

Wheels of Fortune

Self-funding Infrastructure and
the Free Market Case for a Land Tax

SUMMARY

- The prevalence of the myth that large-scale infrastructure projects can be brought to fruition only through government intervention to fund the initial capital outlay such projects require has led to chronic under-investment in the UK's transport infrastructure.
- Where infrastructure projects have been attempted without public money in the UK, such as in the construction of the Channel Tunnel, post-completion operating revenues have often been insufficient to repay the debt accrued by the initial capital expenditure. Such problems result principally from the economic model utilised in such projects rather than an inherent inability of such projects to be self-funding.
- Infrastructure projects almost always bring about an increase in the value of adjoining land. For example, it is estimated that the London Underground Jubilee Line extension increased land values by close to £3 billion around just two stations. When such projects are publicly funded, this represents a substantial transfer of wealth from taxpayers to local property owners. Hence, government funding of infrastructure projects may be a form of rent-seeking in which already wealthy property owners have the value of their properties multiplied via the public purse.
- The present method of funding infrastructure projects in the

UK is inefficient, leading to the under-supply of such projects, and is unfair, leading to the unequal distribution of the costs and benefits that accrue.

- The experience of other countries shows that more efficient and fairer regimes for funding infrastructure projects can be developed. Hong Kong, Japan and Singapore have utilised the value of land to fund the construction and maintenance of extremely efficient, modern transport systems that now operate successfully without taxpayers' money: modern, efficient transport systems do not necessarily require public subsidy.
- A similar approach should be adopted in the UK, in which some of the increases in land values that result from infrastructure projects are captured and used to fund such projects.
- At present it is estimated that for every £1 of tax raised by the government, as much as £2 of wealth is lost to the economy as a result of the opportunity cost of activities forgone. A more efficient and fairer tax system would reduce this net loss of wealth and the welfare it would bring.
- The introduction of a land tax and/or user charging for transport services combined with the retirement of a number of existing taxes would minimise the loss to the economy resulting from inefficient and harmful forms of taxation.
- Reassigning the tax burden from capital and labour to land would enable many existing taxes to be abolished, would reduce the deadweight losses resulting from taxation and would enable market mechanisms to more accurately reflect the costs and benefits of the provision of different goods and services. In short, it would lead to the development of a fairer and more efficient model of capitalism.