

Land Value Capture for UN HABITAT Global Land Tool Network



Alanna Hartzok, the main representative of our movement's official UN NGO, the International Union for Land Value Taxation, has been making great progress of late. Something printworthy indeed is what Alanna is proposing for the brochure for our UN NGO work. Here are excerpts of this draft brochure, which form a solid summary of our core principles, particularly recommended for newcomers

Land Value Capture - A Public Finance Policy for Access to Land and Basic Services for All

Land based taxes and land value capture are policy recommendations agreed to by all UN member states in the Land Access Section B.56 of the UN HABITAT II Action Agenda (Istanbul, 1996). Note that the terms "land value capture" and "land value taxation" are often used interchangeably.

Land value capture provides an equitable and sufficient source of public funds to finance infrastructure, water, sanitation, public transportation, education and other community services. Research indicates that in some countries as much as one third of GDP is land rent, a form of economic surplus that could be captured for public benefit in place of other taxes.

Public capture of land site values curbs land hoarding, speculation and profiteering and thus enables affordable access to land, as explained below. Properly implemented, land value capture is not a tax burden and progressively shifts taxes off wage income and productive efforts such as building homes, working and organizing businesses.

Land value capture is a fundamental reform essential for establishing fair market economies which benefit society as a whole by addressing the exploitation of working people and those who are poor and landless. Land value capture is a public finance policy based on the ethic of equal rights to the gifts of nature.

The Problem of Land Price Escalation in Market Economies

Land speculation and rapid land price escalation are downsides of economic development. Land values rise because of population concentration in areas of production and exchange and because of infrastructure and other services provided by the public sector. Wages do not keep pace with the increasing cost of land,

housing prices soar, and the wealth gap widens. As stated in the HABITAT II Action Agenda Section B.55: *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.*

While it is important to have clearly defined land use rights for individuals and groups, treating land as a for-profit market commodity instead of a common heritage resource is a major flaw in market economic systems as currently constituted. Worldwide land is owned or controlled by a disproportionate few. Approximately 5% of the people own or control 85% of the land in nearly all countries, and this is measuring by area; it is even more concentrated when measured in terms of value.

"Land rent" is the value which attaches to particular parcels of land which are especially productive for particular uses. Areas of greater soil fertility draw higher land rent in rural areas. But by far the greatest amount of land rent is concentrated in the centers of urban areas where there are special advantages for production and exchange of wealth and access to transportation and markets. As an economy grows and develops, land rent increases.

The intent to make money from land as a commodity and an investment is called "rent seeking." Under neoliberal economic arrangements, land rent is an unearned income that is privately captured by land owners and by banks via land mortgage payments. As development proceeds land values rise. Some few people such as landlords are in positions to capture the increased land values by charging higher rent to tenants. Others who want to own a home but have only their wages to pay for one usually have to borrow money from banks. Banks capture the land rent with compound interest payments.

This is a vicious cycle - land "investment" and speculation lead to land price escalation, land costs rise more rapidly than wages, debt increases, and the wealth gap grows. Rent-seeking and the private capture of land rent is the bane of market economies.

Land cannot respond to supply and demand dynamics. There can be increasing demand for land but there is never a corresponding increase of supply as land was given ages ago by the universal forces of creation. Land value is created by the existence of, and the functioning of, the whole community within which the individual lives. Land value is, in justice, the property of the community as a whole. Allowing this value to be appropriated by individuals leads to the concentration of land ownership and makes land an instrument of oppression of human by human leading to severe social consequences which are everywhere evident. (see *An International Declaration on Individual and Common Rights to Land*).

The correction to these problems is the public collection of land rent via land value capture. Combined with the elimination or significant reduction of taxes on

labor wages, homes, and productive activities, this policy, when robustly implemented, secures both a fair and functional market economy and a sufficient source of revenue for the public sector. Equitable and secure land tenure and decent affordable housing are more readily attained as the wealth gap is addressed at its source. Thus we are able to implement and achieve Section B. 56.(h) of the HABITAT II Action Agenda: *Consider the adoption of innovative instruments that capture gains in land value and recover public investments*.

Land Value Capture as a Key Pro-Poor Policy

When land is treated as a market commodity rather than as humanity's birthright, people also tend to be treated as market commodities, hence such terms as "labor pool" and "labor market" and concerns about "labor costs." Unemployment and wage slavery result when people are locked out of potentially productive land. Conversely, people with access to land cannot be easily exploited. They can be self-employed. But when this option is closed people can be oppressed. When land is owned by only a few and land value is captured by only a few, wealth concentrates in their hands and the poor and landless suffer.

Land value capture functions as a pro-poor policy in a number of ways, especially when combined with reduced or eliminated taxes on labor, which automatically increases purchasing capacity. Land value capture promotes affordable land access by discouraging land hoarding and land speculation. When people have access to affordable land they can more readily build housing and procure other basic needs. They literally have a place to stand from which to leverage themselves - to start businesses or to negotiate higher wages.

With a fully implemented land value capture system, poor people do not need to purchase land for housing and thus do not need to pay compound interest on mortgage costs of land. Land is secured via a simple fee determined by the amount of land and the value of its location.

Similarly, the private sector construction industry need not carry debt for land purchase and thus can put capital directly into increasing the supply of affordable housing. They need borrow funds only if needed for the cost of the buildings. Additionally, municipalities with a strongly established land value capture system can use some of these funds for low-interest revolving loan funds for financing shelter provision for poor and low-income people.

The public sector can be adequately funded by land value capture and would have sufficient funds to maintain water and sanitation systems and pay for public education and basic health care, all further benefiting poor people.

Some Implementation Details

It is important to separate the security of use rights that a land title grants from the land value enhancement that also results from secure land tenure. When the title is secure, thus firming up the agreement as to which individual or group is to thereby have

exclusive use rights to a clearly demarcated land parcel, then the land can be productively used. This guarantees that what is sown can also be reaped, so to speak. The condition placed upon this exclusive use right is what is meant by land value capture, the obligation to pay a fair use fee (land rent) to the community based on the assessed value of the land parcel.

Studies show that communities prosper and succeed in proportion to the percent of the land rent that they capture. To maintain an equitable society it is important to collect all of the land rent. The community should use what is needed for public services and improvements such as schools, utilities, parks, police and roadways and other public goods and services. Any excess revenue could be granted in equal portions to all residents similar to how the state of Alaska distributes annual citizen dividend payments from the state's oil royalty investment fund.

For successful implementation of land value capture, land boundaries need to be clearly demarcated, individual, family or communal use rights for specific parcels must be established, and land values for these parcels accurately assessed. Informal lands might best be recorded as land trusts or community leaseholds - at least for a period of time. All of this information must be transparent and publicly available.

Five to ten percent of assessed value would be the annual amount captured from each parcel. Payments into the public fund can be made on a monthly or quarterly basis. No other taxes need be levied under a full land value capture system which would include other natural resource rents. A "people's budget" process can be utilized for deciding how land rent is to be allocated.

The value of the gifts of nature is rightfully the common property of all persons. Therefore land value capture is not really a tax, but simply the collection of land use fees on behalf of the community. Land value capture is an important and appropriate instrument for the urgent fight against global inequity and poverty."

The tax that was imposed on windows in seventeenth century England is always trotted out in economics lectures as an example of how not to do it. The owners of the buildings had windows removed in order to escape the tax, and to this day, one can see the newer stonework where the windows used to be. Transferring the rate charges from land value to the improvements privatises an unearned gain and penalises the private investment of labour and capital.

- Gerald Tait