

Land & Liberty

Conference Supplement 2002

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Divided we fall

How land values offer an urban renaissance in the face of poverty, crumbling infrastructure and lack of affordable housing



**Crossrail:
the unseen
benefits**

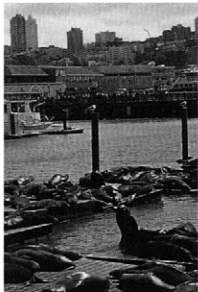


**San Francisco: how
prosperity sprung
from disaster**

Outreach

Tearing down the freeway

Disaster struck San Francisco in 1989 when an earthquake hit the city. It killed 16 and shattered arterial road links. Former director of the city's transport authority, **Andrew Nash**, tells how the city rose from the rubble



AS YOU WALK along San Francisco's Embarcadero with its palm trees waving in the ocean breeze, watching historic streetcars rumble by while admiring views of the Bay, it's hard to imagine that just 10 years ago you would have been

walking in the ugly, dark, smelly street under two levels of freeway. That freeway was damaged by the 1989 Loma Prieta earthquake and torn down to make way for today's spectacular boulevard.

Demolishing this freeway was quite controversial since it led directly to Chinatown and Fisherman's Wharf. Merchants complained that visitors could not reach their restaurants and shops without it. However, a large group of sealions had settled in a nearby marina at Pier 39 following the earthquake. The sealions pushed Pier 39

attendance to record levels despite the closed freeway, proving that visitor declines were not caused by the lack of freeway access.

Demolition of San Francisco's Central Freeway, also damaged in the earthquake, was even more controversial, since it provided access for a large part of the city. Some of the freeway had been demolished immediately after the quake and Hayes Valley, a once marginal neighbourhood, blossomed with new shops, restaurants, and activity. Residents realised that demolishing the remaining freeway could have similar benefits and began fighting reconstruction plans. Between 1996 and 1999, San Franciscans voted four times on whether to rebuild the Central Freeway, ultimately deciding to replace it with a boulevard.

The Embarcadero is now complete and Octavia Boulevard is under construction. Early results are nothing short of extraordinary – both areas have redeveloped into vital, attractive and exciting neighbourhoods. The Embarcadero is a major

regional shopping and entertainment district; real estate values have rocketed, and billions of dollars have been invested in the area. Hayes Valley has been transformed into one of the city's most hip and arty neighbourhoods. An area once filled with drugs, prostitution, and parking lots, now boasts restaurants, galleries, and new apartments.

In San Francisco, demolishing the freeways provided two fundamental ingredients for urban revitalisation: land and an improved environment. The freeways themselves took up a huge amount of space and their environmental impact (noise, air pollution and visual intrusion) destroyed any possibility of economic vitality. Before these areas were urban wastelands. Now they are the city's most highly sought after property. Urban revitalisation started when the freeways were torn down and was, especially in the case of Hayes Valley, a spontaneous community-driven effort.

Tearing down the freeways cost more than building them. Surplus land sales made up the



Pre-quake, the Embarcadero freeway (above) stunned

Olympics fan flames of regeneration

THE 2000 SYDNEY Olympic Games were a huge success, not only in the arena, but also in the upgraded infrastructure it produced that helped real estate values to surge.

The benefit of this to land and property owners has not gone unnoticed by the New South Wales state government, which is considering ways to tax the rise in land and property value when a new road or rail project is built. The lesson was Waterloo's Green Square. Since a new airport-corridor rail line was built there, unit prices have risen by up to 180 per cent. Taxpayers paid £327m which benefited local land owners who had no direct involvement with funding the line.

The NSW government has chosen the Bringelly suburb as a test area where 30,000 home lots will be available over 15 years. Studies show developers would be required to contribute around £21,600 per block. Thus, value created by tax-funded infrastructure can be recycled into the public purse.



Philadelphia reborn

Win-win: shifting tax from improvements and on to land values could reward communities

Jonathan Sidel, Philadelphia's City Controller, here gives his reasons for campaigning to use a land based tax to resurrect the city

FOR PHILADELPHIA TO have a future we must find creative solutions to lower the overall tax burden while maintaining and improving city services. The challenge for our municipality is to find taxes with the least negative impact, which allow us to raise the needed public revenue without chasing away individuals and businesses.

