Oregon Op-Ed Letting the Market Snuff Sprawl

by Kris Nelson, Salem, OR

Just three days after Clinton and Gore announced their open spaces plan, the Governor's Growth Task Force delivered their ideas for protecting livability. The Oregonian's editorial on January 6 stated, " We simply have to deal rationally with growth. We can't freeze our way through, and we can't sprawl our way through."

All of these ideas assume that our desire for managing growth will largely depend on tweaking some combination of government regulations and incentives. That's largely the command and squishy carrot approach. Ho, hum. Business as usual. Yet the Task Force hinted at one market-based tool that deserves wider discussion and study.

It recommended that local governments be enabled to collect the added value to land when property is added to the urban growth boundary. In fact, nearly every time a city creates a zone change, adds a park, a street, lighting, upgrades transit, well, most improvements, it adds unearned value to locations. That's publicly created land value. But who gets it on the urban fringe? Not the community members who collectively made these "givings."

New Jersey's Atlantic City Mayor Whelan dubbed the conventional property tax "the tax made in hell" because it unfairly taxes people who improve and maintain their buildings, while giving tax breaks for those who let their properties run down or remain vacant. It does a great job at supporting land speculators and rewarding leap-frog development. Just look around. Why? Because in its current form it screams two diabolically opposed signals. The half that taxes buildings allows speculators to hold land idle until they reap windfalls from public actions. Yet it also enables landlords to let buildings deteriorate while collecting rising rent.

If the building tax were eliminated while letting the site portion compensate, land barons would have to either sell their sites or develop them. People would add rooms to their homes, businesses would expand, and landlords would take less of a hit for improving apartments and offices. The cost of housing would fall and more renters would become owners. Crime would also drop. So would unemployment. Even inflation. We know all this happens from experiences in Pittsburgh over the last 40 years and from 15 other cities in Pennsylvania. In fact, New Zealand and Australian states and cities have used a site-value property tax for most of this century with clear economic and environmental benefits.

As this market-based carrot stimulates in-fill building, the most valuable sites can no longer remain under-used. Downtown parking lots and other vacant plots get developed first. The annual demand for new offices and apartments and condos gets met where it most efficiently can: close to existing publicly financed infrastructure and services rather than towards outlying open spaces. The stick effect of the property tax now sends this new signal as the land portion rises.

One study of Clark County, Wash., found sprawl-stifling shifts if building taxes were lowered and site taxes were allowed to rise enough to collect the same revenue. Vacant sites (not open space) would bear the largest tax burden increases, ranging from 12-162%. In turn, most homeowners (70-80%) would receive a tax cut of .3-4.5% as Pennsylvania cities have done. Industrial and multifamily sectors would enjoy a tax break of about one-third, since they already use sites intensively. Unintensive commercial uses would see a shift of 1-12% upward. "The present urban growth boundary," concluded study author Tom Gihring, a former PSU planning professor, "...is ineffective at promoting contiguous development within its limits."

While well-meaning citizens and developers, planners, and leaders strive to create smart growth, the single rate property tax works directly against us. It constipates land intensive use.

When the market force of the property tax is released to complement livability goals, we can expect more durable local economies. We don't know, however, whether sprawl taxes could sufficiently recapture economic gain in site value by city or statewide. This writer is involved in a study of the effects that might occur in Salem-Keizer under a site-value property tax.

Yet we sorely need more hard data for other cities like Grants Pass, Coos Bay, Redmond and Pendleton. One estimate for Australia found annual gains of $40 billion. If the total annual increase in land value were recaptured in California, economist Clifford Cobb found that it would finance state and local governments with a surplus that each resident would enjoy as a dividend, as Alaska does with its oil revenues.

Revenue stability should also be examined. One clue comes from Johannesburg, South Africa. It has virtually relied on site-value taxation since 1918. Since the tax generates sufficient revenues as public investments are made, the rate has remained level. It began at 2.92% and was last reported at 3%.

This property tax shift produces new economic health as studies in Australia and New Zealand show. It would increase the state's level of employment without boosting inflation. Economist Mason Gaffney found that instead of tying up investment funds in long-term assets (land being the longest), the site-value tax would channel investment into working capital; this combines constantly with labor. Why don't we recycle the big businesshand-out, the Strategic Investments Initiative, into a statewide tax cut on improvements, giving all businesses that want to expand a tax incentive?

If the two-rate tax were phased in over five to 10 years, the process of property assessments would streamline. That would shrink assessor offices up to 80%. Since land value is created by what society and others do, it is measured as a market effect. Individuals can't raise their own site's value, unlike building value. Using computer aided mass appraisal, assessing land becomes quick and accurate. Assessment appeals and costs plummet. No wonder New Jersey has a broad coalition supporting a constitutional revision to allow cities to slash taxes on buildings.

At the turn of the century, the father of Oregon's and the nation's first initiative, William S. U'ren, became convinced of the sound economic and social effects of site-value taxation, called the "Simple Tax" because it can even eliminate income and sales taxes. He wanted Oregonians to have the chance

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to adopt it at the urging of people like Mark Twain, Henry George, and Thomases Paine and Jefferson. Isn't it time we thoroughly study U'ren's Oregon vision?

(Kris Nelson, a Salem consultant, is a member of Common Ground-USA. He is also V.P. of the non-profit Geonomy Society, which is educating Oregonians about Earth-based economics and conducting an education campaign about recapturing land revenue. For more information, call 503/585-4096 or send email to altfuels@open.org.)

Statewide green tax shift bill being introduced in Oregon

Based on a well thought-out proposal for Policy Maker Outreach and with his very impressive resume appended, the Board of Common Ground-USA in March approved a $1,000 grant to Kris Nelson. Nelson's executive summary of his Feb. 10 grant proposal follows:

Opportunity is ripe! A Republican member of the Oregon House Revenue Committee is introducing a bill to study the possible effects of a green tax shift statewide, including site-value taxation. Oregon Environmental Council drafted the bill with the assistance of the Geonomy Society. A bipartisan group is drafting a bill to refer a constitutional amendment to the voters that would allow municipalities to adopt a two-rate property tax. The Governor's Tax Commission recommended changes in the state's tax structure to build greater stability in revenue flow, i.e., less dependence on income taxes. The Governor's Commission on Growth urged new methods to contain sprawl. Governor Kitzhaber's own Oregon Challenge includes both of these priorities out of three. Now is the time to educate officials and leaders to support and testify on these crucial policies.

Pictured below are "Sustaining Community through Turbulent Growth" panelists at the Council of Georgist Organizations conference in Portland July 31, 1998: Dr. Gerry Mildner of Portland State University, Dr. Tom Gihring and Dr. William Batt and Kris Nelson (see articles in this GroundSwell issue), and architect Virginia Hodgdon.