Abstract

We explore the efficiency properties of land taxes, and compare them with more traditional taxes. Starting from a Ramsey-Cass and Judd (1985) dynamic setup, we add population growth, perpetual youth and stochastic death, a dynastic representative agents, a class of rentiers detaining undeveloped land, and capitalists purchasing land and developing it. A first-best modified golden rule is contrasted with the decentralized modified golden rule. A uniform land tax that entirely compensates for the initial allocation of property rights leads to a first-best condition of the level of the land tax if a second instrument to transfer between rentiers and capitalists is available. Accidental bequests taxes and taxes on assets of the living are shown to be equivalent. Finally, we introduce a distinction between raw land and constructible land in limited supply. Steady state and dynamic simulations illustrate the benefits of land taxes in various contexts. Property taxes, were they exclude the rental market and focused on homeowners, would be distortive, yet come close to the welfare gain of a land tax, at least in the steady state. However, this exclusion may be difficult to implement and a uniform property tax on all dwellings negatively affects renters through its incidence on rents.