That is why a shift within the current real estate tax is so appealing. It will help neighbourhoods to improve in quality while keeping the fiscal cost to

the individual homeowners, who care for their property, at a minimum. How?

The mechanics are pretty simple. The current real estate tax is a tax on two separate things: a levy on the value of the building and a levy on the value of the underlying lot. Currently both tax rates are the same. Because buildings are usually more valuable than the underlying land, three quarters of the city's real estate tax revenues are derived from improvements; only a quarter from land. This makes it very costly to anyone to



Urban growth. Demolition and sealions (below left) changed that

cost difference from disaster funding. The city will eventually benefit from increased property tax values - imagine the difference in value of a hotel located next to a double deck freeway, and a hotel overlooking a park with views of San Francisco Bay.

But with California's convoluted tax system it will be many years before the city collects these taxes - and this will be a fraction of the private sector benefit. From a funding agency's perspective it would be nice to share in the windfall profits property owners accrue after construction (or deconstruction) of major transport projects. A system for this would go a long way to funding the rebuilding of our decaying urban infrastructure.

Looking back it's hard to believe tearing down the two freeways was controversial, however, without change cities become stagnant and die. The earthquake helped push San Francisco into the future. We hope other cities can get there without a natural disaster.

maintain their homes and tend their gardens. In the meantime, slum landlords see themselves rewarded by having their assessments - and thus taxes - lowered, when they let their buildings fall into disrepair. So, while the current system punishes the person who contributes to the wellbeing of the community, it gives a tax break to the ones who bring down whole neighbourhoods with their ignorance and neglect. This is obviously wrong.

By shifting the tax burden from improvements to land values, the city could reward people and businesses who invest in their communities while making it harder for speculators and slum landlords to hang on to property. Almost every single owner of a vacant lot or a derelict house would see his tax bill go up and would be encouraged to do something with the property or sell it to someone else. Taxing land at a higher rate than buildings - or not taxing buildings at all - would allow citizens to maintain and improve their homes without fear of the taxman.

The land value tax is a win-win solution for urban blight. It encourages people to take pride in their homes and neighbourhoods. Un-taxing residential and commercial dwellings will help neighbourhoods to maintain their values. Lower taxes on structures will help communities all around the city win back their neighbourhoods through their own wishes and their own vision.

www.LandandLiberty.net

First word

ACCORDING TO THE United Nations, in 2007, and for the first time in the world's history, the number of urban dwellers will equal the number of rural dwellers. The number is expected to rise to a staggering 5 billion by 2030. The city is becoming the prevalent setting of human life.

There have been times when cities have been beacons of culture. Rome in the First century for instance, or Florence with the 15th century Medicis, burgeoning New York in the 1880s, London in the swinging 60s - when life really bustled - at least for some.

But cities have always had their less salubrious sides too - their grimy pockets, their ghettos of poverty and backstreets of filth, places in need of rebirth, of regeneration. The city of the modern world is a tableau of contrasts - a jarring discord of fabulous opportunity, of wealth and comfort, for some, in the face - for others - of grinding social iniquity, relative poverty and unrelenting economic pressure.

This is the raw material of the urban regeneration movement.

For Londoners and visitors alike - whether rich or poor - the troubles of the capital today are in your face, and part of your life. The rush-hour Underground is crowded, with travellers packed as cattle for the slaughter may never be. Roads are so congested with cars that the Victorians with horse and carriage got about their business quicker. House prices today are so high that teachers, firemen and nurses can't live by where they're needed - and our children can't afford to live close to us in our failing years. It's in all our interests to put right the wrongs of urban life.

