Commons Rent / Land Value Tax Policy for Sustainable Cities and Human Settlements

"Commons Rent" is an equitable, effective and sufficient source of public finance for sustainable cities and human settlements. Cities can mobilize both public and private sector resources by properly harnessing the incentives of taxation policy. Socializing commons rent while untaxing production best enables affordable housing for all, capacity to finance infrastructure, poverty eradication and "infill development" for compact, walkable and energy efficient cities.

Commons Rent is the surplus value or unearned income that is created by society as a whole and is reflected in land prices. The value of Commons Rent, 25 to 30% of GDP in many countries, increases as development proceeds. However, when the commons rent is privatized, as it is in most cities, land becomes the focus of rent-seeking, land grabbing and other land speculation activities. Land prices rise faster than the return to wages and production of the "real" economy. This causes market malfunctions and distortions as inequality grows and public sector needs are not well met.

To remedy this problem we urge the implementation of a public finance policy approach that captures the Commons Rent via land value taxation, land value capture, and/or land lease fees. Part and parcel of this public finance policy is to reduce or eliminate taxes on goods and services. In other words, do not tax labor if we need jobs, do not tax houses if we need housing, and do not tax food production if we need food.

Commons Rent Public Finance as a Planning Tool

Taxation can both create and destroy wealth as well as direct the location of wealth creation. For instance, a tax on windows was used in Great Britain from 1696 until 1851. As a result, the poorer people bricked or boarded up their windows while the very rich built mansions with an excessive number of windows to ostentatiously display their wealth. An unpopular tax on date trees caused Egyptian fellahs to cut down their trees.

A commons rent approach harnesses economic incentives in ways that facilitate the goals of urban planning. There are compelling reasons, such as efficient and equitable utilization of infrastructure, to first develop the highest value land found near population centers. Untaxing improvements means that a developer or investor desiring these sites will not be penalized with a tax increase as a result of improvements made. But doing little or nothing on a site of high value is discouraged when the full commons rent is collected. Thus downtown land is put to its highest and best use.

Growth then radiates smoothly from more intensive use in the urban centers to rural areas without pockets of vacant or poorly utilized land in between. Urban sprawl is curtailed and rural land is more readily retained in its natural state, available for parks and nature preserves. There is also less pressure to build on agricultural land near urban areas. Rational and balanced development which curbs sprawl thus also makes better use of existing infrastructure of transportation, utilities, fire and police protection and other public services. All of these factors increase social cohesion and form the basis for an interesting, safe, "walkable" city.

Land for parks and green spaces in downtown areas is facilitated in at three least ways with a commons rent public finance approach: (1) land is more affordable for public purchase for public spaces because of the elimination of the land price bubble due to land hoarding, under-utilization, speculation; (2) because parks and green spaces are desirable public goods, living close to them enhances land values in their vicinity, thus bringing more revenue into the public coffer; and (3) capturing full land rent yields a strong base of public revenue to fund upkeep and protective services for parks and green spaces. …. continue to page 2 over….

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Commons Rent Approach for Affordable Housing for All

A correctly harnessed taxation system can mobilize both domestic private AND public resources. Removing taxes that burden labor and production boosts the capacity of both. Removing taxes on labor increases purchasing capacity while removing taxes on production boosts productive capacity of the private sector. Together both effective demand and supply are enhanced.

For example, one of the great challenges throughout the world is the need for affordable housing for all. There is every indication that the private sector can better meet this need when those who need housing have greater capacity to purchase housing (effective demand) and the production of housing is not taxed (enabling enhanced supply.) An additional and crucial key to housing affordability is land access and affordability. When the land rent of surface land, calculated as a percentage of land price, is captured via an annual or semi-annual land value tax or site fee, then there is no incentive for land speculation or hoarding and land retains affordability for needed uses.

Commons Rent and Climate Change Recommendations

- **Tax pollution** - Governments should directly levy carbon and other pollution charges and use these funds to develop renewable energy systems and to launch campaigns to “buy and invest in clean and green” technologies and products.
- **Decrease wage taxes** - Because energy taxes can be regressive, combine them with tax decreases on wage incomes or ideally, eliminate wage taxes altogether.
- **Reduce or ideally eliminate taxes on buildings** - This along with full commons rent capture will encourage infill development and more compact cities that make energy efficient use of public transportation and infrastructure while discouraging wasteful sprawl development patterns.
- **Curb profiteering and speculation in land and natural resources** – When investment of funds in these non-productive activities is discouraged via commons rent capture more funds are available for investing in new "green energy" technologies and environmentally sensitive design and production.
- **Encourage more labor intensive, organic agriculture, rather than oil intensive agribusiness**. – Commons rent public finance will help keep land affordable for small farm agriculture and better reward farmers for their labor when their tax burden is decreased or eliminated. This form of agriculture also encourages healthy communities and decentralized, local based economies, decreasing the necessity for people to drive long distances to work or for food to be transported long distances to markets.

To conclude, Commons Rent, the socially generated value of nature’s gifts of land and natural resources, is sufficient to fund all necessary infrastructure and public goods without having to tax labor and production. If we do not draw from Commons Rent for the common good, economic inequality and many other social and environmental problems will most likely continue to grow.

From the *Vancouver Action Plan* – the 1976 founding document for UN- Habitat (UNCHS):

Social justice, urban renewal and development, the provision of decent dwellings and healthy conditions for the people can only be achieved if land is used in the interests of society as a whole…. Excessive profits resulting from the increase in land value due to development and change in use are one of the principal causes of the concentration of wealth in private hands…. Taxation should not be seen only as a source of revenue for the community but also as a powerful tool to encourage development of desirable locations, to exercise a controlling effect on the land market and to redistribute to the public at large the benefits of the unearned increase in land values… The unearned increment resulting from the rise in land values resulting from change in use of land, from public investment or decision or due to the general growth of community must be subject to appropriate recapture by public bodies (the community).

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