

that we're about to have, courtesy of the biggest global property bubble in history.

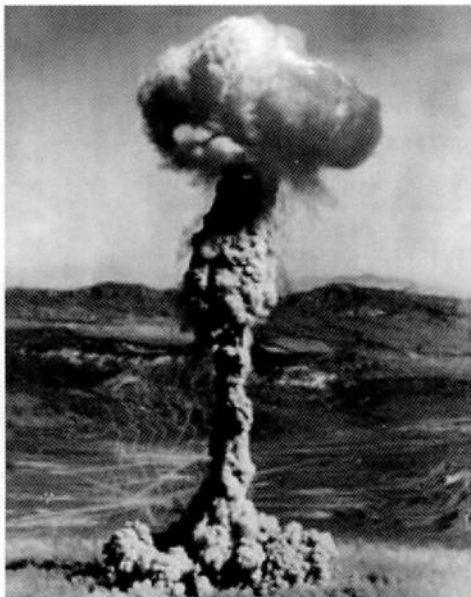
mathematical uncertainties in valuing land are minor compared with the legal uncertainties in classifying transactions as taxable or non-taxable under almost any other form of taxation.

9. Conclusion

The infrastructure funding problem can be solved by means of an incremental land tax (ILT) — that is, a site value tax with an inflation-adjusted site threshold, the threshold for each site being chosen so that the ILT payable on that site immediately replaces the recurrent property taxes previously payable to the same government in respect of the same site. By its nature, the ILT cannot raise more revenue from any particular property owner unless that owner receives a net benefit after tax.

The ILT on an owner-occupied residential site should be deferred interest-free until the next transfer of title, and capped to some fraction of the real increase in the site value during the period of deferral.

On introduction of the ILT, all recurrent property taxes hitherto imposed by the same government should be abolished. Other old taxes should be phased out as fiscal conditions permit.



These multiplier effects work in reverse when the bubble bursts

[5] While one may claim that sites on the city fringe remain affordable for first-time buyers on typical incomes, this claim does not refer to a fixed group of sites. As the city fringe moves outward while any given site remains stationary, that site tends to become less affordable.

[6] Similar arguments can be applied to sites owned and occupied by religious, charitable, or educational institutions that do not simply "charge what the market will bear" for their services. If such a site is nominally subject to deferred ILT, but is *never sold*, then the tax never becomes payable and never becomes a problem for the venerable user of the site.

[7] Indeed, the author has frequently used the argument in that context.

[8] Most corporate shares are *partly* backed by land-like assets. Moreover, the speed with which shares can be traded, relative to the speed with which they can be created and destroyed, makes their behavior land-like in the short term. So share prices are susceptible to bubbles and bursts.

[9] A land bubble tends to be accompanied by a construction boom (as buyers try to justify the exorbitant prices paid for sites) and a consumption binge (as owners borrow against inflated land values to buy goods and services). These **multiplier effects** work in reverse when the bubble bursts. Because of the long transaction times in the land market, a burst is initially manifested as slower sales rather than lower prices, allowing sellers and their agents to pretend that the market has "plateaued" when in fact it has crashed. This state of denial worsens the liquidity crisis that follows the crash.

[10] Concerning the theory that recessions are due to high oil prices, suffice it to say that: (i) there were recessions before there were oil shocks; (ii) the recession of 1990–91 started before the oil shock that allegedly caused it; and (iii) in the words of Alan Greenspan, "we create these elaborate models for policy responses and we put in oil prices [but] they don't create a recession in the models" [answer to a question from the International Monetary Conference (London, June 8, 2004), transcribed by Ashley Seager and quoted in Fred Harrison, *Boom Bust* (London: Shephard-Walwyn, 2005; 288pp.), p.65].

Notes

[1] The so-called "rent" of real property comprises the rent of the land plus the hire of any building(s) attached to the land; only the former is economic rent. The so-called "rent" of a vehicle is not economic rent, but a return on capital.

[2] Henry George (abridged A.W. Madsen), *Progress and Poverty*, <http://www.henrygeorge.org/pplink.htm>. See also (e.g.) <http://schalkenbach.org/>, <http://hgclub.com.au/>, <http://hgfa.org.au/>, <http://prosper.org.au/>, <http://earthsharing.org.au/>, <http://lvrg.org.au/>.

[3] M. Gaffney, "Neo-classical Economics as a Stratagem against Henry George", in M. Gaffney, F. Harrison, and K. Feder, *The Corruption of Economics* (London: Shephard-Walwyn, 1994; 271pp.).

[4] Concerning this claim, note that: (i) land is valued separately from buildings in all Australian States; (ii) even in jurisdictions where governments do not separate land values from building values for the purpose of taxation, insurance companies manage to do the same thing for the purpose of setting premiums and assessing losses; (iii) the valuation of land, unlike that of buildings, is facilitated by **spatial continuity**, i.e. the requirement that in the absence of significant boundaries, the land value per unit area is a smoothly varying function of position; and (iv) the

Copyright © 2006 Gavin R. Putland

(<http://grputland.com/>,

<http://grputland.blogspot.com/>). Permission is given

to forward, copy, translate, and otherwise publish

this work for non-commercial purposes provided

that the work remains intact and includes this

copyright notice.