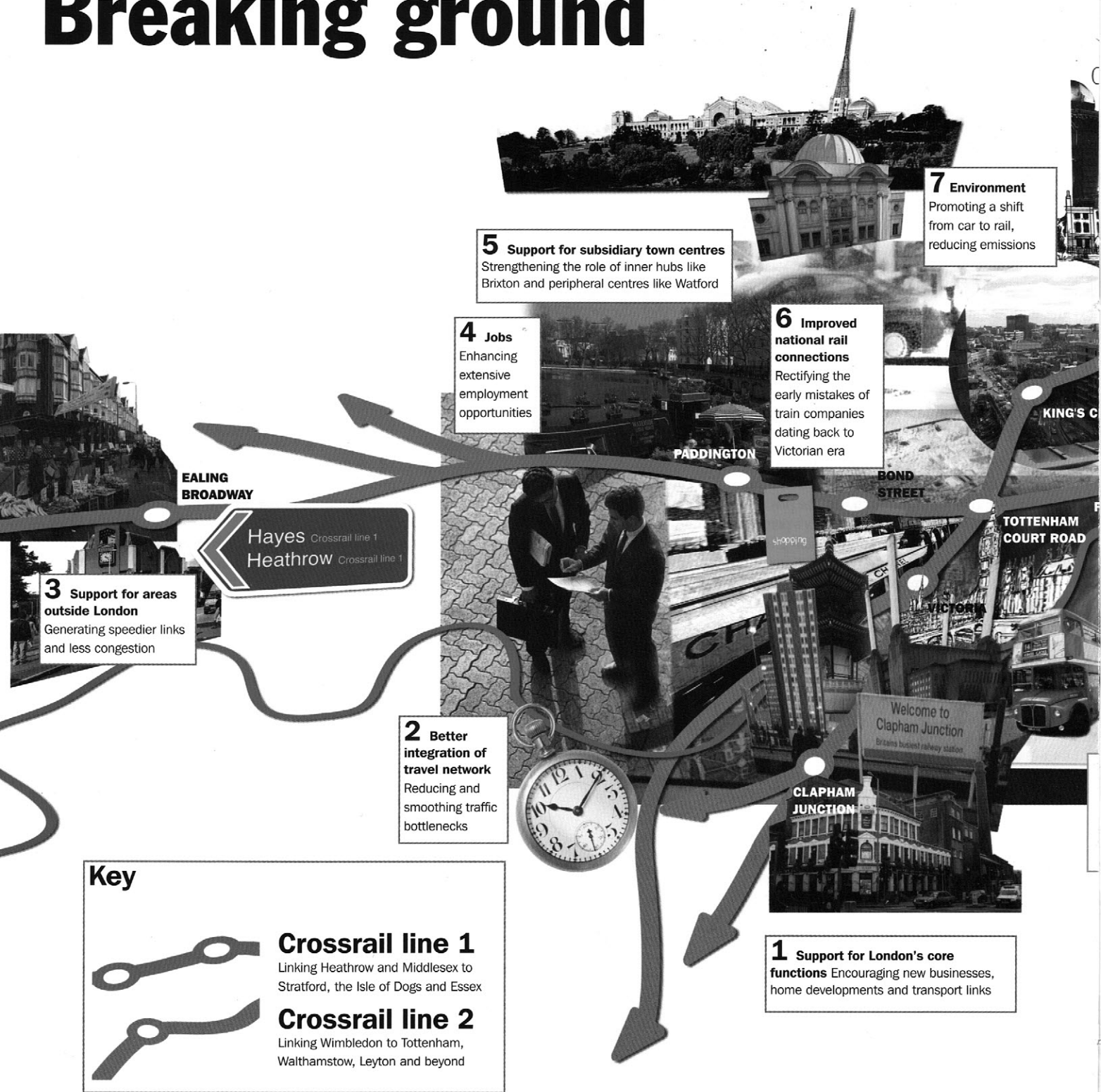
Urban regeneration, social and physical, is certainly a burning issue today. But our initiatives remain superficial. The underlying problem is the competition naturally arising from the use of the common resources and benefits of the city. How can we manage that competition, equitably, for everyone's benefit? Road congestion charging is an answer to one problem. That project will create a revenue stream which should help transform public transport in the city. But we need to build on that sort of thinking right across the board.

