Why should we tax public land ?

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Abstract

Land owned by a public body amounts to a substantial part of the city's land. The municipalities own many of them as parks, roads, squares, etc. They can be considered as pure public goods, that can be excludable but generally are not. Common wisdom among economists is that local public goods should be financed through a tax on private land. It derives from the message of the Henry George Theorem and the fact that amenities brought by local public goods are capitalized in land value. The paper assesses whether this common wisdom remains valid when the public good is public land. We take again the model considered by Bonnet, Chapelle, Trannoy, and Wasmer 2021 adding public land as a pure public good. We prove that a land tax on private land decentralizes an efficient allocation when the local Government rents public land to the private sector but not when public land is purchased. In the latter case, the risk of overprovision of public land is effective at the expense of housing needs. This inefficiency arises because private owners realize they are saving land tax when selling land to public authorities. This tax distortion calls for an intervention of a central authority taxing local public land and redistributing these taxes as unconditional grants. By the way, we invent a non-cooperative mechanism called the Nash-Walras mechanism to study the decentralized behavior of a democratically elected local government imbedded in its economic environment of private actors.