, etc. Governments have expanded enormously compared to George's time requiring more and more resources from people. The opposition is political; vested interests work. It has nothing to do with economics.

SB: What are the obstacles to spreading the message about Georgist tax reforms in universities? Do they have anything to do with the fact that most major universities, both here and in India, have been set up with Land grants? Sarvepalli Radhakrishnan recommended setting up rural universities in India on the American land-grant model way back in 1949. Should universities be taxed on their land to encourage efficiency and change their thinking about Land Value

taxation?

PKM: I do not have much idea on the subject. However, I feel land value taxation should be used for development in cities with core infrastructure so that land value can be created and urban development can be planned and guided.

SB: What about government structures? Should they allocate part of their budgets to pay a Land Value Tax to discourage sprawling bureaucracies?

PKM: Does not appear to be a feasible solution.

SB: What do you think of leveling Pigovian pollution taxes on India industry as a way to get them clean up their processes, raise revenues, and discourage unhealthy practices? Would this add substantially to the revenue base, measuring pollution practical?

PKM: The general principles of local public finance are: Users Pay, Beneficiaries Pay and Polluters Pay. Thus, the cornerstones of local public finance ought to be: user charges when benefits can be measured and beneficiaries can be identified; benefit taxes (land taxation if earmarked for infrastructure development can be called a benefit tax) when it is difficult to measure benefits or very costly to identify beneficiaries and Pollution taxes for pollution mitigation, abatement and management. We do have pollution-related charges in India, but a key problem observed is the measurement of pollution and fixing the level of the tax. Pollution taxes are often levied on surrogate tax bases. The point that polluters pay is very valid. Administration of pollution taxes is a key issue to be addressed in addition to identification of tax base and measurement of pollution.

SB: Do you see schools such as the Henry George School as a good way to help the public understand George's Single Tax message? Do you have similar schools in India, or is Georgism simply taught as part of a standard economics course? If not, do you think it should be, both here and in India?

PKM: We do not have schools like (the) Henry George School. I think Local Public Finance and Land Economics should first be taught in India as separate courses of multiple disciplines or parts of Public Finance or Urban Economics. Georgism may be a part of this program. We have to first promote teaching of Local Public Finance including Local Resource taxation matters as general courses. Later special courses in Urban Economics/Land Economics/Local Public Finance can be undertaken under programs/activities like the ones undertaken by Henry George School to suit specialized interests.

SB: Thank you so much for taking the time out of your visit to America to talk with our readers. We attended the Henry George School's Friday Forum series, in which Dr. Quisia Gonzalez talked about her recent trip to Venezuela to try to get them to consider Georgist reforms. Any thoughts on that effort, and whether developing countries are more "fertile" ground for Georgist reform?

PKM: Dr. Quisia Gonzalez showed the pictures of slums in Venezuela. Similar kinds of slums are found in many developing countries like India. In fact slums in most developing countries in Africa and Asia look even much worse than what Dr. Gonzalez showed. I feel the problems in land value taxation in any country, whether it is Venezuela or any developing country is political. To circumvent the problem, what we need is to propose land value taxation in an incremental manner, first as a (continued on page 15)

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hypothecated tax or benefit tax linking benefits to the community with the land taxes paid and demonstrating how the community or city development activities lead to land value uplifts for land-owners so that it is a win-win situation for all. Thus, I would like to suggest that, to start with, programs can be initiated under which land value taxation can be earmarked for infrastructure development which can be undertaken based on long-term loan, paid back through escrowed land value taxes/other sources linked to land. When land owners see that they benefit from the process they would support the same.

SB: Any final thoughts?

PKM: We would explore learning more about land value taxation and other land-based instruments. Land is a legitimate source of local public finance and can be used as a strong instrument of guiding city development, creating land value and benefitting both land owners and the society at large. George's theory and philosophy are clear. We have to interpret them depending on the changing realities and contexts.

Subsequent to this interview, I had dinner with Dr. Mohanty and Dr. Cay Hehner, Director of the Henry George School, here in New York City. We had a wide-ranging discussion, but here are some highlights:

Dr. Mohanty reminded us that India has a variety of local taxes and charges, because no single revenue source is enough for the needs of cities. Still, they do not tax the buildings directly, thereby avoiding that detriment to construction. The property tax consists of two taxes in most States: a general tax related to land value and service-related taxes geared toward meeting the costs of civil services. There is also a Vacant Land Tax, though it is not exploited by all cities. This allows for some land speculation still, but not as much as in the developed world countries. Dr. Hehner and I agreed that India, like most third world countries, is much more clear-headed about economic reform possibilities than America.

Infrastructure remains a top priority for India, which is building many roads, bridges, water supply and sewer systems, etc. for the first time. To facilitate this, there is an external development tax on new habitations/construction levied by some cities/city development agencies. For example, whereas in U.S. cities, a building may pay to simply hook up to existing power and sewer systems, in India, even in the cities, these things may have to be built well outside the building site, to connect to distant existent infrastructure. There is a tax or charge to do this. This can be seen as a hurdle, discouraging building, but the funds must come from somewhere, and at least it is not from general revenue, but from those who will profit from the development in the end. There are service charges for water, electricity, trash collection etc. all municipally provided. This too, is Georgist in the broader sense, discouraging profligate use of these necessities, while still providing the service.

The shantytowns, what Americans might regard as slums, exist in all major cities, and have grown up spontaneously over decades, or longer. Dr. Mohanty points out that a way must be found to include the small-time landlords on whose lands slums have come up in any future "verticalization" of the dwellings of the poor, or new developments cannot be done. No formalized workout to this problem has been found yet, but housing for the poor is proposed as part any new housing development as a policy. That the poor cannot be simply "swept aside" is testament to their participation in voting

where "The poor, who comprise the majority of the demographic, are more likely to vote than the rich and the middle classes, and turnout is higher in rural areas than urban areas" (http://en.wikipedia.org/wiki/Voter_turnout).

India, in short, faces many of the challenges of the West, but several unique challenges of its own, and Georgism, updated for that country, offers some solutions to the problems of urbanization. Dr. Mohanty says, "There is a general realization that urban land should be used as resource for planned urban development." We look forward to hearing from Dr. Mohanty and possibly others about this exciting opportunity. <<

(Scott Baker may be emailed at ssbaker305@yahoo.com. He is OpEd journalist/senior editor; Huffington Post Blogger; Author, and president of the Common Ground-NYC chapter)

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