This supplementary issue of Land&Liberty focuses on some of the fundamental issues at play in urban regeneration. They are matters which our current approaches to regeneration fail to address. They centre on the critical interplay of our cities' development, and social and economic progress, with the phenomenon of land value. These questions require us to look critically at the manifestation of increasing land values, accruing in private hands, which arise directly as a consequence of broad social progress and specific public investment.

Inside this special edition there are suggestions for some fresh ways to make our cities better places for all citizens; practical solutions to tackle some of the basic issues of social justice; creative fiscal tools to fund development; and key ideas through which urban life really might, after all, find some sort of renaissance.

Peter Gibb
Chief Executive
Henry George Foundation

Breaking ground



7 Environment
Promoting a shift from car to rail, reducing emissions

5 Support for subsidiary town centres
Strengthening the role of inner hubs like Brixton and peripheral centres like Watford

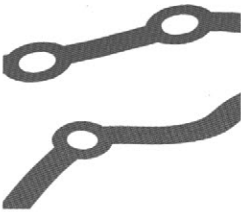
4 Jobs
Enhancing extensive employment opportunities

6 Improved national rail connections
Rectifying the early mistakes of train companies dating back to Victorian era

2 Better integration of travel network
Reducing and smoothing traffic bottlenecks

3 Support for areas outside London
Generating speedier links and less congestion

Key



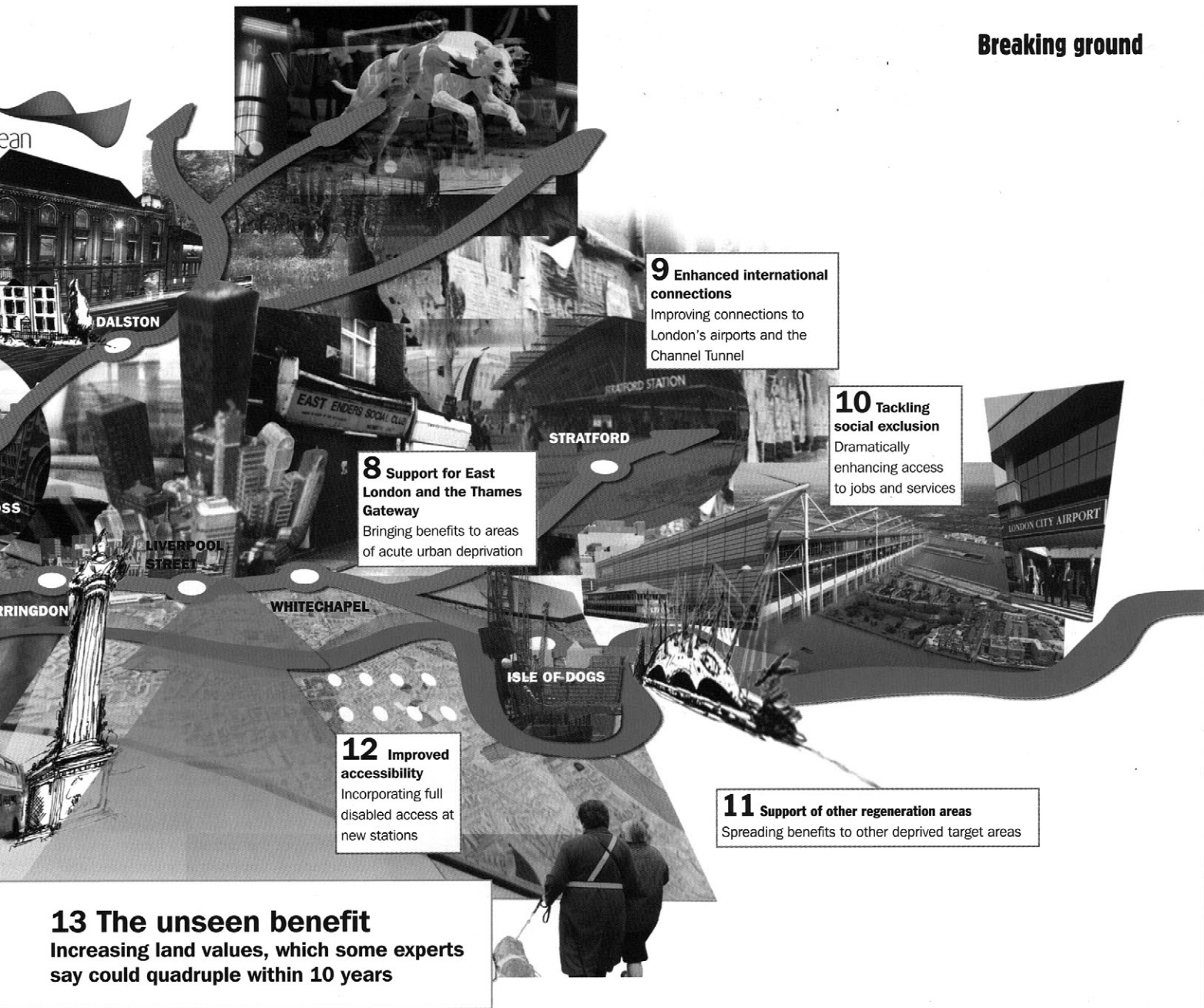
Crossrail line 1
Linking Heathrow and Middlesex to Stratford, the Isle of Dogs and Essex

