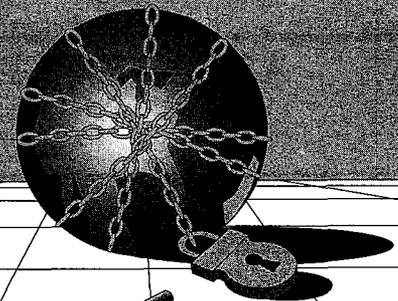


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REBUILDING AMERICA'S CITIES WHEN LAND TAXES AREN'T AVAILABLE

by John Kelly, Peoria, IL



(The following presentation was made July 30, 2017 at the Council of Georgist Organizations conference in O'Fallon, IL.)

First of all, I'd like to thank Dan Sullivan, as well as the rest of the conference committee, especially the conference stalwarts, Sue and Scott Walton, for inviting – drafting me to speak here today. I haven't been the best of conference attendees, pretty much sticking to the gatherings that are somewhat close to my hometown of Peoria, only about one hundred fifty miles north of here.

But don't get me wrong – I'm very happy to be here. And I'm very excited about my topic, Rebuilding America's Cities When Land Taxes Aren't Available. I'm excited because we are working on some of these solutions in Peoria. And as a native Peoria cheerleader, and as a Georgist, I'm pretty sure that most if not all of these solutions will work very well.

Last spring I ran for City Council in Peoria. While I came in first in our February primary, I lost in the April general election. I think my loss in the general was at least partially due to the fact that my ideas, which were quite different than those of the other candidates, may have been viewed as too different or wonkish by the electorate.

I also wrote a book, *The Other Law of Moses*, which, like this talk, is inspired by Henry George, but which does not touch on too much of what this talk's about. I just thought I'd plug it. It's a wonderful book and it's available on the Schalkenbach book table. But let's get back to the topic at hand.

The ideas I put forward in the campaign were, by my definition, Georgist. When I say "by my definition" I mean that even though they don't involve a land tax or a graded tax, neither of which are legal in Illinois, they *do* involve the removal of barriers to labor and capital, the other two legs of what I consider to be the Georgist stool.

The campaign had a website which featured well-produced videos of the main campaign points. It's still up, take a look at johnkellyforcouncil.com.

We had a number of contested races in our election. I was running for an at-large council seat. But we also had races for mayor and for some of the district council seats. So, at the many candidate forums around the city, all of the candidates in contested races heard me, time after time, question after question. As the campaigns approached the finish line, many of the other candidates said they were intrigued by my answers and wanted to talk to me after the election. This has happened. Many of us have met.

It happened because these other candidates, having been exposed to these ideas and proposals so many times at so many diverse venues, began to understand them and find them attractive. We all emphasized economic growth, but unlike the other campaigns, mine had specific public policy proposals to *promote* growth. These are what the other candidates became interested in.

My ideas did not directly address land taxes – we can't do that in Illinois. That leaves labor and capital. But cities in Illinois cannot levy local taxes on labor. Nor do they have much of an ability to *regulate* labor. So, that well was pretty dry. But we have many taxes and barriers to Capital, so that's what I concentrated on. At almost every forum I said that Peoria's economic climate was hostile to capital, both existing and potential. I said that we came by these policies honestly, in that we copied them from other older northern cities, and that the policies didn't work in those cities and that they didn't work in Peoria either. (continued on page 4)

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And I said that without enough capital investment, labor suffers and land values stagnate or decline.

First of all, our real estate taxes are very high in Peoria. They are a bit over three percent of market, while most of the nation is around two percent. Of course, this high tax rate has its greatest effect in the older parts of the city, discouraging both new construction and rehabs. Just using Google, I found a never-before-used Illinois statute that allowed cities to designate a blighted residential area, and offer real estate tax abatement, for all taxing bodies, for up to ten years, to new capital investment in that area. We did such a program for Enterprise Zone businesses in 1987 that was wildly successful. Now, if the program failed, City Hall and the other taxing bodies would be out nothing. But if it succeeded, the renewal would be organic, not needing the *help* of City Hall. I suggested the abatement district would be what we call the North Valley, a residential area about four blocks wide, right across an Interstate from our downtown, proceeding up-river, but hemmed in between a commercial area along the river and the river's bluffs. The area is currently run-down residential with a plethora of vacant lots, many owned by City Hall. Of course, sixty or seventy years ago, it was a vital middle-class neighborhood, with a population in excess of 4,000. Today the population is less than half of that.

Now if such an ordinance passed, my guess – and I suspect yours as well – is that land values in the area would rise. General abatement districts, as opposed to rifle shot abatements, always work – they produce new investment, sometimes huge increases. As more and more people take advantage of the ordinance, land values rise further. But these increases are taxable – only the new capital investment enjoys the abatement, not the land. This presents an opportunity.

I proposed that City Hall and the County take their share of this new land revenue and roll it back into the district, paying part of the state income tax of residents living in a structure enjoying the abatement. So, we not only encourage capital, but incomes as well, in an area that has seen nothing but declines in those items for decades. All this at no new cost to City Hall.

