

Public Transport and Land Values

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THE problems of housing and mass transportation in metropolitan centres are known to us all.

Automobile roadbeds built at public expense are dumping more and more automobiles into the cores of our cities, choking the very centres we intend them to serve. As a polluter, automobiles impose a damage bill estimated at several billion dollars annually, with the highest concentration imposed on highly urbanized areas and their immediate environs. Since the roads are built in urban areas and largely used by suburbanites, the urban non-users of automobiles are the most severely penalized. Increasingly large areas of otherwise useful urban land have been pre-empted for these roads. Against this subsidized competition, mass transportation survives with difficulty.

Massive urban housing programmes have contributed to the disaster by resulting in not more but less total local housing. Whole areas are devastated as if by war, as higher taxes on buildings, the deterioration of existing housing stock and insufficient new, urban poverty, poorer schools, racial prejudice, crime on the streets, the flight of industry to the suburbs, etc. combine with the availability of radiating expressways to reduce urban population as the more affluent secede to the suburbs to drive in by car and those remaining struggle valiantly against social problems that seem to be beyond their control. Local buses and trains must travel as far, but now serve fewer people.

The problems of urban housing and mass urban transportation require not a pouring of more money and effort into the old approaches, but some bold new re-thinking and reorientation. How can we encourage the improvement of existing housing and the construction of more? How can we make mass transportation not only as good as the expressways, but irresistible, to woo urban and suburban riders alike back from their private

automobiles?

To achieve both of these ends at a single syllogistic stroke, this paper suggests that *all* the costs of mass municipal transportation be financed by local land-value taxation and that no fares be charged. Space does not permit more than a limited presentation of all the facets of this proposal; but enough ground can be covered to suggest the interesting principles involved.

Let us look first at the effect on housing.

Our existing system of property taxation is singularly ill-considered. If a man hits one of his neighbours over the head and robs him, we can fine him. If, instead, he builds housing for his neighbours, we fine him, too.

If a man robs another, we call the penalty a fine; when he builds housing for others, we call it a tax. If he robs others, the fine can be small; when he builds housing for others, it is substantial. If he is accused of robbing others, he gets a hearing and may not be convicted; when he builds housing for others, we give him no hearing, and just send the bill for the penalty in the mail. And, finally, he who robs his neighbour is penalized only once; he who builds housing for his neighbours is penalized once a year, as long as the housing remains. And then, to add insult to injury, after having obliged him to raise the rent of his housing in order to get the money to pay the penalty thereby creating a shortage of low-cost housing, we use some of his penalty money to build other housing to compete with him, while we complain that his housing is too expensive.

Housing, Transportation and Taxation

Land-value taxation, or site-value taxation as it is sometimes called, is a desirable alternative, an encouraging, not a discouraging system.

Proponents of land-value taxa-

tion point out that the value of real estate is a combination of two very different kinds of things, with very different sets of characteristics.

The value of a building is created by its builders, for if there were no buildings, there would be no building value. An increase in the tax on buildings, by tending to make building less profitable, slows construction and creates that continuing built-in artificial shortage of housing which, through the operation of the law of supply and demand, permits the building tax to be passed on to the users. Only when the shortage is great enough to make this possible, will and does building resume.

The site value of land is, on the contrary, created not by the owner of the title or by those from whom he bought it, but by its locational advantages. Some of these advantages result from the presence and economic activities of other citizens, and some from government services like streets and alleys, water and sewer lines and treatment, garbage collection, police and fire protection, parks, libraries, schools and the availability of mass transportation.

A tax on land values, because it cannot in itself increase these locational advantages, cannot be passed on to the land user in the form of higher land rents or land prices. Since the tax is exactly the same whether a given piece of land is vacant or has been covered by handsome and useful housing, and does not fall upon and discourage buildings, it does not create a housing shortage which would permit the tax to be passed on.

Being paid by the landholder himself out of land rent, taxation of land values tends instead—other things being equal—to reduce the titleholder's real or potential income from land and to lower land prices, making land more easily available to builders. In fact, since taxes on land values continue whether the land is used or not, land value taxation, by making it less profitable to hold valuable land out of use or in a poorly improved state, tends to induce the landholder to use it well or sell it to those who are prepared to do so. When it is applied, the supply of housing is

not decreased, it is increased. Housing rents do not go up, they go down, as more competing housing is built.