Crossrail line 2
Linking Wimbledon to Tottenham, Walthamstow, Leyton and beyond

1 Support for London's core functions Encouraging new businesses, home developments and transport links

With thanks to: the Corporation of London / Andrew Baker, Newham Council / Camden Council / Ealing Council / Richard Davis, Ocean / britishwaterways.co.uk / the London Tourist Board / Ria Dastidar

Harnessing Cross



9 Enhanced international connections
Improving connections to London's airports and the Channel Tunnel

10 Tackling social exclusion
Dramatically enhancing access to jobs and services

8 Support for East London and the Thames Gateway
Bringing benefits to areas of acute urban deprivation

12 Improved accessibility
Incorporating full disabled access at new stations

11 Support of other regeneration areas
Spreading benefits to other deprived target areas

13 The unseen benefit
Increasing land values, which some experts say could quadruple within 10 years

A bottlenecked, gridlocked London is a blight for all UK taxpayers. Crossrail promises to unblock the capital's clogged arteries and quadruple land values in the process, reports **Peter Wilsher**. As a result funding the project calls for a recasting of the unsatisfactory tax system, argues **Paul Brandon**

EACH OF THE 13 separate benefits offered by the proposal to build Crossrail has the potential to enormously enhance the whole nation's prosperity and quality of life (see graphic).
It is of great importance to recognise, when the major political and planning decisions come to be made, that the gains will not accrue only – or even mainly – to London and its possibly pampered and over-provided citizens. A bottlenecked, gridlocked London is a blight for every UK taxpayer,

Crossrail's unseen benefit



hardest figures. The consultants have worked out that just building Core Route 1, with the expected knock-on effect on jobs and demand for extra office and residential space, would result in a roughly £6bn increase in property values. Other estimates reckon that the benefit could mean a quadrupling of property values throughout London. This is often unacknowledged as a benefit of Crossrail.

To tap into this for funding purposes Hillier Parker discuss two methods available under current legislation – one, via the Planning Gain charges which can be levied under Section 106 of the 1990 Town & Country Planning Act, or alternatively, through the directly related increase in rateable values.

Either way they reckon that a contribution of some £2bn to £3bn could be levied, leaving two-thirds of the resulting “planning gain” still in private hands.

There is increasing distaste, however, for the idea that the provision of



major-scale infrastructure improvements, largely built at public expense, should end up making multi-millionaires of those lucky people who own land on or near the chosen routes.

Gradually more radical, and equitable ideas are being explored for spreading the gains, extracting a larger and fairer contribution from the lucky few, and at the same time increasing society’s own willingness to undertake a properly assessed share of the very substantial costs.