I don't think this relief toward labor has ever been done before – anywhere.

I think that if such a program were enacted, its success would encourage other older neighborhoods to clamor for such a program for themselves. Again, general tax abatement programs do not cost City Hall or the other taxing bodies anything, but nevertheless produce new revenue from increased land values. If successful, other urban problems like crime, poor schools, unemployment, crumbling infrastructure, etc. would be lessened. All for no public money, and, with a good marketing campaign, a much wider acceptance of Georgist principles.

Furthermore, I proposed building permit reform – for the whole city. First, I suggested that all permit fees be eliminated. Why would we fine someone who wants to do

something good in our city? These fees or fines raise little money for City Hall coffers, but are, at best, an irritant to an investor, and, at worst, just enough to kill a project.

Second, I proposed entirely eliminating the building permit requirement for improving any existing owner-occupied dwelling. Instead, I suggested putting City Hall sponsored brochure or leaflet racks at all our home improvement retailers, with different how-to sections for plumbing, electrical, etc. The current city code on these mini-projects would also be included. The idea is that City Hall should not be adversarial to someone who wishes to improve their little part of the city, either with fees or with attitude.

Third, similar reforms should apply to certain owner-occupied businesses as well. These permit reforms do not eliminate the city's building codes. They just make it easier to do good things in the city.

And speaking of building codes, Peoria's are super stringent. And our code enforcement and inspections efforts are often arbitrary and adversarial. Why? They are often a signal to an investor to locate their improvement or development in a nearby jurisdiction whose codes and institutional attitudes are more welcoming. I know of several retail, industrial and residential projects, both brand new and rehab-expansions, that started off wanting to build in Peoria, only to be driven out by these backward policies. And where did they end up? Just beyond the city limits, enjoying what I perceive as more rational building codes.

Our City Hall responds to these criticisms by saying that Peoria keeps itself up to date with the International Building Code, and we just updated to the 2012 standards. They say that the other nearby jurisdictions have also adopted the 2012 code but enforce it selectively. They also point out that we have a professional inspections department that is familiar with the code and that neighboring communities do not. This seemed a disappointingly good argument to me until I saw the code book. It's eleven hundred pages long! To tell architects and builders how to build safe buildings?!

There are many forces arrayed against a loosening of our building codes, the most important of which are unions, which are very powerful in Peoria. They often oppose changes to our building codes that make construction easier – they were adamant for many years, trying to keep PVC piping out of Peoria – and they often favor changes which make construction more complicated. Our City Hall bureaucracy tends also to be in favor of more and tougher building codes. And their attitude toward building owners and small construction companies is often openly adversarial. They're convinced these small outfits are slimy flim-flam artists who, left to their own devices, would build cheap unsafe buildings. So they need to be sat upon by the enlightened, morally superior folks at city hall. It's really discouraging. Finally, we come to the larger construction firms. I believe they see over-the-top building codes as a way to keep smaller firms from competing for construction projects – especially the larger jobs. After all, how can a smaller construction firm keep up with such regulations? In general, I feel that regulations that try to anticipate every little issue that comes along are mainly an exercise in hubris. (cont'd on page 5)

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But these are powerful forces. This situation is not unlike those in many cities, especially older northern cities most in need of capital investment. Even though I felt that this was a significant negative in our economic climate, I don't think I had too many illusions about reforming it. Although I didn't state it, I felt that if we undertook enough growth-oriented policies, the resulting increase in construction activity might loosen the opposition. Wishful thinking? Perhaps.

Nevertheless, during the campaign I pointed out that most growth cities, many of them much larger than Peoria, have a much more cooperative and welcoming attitude toward

construction, and in many cases, their building codes and enforcement people seem to reflect that attitude. Furthermore, these cities seem not to have more fires, plumbing disasters, leaky roofs or faulty foundations. There are good reasons to have building codes. But there are also good reasons that they be rational, understandable and competitive.

I proposed the creation of an area-wide building code, hoping that by combining with other nearby municipalities, Peoria would be encouraged to lighten up. Not surprisingly, I didn't get any direct feedback on this proposal. To the general public, I suppose this point seems rather wonkish. And the opposition to such ideas – well they are strong, well-funded and often work rather silently.

And now, on to taxes. Even though Peoria can't impose a stand-alone site tax or even a graded tax, I promoted a restructuring of the tax system we do have with an eye toward promoting growth. I created a table showing what I called the Hierarchy of Harm in taxation. The very Georgist idea is that if you want to raise a dollar of public revenue, there are better and worse ways to do it. Generally, I believe that taxes on labor are the most economically harmful taxes we employ. Taxes on Capital would come in a close second. User fees, such as highway tolls or park entrance fees, while they discourage use, are still less economically harmful. While Head taxes, such as a flat per-household fee or a car sticker have no negative economic effect at all. They do not punish economic activity. Of course, land taxes, which I included in the table, reverse the negatives and are, as you know, economically beneficial.