Intensive land-value taxation to finance mass transportation in Chicago would literally populate the city, by making it unprofitable for the landholders not to use the land well. There is little point to running mass transportation past a collection of vacant lots of the kind to be found in almost all of our major cities, with their dropping population.

To finance mass transportation by the *deus ex machina* of federal money is not only to unjustifiably enrich those who hold title to the served urban land which rises in value to absorb the benefit; it requires also that we forgo the advantages of land-value taxation in pushing that land into use.

Land-value Taxation and Mass Transportation

Let us now look at Mass municipal transportation in the light of our proposal that it be financed by land-value taxation and that no fares be charged.

With a certain justice, it could be said, as a caricature, that our existing housing and mass transportation policies have led to a central hub of office functions, with emanating block-wide swaths of urban land from which the original residents have been forcibly ejected, to create expressways on which frustrated commuting drivers move at a snail's pace morning and night, past well gassed noisy areas of dubious livability.

If our policies had instead led to an equivalent area being covered with green areas and good housing, those people wouldn't have to come into the city; they would already be there. If our policies had provided mass transportation for this more concentrated population, they could get to their place of work with less time and less effort, less expense, less waste of expensive materials and scarce energy, less pollution for driver and city-dweller alike. (Hindsight is surprisingly easy.)

Good transportation is one of the many factors—like schools, parks, streets, and police and fire protection—which tend to increase land rents and land values.

Men prefer to live and do business where they are well served, other things being equal, and they are prepared to pay higher land rent for that advantage. The usefulness of good local transportation is reflected not in higher values of houses, apartment buildings, or commercial buildings which can never sell for more than the cost of a new building of the same kind, but in the value of the underlying land. When the fares creep up, for example, to the point at which citizens discontinue their accustomed volume of use of the Transit Authority facilities, and the advantage of the proffered transportation lessens, land values must tend to go down. When the transportation is more useful, land values rise. Land values tend to reflect the advantages provided by mass transportation, sometimes in major degree.

Land-value taxation could conceivably finance the construction of Chicago or other transit facilities. But could it replace fares for financing maintenance and operating costs as well?

The prospect would seem to leave Stern and Ayres* unperturbed. They suggest, "From this equilibrium picture, it seems reasonable to conclude that an incremental transportation improvement will result in time, money and stress savings to the user that are more than fully reflected in increased rents and land values. Thus, if an improvement is cost-effective in the limited neighbourhood sense, even the short-term neighbourhood benefits appear to be sufficient to pay for its construction, operation and maintenance."

And this is without the land-value-raising proposal to permit free riding, which would push land rents yet higher.

But why free riding? Because pre-paid riding of this kind would make intensive use imperative. Who would afford to throw away his, in effect, free ticket and drive a car instead?

Would the opportunity to ride free be abused? Why should it be? And what is abuse? We are not here talking about the use of

taxicabs, a relative luxury. We are talking about mass transit, next to feet the lowest common denominator in the transportation field. Today, it is all we can do to lure riders onto mass transportation. Free riding is not only going to and coming from work, it is going to school, going shopping, going to the doctor or dentist, going to the theatre, going visiting. Free riding would permit the good use, during the rest of the day, of the facilities required for rush-hour capacity. Free riding would reinstitute the ease of movement which feet provided in a smaller community. And, of course, since facilitated access to commercial and service areas would automatically lead to a rise in commercial land values as well as residential ones, land-value taxation would recapture that financial advantage also to help pay for the system.

All of this is to lay aside as secondary the savings resulted from dispensing with the entire machinery of ticket selling and fare collection, an unnecessary by-play. We do not as individuals pay the policeman or the fireman for his services when we need them; to require it could be disastrous. We do not daily send our children to school with money in their fists to pay for the cost of a day of education. Fare collection is mere custom, not necessity.

What is proposed here is not the subsidizing of mass transportation as practised in New York City, from indiscriminate tax income. Those who receive the advantage of free riding would find that land rent in the served area would rise to absorb any advantage to them, even as it does today; quite as it rises to absorb all the other site advantages we provide; and potential riders would end up paying the landholders in higher rents for even this added advantage. Land-value taxation would then merely recapture this amount for the Transit Authority, using it to pay for the costs of the transportation offered. Insofar as the process increases ridership, this would operate like subsidization; but unlike mere unthinking subsidization, this process would provide the necessary financing from the pockets of those served, while riding went on unabated. The landholder would be merely a con-

*"Transportation Outlays—Who Pays and Who Benefits?" in *Government Spending and Land Values*, University of Wisconsin Press.

duit.

