

THE URBAN DILEMMA

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Welcome to the urban dilemma: why our cities can't sustain themselves ~ and how they could.

Why shifting the source of revenue from confiscatory taxes to a charge that is based on the value of benefits received becomes an incentive to create the maximum number of jobs and dwellings that are economically desirable within every community.

Why shifting taxes from income and wages, sales, and the value of buildings to the rental value of land creates the incentives to rebuild our cities and promote an orderly development of the suburbs and rural areas - one that will make the most efficient use of our roads, sewers, and everything else that governments provide.

I'm not going to tell you anything that you couldn't figure out on your own - simply that taxes on income, wages, sales, and buildings actually diminish, proportionately, the incentives to put each parcel of land to its highest and best use.

By shifting the incidence of taxation to the value of each location it not only provides the incentives needed to create jobs and housing, but by building a healthy and efficient economy it also increases the desirability and the value of each parcel of land.

In the most distressed areas of any city the adoption of Land Value Taxation becomes synonymous with an Enterprise zone. There are no city taxes at all in the worst areas and proportionately less taxes in the poorer neighborhoods.

At the same time, the city will get more revenue from the valuable areas, because all parcels of land that are undeveloped and under developed will have to pay exactly the same as those parcels that have been put to their highest and best use. The result will be sufficient revenue with jobs and affordable housing and the revitalization of the city.

For thousands of years Cities have been the most economical places to live and work. If you have anything to sell, here is the largest number of potential customers. If there is anything you want to buy, here is the largest and best selection, and in most cases, the cheapest possible price.

Why do so many American cities seem unable to sustain themselves and make the transition from manufacturing to high tech and financial services? Wasn't Philadelphia was once considered the Workshop of the World. I'm sure there was plenty of pollution, corruption, inefficiency, slums, and crime, but Philadelphia proper once had enough jobs and housing for more than 2 million people. It's not only lost one fourth of its population, but it lost it during a period when the total population of the country doubled.

Cities have enacted laws requiring the proper maintenance of buildings and outlawed slum lording, abandoned buildings, and vacant lots, but it hasn't worked. Most cities are in debt, and their tax bases are shrinking from unemployment, abandoned buildings and vacant lots. Many cities have tried to annex the surrounding suburbs in order to broaden their tax base. In the case of Philadelphia, they already did it over a hundred and fifty years ago when the entire county became a part of the city. And they did it by mutual consent.

State governments have been subsidizing cities from the general revenue, and now, in the midst of the Great Recession, the appeal for help from Washington is bigger than ever.

We've heard about running cities and governments like a business. And it does make perfect sense, but, for some reason, no one has actually tried it. None-the-less, every city has within its borders the potential to generate the revenues that are necessary to support its infrastructure and public services, without in any way diminishing the rewards that are equally necessary to stimulate the reconstruction of buildings and economic activity. Every city has the potential to become a model of efficiency with plenty of jobs and dwellings and a much larger population than it has now.

The key to urbanology is the reason why two identical buildings -- apartments, offices, commercial buildings, rent for significantly different amounts of money. They say it's the most important factor in real estate appraisal. What is it? Location, Location, and Location. Every building sits on a piece of land at some location. Every productive activity takes place on a piece of land at some location. So, let's make a distinction between the buildings, and the land on which they sit.

What determines the value of a building? It will be relative to the cost of labor and materials; what they cost to produce. Actually, it will be the cost of reproduction, minus any wear and tear. By contrast, land has no cost of production, much less a cost of reproduction.

And yet, we know how to measure the value of land. If it's residential, what do we consider -- the proximity to jobs and shopping, and access to public transportation, the quality of public schools, the level of safety and beauty, and even an atmosphere of community? Where is the most valuable industrial land in any city? It is along the river with access to a deep water port, rail roads, high voltage electric, industrial water lines, and access to the inter state highway system. How about being in an area with a skilled work force? And, if it's commercial land, many factors are present. What is the most important consideration? Is it not the number of potential customers?

Now, what actually creates the value of urban land? Can two people build a house more than twice as fast as one person working alone? Suppose one group grows food, another makes clothing, and a (continued on page 9)