I suggested that, with no loss of revenue, we could move our tax system's center of gravity down the harm scale and thereby enjoy greater economic activity. No one questioned this approach, but, of course, no one had thought of it before. A number of the other candidates, including the mayor, were intrigued by the concept.

I did speak, although not at great length, about increasing the revenues from land within my proposals, but I saved the real punch until the citizen had absorbed some of the other points. I will follow the same course in this talk, so don't go to sleep.

In a national survey, Peoria was identified as one of the worst cities in the country for African-Americans. At a forum sponsored by our local NAACP, curiosity over the candidates' plans to remedy this situation informed many of the questions asked. The usual platitudes were rolled out as answers to these questions. I am not saying that the other candidates were insincere – I'm pretty sure they all cared greatly about the issue. It's just that they really had no real idea about how to address this situation. When the questions of me, I would say something

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FORM OF TAXATION	ECONOMIC EFFECT	AMOUNT OF HARM
Taxes on Labor - Income tax, Payroll taxes, WC & UC Premiums	Discourages work, causes unemployment, penalizes success, reduces land values	Very harmful
Capital Taxes on Profits - Corporate Income tax	Penalizes success, incentivizes relocation to lower-tax jurisdiction, reduces land values	Very Harmful
Taxes on Commerce - Sales taxes, gas taxes, utility taxes, hotel taxes, restaurant taxes, etc.	Penalizes commerce and smaller retailers, lowers wages, reduces land values	Very Harmful
Real Estate tax (See below)		
Capital Taxes - Building portion of RE Tax, Building Permit Fees, Landlord fees	Penalizes buildings, penalizes maintenance, subsidizes deterioration. Does not penalize efficient use of capital. Reduces land values.	Harmful
Use Taxes - tolls, entrance fees	Discourages use of item. May partially pay for provision of item.	Slightly Harmful
Head Taxes - Garbage Fee, Car Stickers	No Economic Effect	No Harm
Land Taxes - Land Portion of Real Estate Tax, Special Assessment Districts	Encourages development and good land use. Discourages land banking and vacant lots. Better land use raises land values.	Beneficial

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like, "I remember how, about fifty years ago, Peoria's Mayor formed what was then called The Human Rights Commission to deal with discrimination and lack of economic opportunity within the African-American community." I would go on to say, "Since that time our city has done all the things we were supposed to do: formed new commissions, have minority set asides, sponsored and funded job training programs, practiced affirmative action in city hiring, set up TIF districts, etc. And I believe that most or all of these policies and programs were undertaken with sincere hopes for success. These sincere efforts continue to this day."

Then, after a bit of a pause, I asked the rhetorical question, "How's that working for you? Since these other things seemed to come up short - Why not try growth?" I pointed out that most of the cities that made the "worst cities" list were the same older northern cities that were not growing. I said that growth cities seem not to have these problems, at least not as badly as Peoria. I suggested their economies were too busy creating jobs and bringing in new capital.

Much of the audience reacted positively.

My campaign said that a man operating a backhoe (Being from Peoria, I had to get a Caterpillar plug in the talk somewhere). Anyway, I said a man operating a backhoe will make more money than a man handling a shovel. That a CAD operator will make more than a draftsman. The lending officer in a large bank, lending larger amounts, will make more than her equally skilled counterpart making smaller loans in a small bank. That more capital means higher wages. And - that as long as we're hostile to capital formation and use, we'll get less of it. Consequently, our wage and employment levels become stagnant - or even decline. The citizens of our cities pay for these backward policies, as we all know, with increasing crime, failing schools, inadequate infrastructure, and outmigration of our best and brightest.

And finally, it means lower land values. The location called Peoria, as well as Milwaukee, Buffalo, St. Louis, Cleveland and Chicago all have much lower land values than they could have. Their land-to-building ratios are all very low. They used to have higher ratios, but their anti-capital taxes and policies have yielded a bitter harvest. Turning this around, reforming our municipal systems to encourage more capital will bring more jobs at no cost to City Hall. The average job will pay higher wages than before. And - the city's land values will rise. Those land values are taxable, so public revenue will rise without rate increases. We'll get more of the land tax effects with which we are so familiar.

Peoria's land-to-buildings ratio is now about one to four. Think of what would happen to the city if, because of a much more favorable economic climate, that ratio became one to three - or even one to two. With more jobs and higher paying jobs, what would happen to the school district, the park district, even the sewer district?

Henry George is best remembered as advocating the single tax. But it's just not legal in most of our cities today. Conversely, he is less remembered as advocating lower burdens on capital and labor. That *IS* possible in our cities today.

Take these remedies back to your own city. Use them, or find some others, (continued in column 2)

REBUILDING AMERICA'S CITIES (from column 1)

because all of our cities, regardless of the availability of land taxes, need to attract much more capital and the higher wage jobs that come with it. We can begin to turn America's cities around using the other side of Henry George.

And now that I have you awake again, I want to thank you and may God bless your work.

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