**Dialogue Statement On Land Value Taxation for Discussion on**

**Urban Frameworks (Governance, Capacities, & Finance)**

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The issue paper on Municipal Finance includes much good and important analysis and information. Unfortunately, however, it gives short shrift to one of the most important opportunities for increasing public revenue, land value taxation, even while recognizing that, “Most cities in the developing world still rely heavily on transfers and grants and a great deal of effort is being made to reduce this dependency on central government. The structure of local revenues show that property tax is potentially a good source of local revenues but in most developing cities, property tax represents less than 3-4% of local revenues, compared to 40- 50% in cities in Australia, Canada, France, UK and the US.”

It would have been good if the paper had then talked about why property taxes can be a good source of revenue, how they can be beneficial in replacing other taxes, the types of property taxes that are most needed, and how they can best be applied, etc. and hopefully this will be included in the Policy Paper.

It goes without saying but the main challenge in being able to advance sustainable urban development is probably that of raising the funding and resources needed to be able to make the required investments, particularly in the developing world. Likewise one of the best practices and systems that could be imagined in order to raise such revenues would be to institute Land Value Taxation (LVT).

There are numerous examples where cities have successfully applied such a policy that show how well it can work. Similarly both the UN Habitat founding document and the Habitat II Outcome Agreement recommend applying these policies. The Vancouver Action Plan – the 1976 founding document for UN- Habitat (UNCHS) says:

“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).”

This analysis still holds true today and is the kind of information that should have been included in the issues paper and now ought to be included and further discussed in the policy paper.

Indeed we, in the NGO Major Groups Commons Cluster and in the International Union on Land Value Taxation, would suggest that one of the best means for raising funds to provide social services, invest in infrastructure development and to provide for basic human needs, particularly in urban areas, would be to take taxes off of buildings and to place them on the valuation of land instead - thus land value taxation. This could then provide an enormous amount of money for infrastructure development and the provision of basic services, which results from the rapidly increasing value of land, particularly in urban areas, as development processes occur. It has been estimated that land value is rated to be as much as a third of GNP.

Under such policies taxes on labor and productive capital can and should be reduced or eliminated entirely and instead the unearned income and surplus profits accruing to the commons of surface land and natural resources should be recycled back to the community to pay for goods and services needed by society as a whole.

It is widely acknowledged that when a city or community invests in public amenities and improvements the land value in the surrounding area rises quite dramatically. Through the use of Land Value Taxation that added value coming from such improvements can be captured and returned to the community. Indeed the fees collected can even pay for the costs of such improvements to be made over the longer term. LVT also results in providing improved living conditions, growth in the economy and jobs, infill development, and reduced costs for infrastructure development, etc. In all it is a win-win policy that gets most of the incentives right.

In conclusion, the issues paper on finance needs to be amended and strengthened, thus showing the value and benefits that can come from LVT policies, as was addressed in the 1976 and 1996 agreements.