One possible set of solutions, following a line pioneered in the United States and partially embraced by London’s mayor Ken Livingstone and his transport adviser Bob Kiley, goes under the generic title of Tax Incremental Financing.

However, critics – even those sympathetic to the general notion – find its details flawed, especially when an attempt is made to apply them to a Britain where city design and development, and the embedded property interests they have generated, go back not decades but often hundreds of years.

Those who have thought seriously about such matters tend to favour a much more root-and-branch approach to the problem of capturing and harnessing land value.

That would require a wholesale recasting of the country’s long-developing, impenetrably complex, and increasingly unsatisfactory tax system, with all the immense rethinking and political fall-out that that would involve (see Metropolis rising, below).

and unblocking its clotted arteries will bring dividends for all.

Properly exploited, the returns will spread wide and deep: to the Home Counties’ communities of the Green Belt and beyond; to the often rundown cities, towns and villages of the South East at large; and in several important ways, to Britain as a whole.

As yet, however, there is no accurate estimate for the total investment that might be involved, and certainly no accepted decision on how the financing of such a vast project might be most equitably and efficiently shared.

Anything like a full-scale, cost-benefit analysis is still at a very early stage, but some preliminary estimates are starting to emerge.

West End property consultancy firm Hillier Parker has so far calculated the

Metropolis rising

Crossrail promises to revive London but, says **Paul Brandon**, how it’s paid for will mean the difference between taxing the poor to make a few millionaires or wiping away poverty in the capital

FUNDING OF THE London Crossrail project is now a key issue. The London Chamber of Commerce and the property developer Canary Wharf have in recent months felt the need either to discuss or research various options. But the decision over funding rests elsewhere.

Bob Kiley, transport commissioner for London, favours Tax Incremental Financing (TIF), as one tool in his fiscal toolbox. Aware of the land price boom that followed the Jubilee Line Extension he considers the “land levy” as the “ideal way to go” to fund Crossrail. TIF also features in Mayor

Livingstone’s ambitious London Plan and during the summer received the backing of Lord Rogers, another key member of his team. So what is the attraction of TIF?

In the Sixties and Seventies, the federal and state governments in the US began cutting back economic development programs. In the Eighties and Nineties, TIF increasingly helped cities to revitalise their communities. There are now at least a 1,000 schemes underway across America.

The Wisconsin Department of Commerce describes TIF as a tool that “can help a



municipality undertake a public project to stimulate beneficial development or redevelopment that would not otherwise occur. It is a mechanism for financing local economic development project in underdeveloped and blighted areas. Taxes generated by the increased property values pay for land acquisition or needed public works”. In other words the capital cost of regeneration projects are securitised against the projected increase in land values and economic activity. The project becomes self-financing.

But now, at the start of the 21st century – as the country's still largely Victorian networks of roads, railways, sewerage and water mains, and utility distribution services, start to decay and fall apart – is we have probably the best possible moment to make a fresh start.

Crossrail, so long seen as an impossible – but highly desirable – dream, could provide



just the impetus for a much-needed breaking of fiscal and planning log-jams.

1 Support for London's core functions

Property specialist suggest London-based employment will rise by 1m over the next 20

years, requiring around 54m sq ft of new development and some 54,840 new dwellings. Big jumps in transport capacity are needed to serve both primary finance and business centres and key retail and service locations .

2 Better integration of travel network

Anything to reduce and smooth the bottlenecks can only be good.

3 Support for areas outside London

Higher capacity,



speedier links and less congestion will all help spread the benefits of London prosperity, and relieve pressure on the central area.

4 Jobs

Reduced costs, support for growth, improving brownfield sites, boosting regeneration priority areas and building the system, will enhance job opportunities.

5 Support for subsidiary towns

Improvement will strengthen the role of inner hubs like Brixton, and peripheral concentrations like Watford and Croydon, which all suffer from poor, slow travel links both into the centre and between each other.

6 Improved national rail connections

Victorian nimbyism made the early train companies stop services at the Kings Cross, Liverpool Street, Victoria, Paddington ring. 150 years on, the mistake still needs rectifying.

