

FASTER GROWTH BEGINS WITH A LAND TAX IN U.S. CITIES

This would lower land costs, encouraging affordable housing and more density.

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(The following partially quoted article was brought to GroundSwell's attention by Common Ground USA Board member Ed Dodson, edod08034@gmail.com)

"Lots of progressives are starting to focus on the problem of expensive cities. Lack of affordable housing is crowding poor and working-class Americans out of the country's most productive metropolitan areas, a phenomenon highlighted by urbanists such as Richard Florida and Enrico Moretti. But it isn't just elites who are raising their voices: Some activists on the left are beginning to turn against the idea that policy limits on housing construction helps the poor. Politicians are joining the fight too. California Governor Jerry Brown just signed 15 bills aimed at encouraging density and affordable housing.

"The California bills focus on easing and streamlining the cumbersome approval process for building new homes, and on providing government money for affordable housing. In cities with tight zoning regulations, pro-density efforts often focus on loosening those rules. But there's one very powerful policy that cities and the activists who love them haven't yet employed -- the land value tax.

"Urban property has value for several reasons. The value represented by buildings is only part of the story. Land itself has value, because of its location. Having a house near to the office where you work, the stores where you shop and the restaurants where you eat has value. And having a business near to customers is useful as well. Many people want to live near to each other, in order to have more potential friends and romantic partners. And smart people, such as engineers, creative workers and scientists, become more productive when they live near each other, since ideas can flow freely between them. This is a big reason that faster growth in urban areas would help give a lift to the rest of the economy.

"In cities, especially large metropolises like New York and tech hubs like San Francisco, the land under a building is often worth a lot more than the buildings itself. When a city gets denser or more desirable, lucky landowners reap windfalls as land prices appreciate. But these windfalls aren't just unfair -- they raise both rents and housing prices, pushing potential new residents out of a city and choking off its growth.

"So it makes sense to tax the value of land. A land-value tax, or LVT, is like a property tax, but with a deduction for the value of buildings and other improvements. The tax would reduce land prices and increase the incentive to build more, which in turn will help drive down rents, making a city more affordable. And because land is a fixed quantity, taxing it doesn't shrink the economy like taxes on wages and capital sometimes do. Also, since you're taxing a windfall, it's hard for landowners to argue that the tax isn't fair. The money raised with a land-value tax can be spent building affordable housing for the poor.

"Therefore, a land-value tax is an efficient and fair way to take a city that now works only for lucky prosperous landowners, and turn it into a place where the working class can afford to make a decent life.

"The LVT was conceived of by 19th century American economist and writer Henry George. George's ideas never gained widespread acceptance, though to this day they retain a small and dedicated following. Academic economists took up the idea, and made models showing that the tax is a good way to fund local public services like education and infrastructure.

"But essentially no one listens to urban economic theorists or fringe activist groups. The LVT needs to go mainstream.

"In the U.S., Pennsylvania is the LVT trailblazer. More than a dozen cities in that state use split-rate taxation -- one tax on land value, and a lower rate on improvements, such as buildings. Some of these experiments, like the one in Altoona, have failed, probably due to ineffective implementation and businesses' failure to understand the novel tax structure.

"But in Pittsburgh, a large city where valuable locations are scarce, the tax has been a success. Economists Wallace Oates and Robert Schwab found:

"In 1979-80, the city of Pittsburgh restructured its property tax system by raising the rate on land to more than five times the rate on structures. ... Pittsburgh experienced in the 1980s a dramatic increase in building activity, far in excess of other cities in the region.

"Sadly, Pittsburgh abandoned its LVT experiment in the early 2000s. As one might expect, downtown construction slowed and property tax revenues fell. ..." <<