



To keep their employers afloat, salaried staff must work unpaid overtime, and those who cannot or will not do so are displaced by those who can and will

on. Some employees or would-be employees try to escape these pressures by starting businesses in competition with employers, some of whom are then forced into alternative lines of business, where they *increase the competitive pressure on employers* in those other lines of business, and so on. To keep their employers afloat, *salaried staff must work unpaid overtime*, and those who cannot or will not do so are displaced by those who can and will. Thus the unemployment rate sets a *benchmark level of stress* that propagates through the entire economy, affecting workers and bosses alike.

Only the recipients of economic rent are spared. Therefore everyone wants a slice of the economic rent, and the resulting competition for land-like assets *makes it harder to become a property owner*, even if the only property you want to own is your place of residence!

But if uplifts in site values are partly reclaimed through the tax system and spent on public projects and services and cuts in other taxes, everyone automatically gets a slice of the economic rent — and *not* at the expense of property owners, because the tax on uplifts takes only part of a benefit that accrues to property owners in consequence of the same tax.

- **Competing with speculators:** As land is a limited natural resource, an increase in total demand for land cannot be offset by an increase in total supply. And indeed the effective demand for land tends to increase due to population growth (which increases the need for sites) and economic growth (which increases capacity to pay for them). So sites tend to appreciate in real terms [5]. This causes **speculative demand** for sites as individuals and firms buy sites in the hope of reselling them for higher prices, or try to save

in a falling market (if there were ever another falling market), the ILT would produce a falling tax liability counteracting the urge to "bail out"

money by early acquisition of sites that they intend to use later. Speculation raises land prices because all buyers must compete with the speculators. Worse, sites held by speculators are likely to be unused or underused because the owners are not yet ready to use them, or because the owners wish to avoid commitments that would fetter their ability to sell at the most opportune times. This effect raises not only prices, but also rents, as the affected sites are withheld from both prospective buyers and prospective tenants.

An ILT on a site encourages the owner to cover the tax liability by generating revenue from the site — either by using it productively or by selling or letting it to someone who will. This makes rents and prices more affordable by strengthening the bargaining positions of potential tenants and buyers.

But such incentives are not always appropriate. An owner-occupied residence, for example, does not generate a cash flow with which to pay ILT. And because such a residence is already being used for its intended purpose, the owner should not be forced to sell or let it. Accordingly the ILT on an owner-occupied residential site should be deferred until the next transfer of title [6].

Deferred ILT would greatly improve the "affordability" of homes for first-time buyers. If owner-occupants can sell their old homes without paying any tax, they can spend the entire proceeds — including unearned capital gains — on new homes, and thereby outbid first-time buyers who have no capital gains to spend. A deferred ILT liability for sellers would strengthen the competitive position of first-time buyers. Meanwhile the sellers would benefit from the infrastructure funded by the ILT. To ensure that this benefit is preserved and seen to be preserved, the deferral of ILT should be interest-free, and the deferred ILT should be capped at some fraction of the real increase in the site value during the period of deferral.

N.B. Increases in land prices and rents due to infrastructure provision do *not* harm tenants and potential buyers, because such increases reflect genuine improvements in utility; they do *not* make it harder to buy or rent a site of *given utility*. But they certainly increase the income and wealth of the landlords and sellers. When these effects are combined with the improved bargaining position of renters and potential buyers, all the aforesaid parties become net winners; that is, the benefit of the infrastructure is shared among all parties.

- **Chasing our tails:** It is sometimes argued that ordinary home owners, who own no real estate apart from their homes, do not gain from a rise in