One must look at the possibility that some of the land value being taxed for the support of this system might not in fact have resulted from this provision of free mass transportation. Land values do not come with little labels which say that this part is due to good roads and that part due to good schools, this part due to municipal garbage collection and that part due to the provision of parks and playgrounds, this part due to police protection and that part due to fire protection, this part due to the fact that someone has built a nearby shopping centre and that part due to the fact that someone has built, accessibly, an office building or a factory where many people are employed, to list but a few of the contributory factors. Is it fair then, to collect land-rent money for mass transportation costs?

Land-value Taxation and Justice

To bring the question of justice into questions of taxation is, in its way, a breath of fresh air, and the objection is welcome. But if land values, as the question points out, are the creation not of the landholder, but of the community as a whole, are they not uniquely the proper source of needed community funds? If others than the landholder have created these land values in their capacities as producers and consumers, are not land values the source—perhaps, even, the only proper source—to which the community ought to turn to government income needed to pay for any purposes, including mass transportation to serve us all?

Beyond this, what would the landholder lose by our replacing any part or all of our existing government fund-raising system by land-value taxation?

Every penalty upon activities we should be encouraging, whether the construction of a building or the use of mass transportation in place of driving, introduces an element of friction that inhibits the activity and reduces land values. Consider, for instance, the condition of a man who has an entirely average value home on an entirely average value piece of land. Even if we were to take taxes entirely off buildings and put

them entirely on land values, we would not increase his taxes or lower the value of his land. The tax on his building would go down in the same amount that the tax on his land rose. His total tax bill would be exactly the same as it was before. The difference in this, the average case, would be in the future. He could now paint this house and his taxes would not rise; he could now add a wing, and his taxes would not rise. He could get a building permit when he builds that recreation room in the basement or adds that needed powder room, instead of doing it surreptitiously, and his taxes would not rise. Naturally, he would do more of this sort of thing. We would have removed what I call a friction, a penalty upon activities. Production, not only in this particular relatively insignificant case, but in the world of production in general, would

rise appreciably, with resulting social advantages. The value of our example's land would not drop. It would be just as useful to him or to anyone else as it was before; more, in fact. Land values would not decline; they would rise, the land tax notwithstanding.

The case of the user of mass transportation is a parallel one. If we really want a man to use mass transportation, why penalize him—ask for a fare—when he does? We add the element of friction, and he walks or drives or stays home. We have discouraged him when we should have encouraged him. Let him ride free, let the advantage of that riding appear in land rents, and collect back the money by a tax on land values, which will at the same time push land into use for housing. Abolish the friction and watch the wheels turn.

Left, Right and Wrong

GEOFFREY LEE

I must confess that I skimmed through the first part of a new book* by Hugh Stretton without much interest. Mr. Stretton begins his book with sketches purporting to show the alternative futures that face the world. The future is so unpredictable that such speculations have little value and quickly become out-of-date. A random glance finds the author suggesting: "For example Chrysler lost patience with their English labour, shut their English plants and got ready to supply the United Kingdom market from Spain and Germany. The Social Democratic government of the Federal Republic waited till the reorganization was complete then acquired 51 per cent of the German operation: British and German governments prohibited Spanish-built imports, and what remained of the Chrysler English plants were acquired and split 51/49 between the Industrial Development Corporation (public) and British Leyland (private). American markets were promptly closed to British and German cars." And so it goes on. Well we can all invent scenarios like

that and little use they are to anyone.

The rest of the book does take a look at the realities of life, although it is not helped much by the author's insistence on describing governments in terms of "Left" and "Right", and speaking of ruling classes even though he often means the communist party elite who lord it over the Russian people. "Their masters, who own everything just as the masters did in Marx's day . . ." he says, or "The hard left—Marxist and technocratic—thus works as hard as any capitalist to kill the most promising of all socialist opportunities, and to perpetuate the alienation which Marx condemned as the worst effect of primitive industrial capitalism."

A preoccupation with the surface appearance prevents Hugh Stretton from looking deeper, from trying to get at the fundamental reasons for the present unsatisfactory distribution of wealth. He says: "Some pessimists believe that existing inequalities have defences as automatic as the laws of motion. Every action brings an equal and opposite reaction. At one extreme a dollar added to poor

**Capitalism, Socialism and the Environment*, Oxford University Press, £2.95.