Financing public capital through land rent taxation: A macroeconomic Henry George Theorem

Linus Mattauch*[1], Jan Siegmeier[1], Ottmar Edenhofer[2], and Felix Creutzig[1]

[1]Mercator Research Institute on Global Commons and Climate Change (MCC) Berlin – Germany
[2]Technical University of Berlin – Germany

Abstract

Financing productive public capital through distortionary taxes typically creates a trade-off between efficiency-enhancing public investment and perturbing market efficiency. In contrast, such a trade-off may be avoided if public capital is financed by taxing the rent of a fixed production factor, such as land. We prove that the socially optimal level of the public capital stock can be financed by a land rent tax, provided that the income share of land exceeds the public investment requirement. This result can be considered a macroeconomic version of the Henry George Theorem from urban economics. It holds for both neoclassical and endogenous growth.

Keywords: Theory

*Speaker