

WILL INDIA LEAD THE WAY (from page 1)

of the poor and the marginalized sections of society. Some deliberate design of inclusion in the growth strategy is important. In the urban context, the poor are increasingly being weeded out of the urban land market because of skyrocketing land prices and enormous speculation in urban and peri-urban land transactions. As part of the inclusive growth strategy we have proposed the development of inclusive cities under the Jawaharlal Nehru National Urban Renewal Mission where the poor need to have a place to live and a place to work. To make cities inclusive, affordable housing, basic amenities to the urban poor, etc. need to be deliberate parts of city planning and development strategies. Development of regional and city-wide infrastructure, affordable housing and basic services to the poor would require huge investments. Taxation of unearned increments in land values created by growth and city development process would be an appropriate method of creating inclusive cities. India is only 30% urban. The journey from 30% urban to 70-80 % urban would see enormous increase in urban land values and the same could be a huge source to finance value-creating cities and developing them. I have tried to incorporate research findings into practice in some of the positions I held such as chief executive of Municipal Corporation of Hyderabad.

SB: Now that you have this background in Georgism, how do you think it will help with India's budget and infrastructure issues?

PKM: George's theory is very relevant for countries like India. India has 5161 cities and towns. All the local bodies have access to taxation of property which includes land. However, urban local bodies are faced with difficulties in finding resources for the development of city infrastructure and services. They have not exploited land as a resource. Land value taxation (whether capital value based or rental value based) will be an important means to finance infrastructure in India's cities. I see the significance of Georgism in the context of financing of local public goods and services.

SB: I understand you and some other ministers have formed a working committee to try to implement the Land Value Tax in India. Could you tell us a little more about that? How does it work? Are there regular meetings? How do you rate the chances of being able to implement a Land Value Tax – both locally and, ultimately, nationally?

PKM: There was a National Committee called High Power Expert Committee on Urban Infrastructure under the chairpersonship of eminent economist and public policy analyst, Isher Judge Ahluwalia for assessing city infrastructure needs and suggesting ways of financing city infrastructure development in India. This Committee has recommended the use of land as a resource as one of the key measures for the development of infrastructure in India's cities. To quote from the Committee's Report (2011) "The Committee also reiterates its recommendation on vacant land tax which has great potential considering that cities are expanding boundaries, and land values of erstwhile rural lands are appreciating very fast.

While private developers should be encouraged, government should adequately tax the developers to ensure that the increased land values are used for development of infrastructure in and around the developed areas".

Many other studies have also suggested land monetization as a key method for financing city infrastructure needs. What shape exploitation of land as a resource will take is under debate. Lessons from Georgism would be important. However, we need to have a lot of discussions with experts and policy makers as to the form of exploiting land as a resource. LVT has to be interpreted in a generic way as no one size will fit all. India is a huge country with different systems of city finances in different States. Political economy is important. Georgism has to be interpreted in the political contexts of these States. I think we need to apply land taxation in the context of the political economy of our country and history of our states and local bodies as political decision-makers have to buy in the land taxation argument. Economic reasoning will not be enough. Personally I am working on a paper on land value taxation.

SB: Could you tell us a little more about these "local bodies?" Do you foresee any municipalities in which LVT would *not* be effective? If so, why not? George teaches us that LVT is infinitely scalable, so are there other obstacles to implementing LVT and how could these be overcome, if they should be?

PKM: India is a Union of States. The local bodies are constituted under State laws. In 1992, the Union Government took the initiative of amending the Constitution to accord the status of a third tier to local bodies. However, the local bodies remain...products of State laws. They are at different stages of evolution. Most local bodies or municipalities have property tax as their primary source of income. Property tax comprises of a general tax based on land value and service-related taxes – for water, drainage, street lighting, roads, garbage disposal etc. Already provision exists for various forms of land taxation but the source has not been exploited adequately due to various reasons, many of which are political. I believe that land needs to be leveraged to generate resources for growing infrastructure needs and spending for capital works. Large cities with sky-rocketing land values can resort to land value taxation in the sense that land is taxed at a rate higher than built-up property. This would also promote development and discourage speculation. The case for LVT has to be taken up with local mayors, state administrators and political decision makers. I believe that gradually a realization about the importance of LVT would come. But we need to undertake education and orientation exercises at all levels. The land owners need to be convinced that they get better off with land value taxation and dedicated expenditure on spending for infrastructure.

SB: Visitors to India, like myself, are sometimes startled to see shantytowns abutting thriving cities, even great municipal structures, like airports. These, from what I understand, are essentially nearly rentless areas, yet living in such close proximity to city centers confers significant advantages over living in more distant, rural areas, particularly in a country where most people do not have cars and public transportation is often filled to capacity, or more. Is this a good way to house the poor, or is there an alternative, and would that alternative be along Georgist lines?

PKM: Many shanty towns/slums are on highly valuable land. We are making efforts to develop these on Public-Private-Partnerships with private (continued on p. 14)