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From an address to the American I

PLANNERS are often preoccupied with minimizing the conflicts between neighbours, which calls for minor departures from the most lucrative use; but the conflicts must not blind us to the over-riding value of symbiosis among neighbours. The worst nuisance a central land owner can commit is passive withdrawal of his land from the life of the city, right where it gets in everyone's way. The market, if he listens, tells him to participate instead. Taxation may be used to nudge the market a little this way or that, but the first concern of tax reform is to unleash the market to do its constructive work.

As the city expands, high land values at the perimeter put simultaneous presure on all owners there to convert to urban use. Were this mechanism in good working order, planners could extend city services to compact increments of land, secure in the knowledge that the ultimate demand would be there in short order. Private builders could orient their plans to a more certain future, minimizing transition costs of, for example, shifting from wells and septic tanks to public water and sewers. Every private improvement could be less self-sufficient and more oriented to the prospect of a total community.

But the market is not in good working order. Taxation intercedes in every land-use decision. In every such case, taxation biases the choice in favour of the lighter taxed use. The real estate tax on buildings thus always favours old over new; gas stations over apartments; junk yards over factories; parking lots over parking structures; billboards over offices; un-used land over improved; waiting over acting. By this bias it has half-destroyed the market as an arbiter among competing land uses. It has lowered the density; retarded the renewal, and broken up the integral images of the central city, fostering in their place random scatterings of new buildings at the outskirts. It has so far impaired the city's function of linking small independent industrial firms as to bear large responsibility for today's galloping merger movement. Firms seek through merger and vertical integration the access to services, labour and supplies which in a well-ordered city they could get from independent firms through the market.

I do not propose that we eliminate taxes. The public needs money. I do submit that it is not necessary for real

estate taxes to impair the market. The trick is to modify the definition of the tax base.

It is not news that we can foster a particular thing by subsidizing it; or just leaving it alone when other things are taxed. It *is* news when we can tax something and not damage it. It is even better news when we can tax something and, by taxation, actually foster and promote it as though we were subsidizing it. Impossible? The technique is within our grasp.

Tax capital and you drive it away; tax land and you drive it into use. The technique is to redefine the real estate tax base as land value alone. Value at any time is what the land if bare would sell for. It is value in the best alternative use. It is independent of present use or ownership. It changes year by year, usually gradually as demands and neighbourhoods change, or as anticipated public improvements, long since foreseen and discounted into values, are completed. A proper assessment of land changes in step with the outside determinants, ignoring the specific response that individual land owners make to the environmental challenge. They are taxed not for using their opportunities, but for having and holding them.

The real estate tax modified in this way would help planners with many problems that now seem intractable, and so foreboding. I will focus on one, the problem of slow urban renewal. Few would deny that the market has failed to renew our cities fast enough. For this the real estate tax, bearing differentially on new buildings, must shoulder much of the blame.

The economical time for an individual to clear and renew land is when the current cash flow from the existing or "defender" use, ceases to yield a fair return on the "scrape value" of the site in the most eligible succeeding use, the "challenger."

The land based tax is neutral in this decision, because it is unmoved by renewal; it is the same on the defender as on the challenger. The building-based tax it not rented because it rockets upward when the new succeeds the old. It weakens the challenger vis-a-vis the defender by the amount of the tax increase. Not only is the new building valued higher than the old; often assessors seize this occasion to re-assess the land upwards, adding to the bias against renewal.

The general qualitative direction of the bias is clear. Quantitatively, the number of years by which building taxes retard site renewal depends, among other things, on how the cash flow from old buildings drops off. If it plummets steeply, then renewal dates are preordained by non-tax factors, and tax policy is unimportant. If it tails off gradually, a substantial tax bias against new buildings retards the renewal of each site regarded individually; and

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of neighbourhoods and school districts even more, as the non-renewal of each site robs neighbouring sites of their renewability, and suppresses competition from new buildings which would pull tenants from old defenders.

Measured in years, the fiscal deterrent to urban renewal—the threat of increased taxes on new buildings—retards renewal of individual urban sites by decades.

The renewal of one site speeds the renewal of nearby sites in at least three ways. First, it raises the renewal or challenger value of nearby land. One new building gives heart to the potential builders for neighbours. Slum environs can virtually destroy the renewal value of land, a problem often noted. One or a few sound new buildings for inspiration can support supplemental and complementary renewal round about. The new GM building on Fifth Avenue is reported by *Fortune* to have doubled floor space rentals across the street. Once a new neighbourhood or city or region gets well started, renewal snowballs because people like to locate near their customers, contacts, suppliers, workers and friends.

This, of course, raises the negative possibility that new buildings strengthen adjacent defender values as well as challenger values. There are frequent complaints that successful urban renewal projects, for example, raise the cost of nearby land for the next project. However, these higher land "costs" are merely *asking* prices, and may be based on higher anticipated challenger values, plus the knowledge that Federal funds are on tap to buy.

Milwaukee in the last eight years happens to represent the most graphic demonstration of the ramifying effects that might flow from one new building. Through a series of historical accidents and legal technicalities, Wisconsin had an Assessment Freeze law that proved unconstitutional after being used essentially just once—for the Marine Plaza in 1960, a high rise office and bank building. It was the first downtown building of consequence in thirty years. It pulled tenants from everyone else's building, forcing a wave of remodelling and renewal, still in progress, which has changed the face of a badly dejected downtown. By general account, this one new competitor set off the chain reaction. There is a multiplier the like of which few other economic processes approach. Perhaps the time was unusually ripe, but that is suppositious. The facts are there, and they speak volumes.

It is not that this one shot alone was enough. The ripples are dying out, long before the job is done. But the point is, if one original cause can ramify so far, even though every induced new building was fully taxed, think what, say, twenty original causes would do, if every induced new building were to be tax free.

We are talking powerful medicine when we discuss conversion of the real estate tax base to the site value basis. Next spring I will publish a study I am completing comparing challenger and defender values in Milwaukee County. The study is finding that a small rise of challenger values over defender values would cause 20 per cent of the central city area to be renewed forthwith; and that the large change resulting from a full exemption of buildings from real estate tax would cause some 50 per cent to be renewed—*if* the labor and money could be found to do it. Again, these results would be magnified by consideration of neighbourhood effects already described.

They would be magnified again by consideration of the positive effect of cash squeeze on defenders. So far I have written of exempting new buildings. But the land basis of real estate taxation does more than that. It raises taxes on defenders. The result is a potent cash squeeze effect. Today's real estate tax puts the squeeze on buildings. The proposed land tax puts it on defenders and assorted holdouts and pre-emptors of land. A Milwaukee tax assessor said to me this spring, "If anyone thinks the land tax is neutral, he should just follow me around." He leaves a trail of wreckage behind him—and hard upon that, of new construction. He is not untaxing new buildings; he is just uptaxing land. Nothing moves a holdout like a cash squeeze. It gets results.

So powerful is the medicine that, once it is understood, opposition may be expected, not from those who say it won't work, but from those who complain that it will work too well: will destroy historical antiquities, flood the market, jeopardize collateral values, lower rents, change the character of neighbourhoods, sacrifice tradition to progress, overstimulate the economy, encourage immigration, dilute the aborigines, spoil the fishing, spoil the labour, change voting patterns, weaken old ethnic ties, and generally scare the daylights out of those who fear change and abundance.

I will not answer all these points. Nor will I answer those who would have us do no good thing locally without first tracing its possible effects on the equilibrium of the whole wide world, other than refer them to *Candide*, but I do have a few words of comfort, and challenge, for planners who might be concerned that the proposal to unleash the force of the free market is also a proposal to substitute the market for planners.

The unleashed market can solve some problems that now divert planners. It can bring urban renewal; group complementary land uses; promote low income housing; contain sprawl; attract an economic base; and weed out the worst generators of fiscal net deficits, old buildings. The land tax proposal gives planning so much more force and leadership than now as to frighten me to wonder whether planners are prepared to meet the challenge.