7 Environment

By promoting a major shift from car to rail, Crossrail will make a big contribution to energy saving and emission reduction.

8 Support for East London and the Thames Gateway

These areas of urban deprivation

will benefit particularly from improved connections – with London's own economic heart and potential new links north and south.

9 Improved international connections

Better links from Central London, the City and Docklands to Heathrow; services to Gatwick and Luton via a new Farringdon Interchange; a Stansted Interchange at Stratford; and Channel Tunnel Rail Links at Stratford and possibly also Ebbsfleet.



10 Tackling social exclusion

Access to jobs and services could be enhanced by schemes like a Whitechapel link to an extended East London line.

11 Support of other regeneration areas

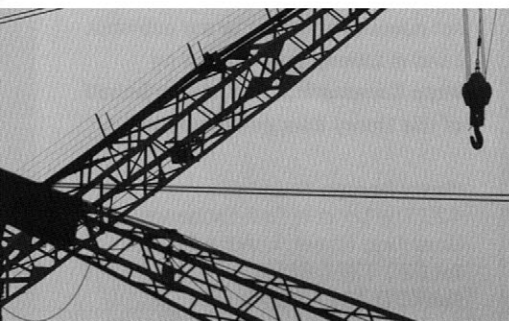
The same applies to other Development Strategy and Opportunity Area targets like Park Royal and the Lea Valley.

12 Accessibility

All the new stations, and a lot of remodelled ones, will incorporate full access for the disabled and "mobility impaired".

13 The unseen benefit – rising land value

Under the present fiscal regime public investment in infrastructure benefits private property owners – the value of whose land rises as a result of the increasing benefits provided to it by the surrounding city.



A TIF in the US is based on two principles: new development expands the tax base of the municipality, so increases property tax revenues; and, if the municipality provides public improvements to attract the development, the overlying tax districts that benefit from the increase in the community's tax base should share the cost of public improvements.

Would TIF work in London? Crossrail will undoubtedly bring a land price boom in its wake, but not just along the Crossrail route (see above). TIF applies to a designated area

and would only tap into some of the land value increases and not reflect developments across the capital, in the context of at least another 12 planned transport projects in London. TIF would not be able to adequately deal with other land value phenomena.

London and the UK also have a different property tax system to the US and there is little or no power at a local level for London to raise its own funds. The Center for the Study of Economics in Philadelphia has studied TIF's and admits it "has its advantages, but they are narrower and more focused than the overall community enhancements of land value taxation".

Philadelphia, where the City Controller's office considers this form of taxation as a holistic fiscal tool for urban regeneration and municipal funding, did not see the promised increase in jobs or economic development following a TIF project. Responsibility for failure and paying back municipal bonds raised with the TIF rests with the public authorities and ultimately the taxing

jurisdictions. It's one of the reasons why the Center for the Study of Economics advises London to "think twice about TIF".

Also, TIF would require primary legislation. So the Mayor might be better advised, if it requires such a change in law, to direct his energies towards the UK Government. He should argue for a new and creative tax mechanism for London – one not dependent on the taxes of the poorest, but based on substantially relieving the burden on work and enterprise. The corresponding tax shift to community-created land values and the revenue of land rents would tackle land monopoly, and give Londoners a community chest. Land value taxation would be the ideal mechanism.

A battle is now on to ensure that all the people of London – and beyond – benefit from Crossrail, and not just the fortunate few. Unless the correct formula is worked out those with land in the key areas are set to reap massive windfalls. Millionaires will be made, and for doing nothing, paid for by the rest of us.

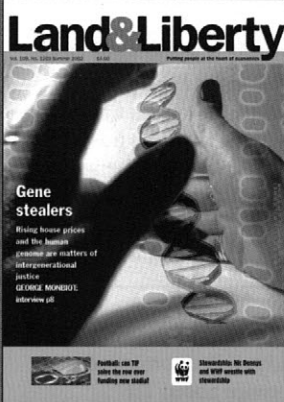
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Land & Liberty has chronicled world events for over 100 years. It has offered a unique perspective with its reports, analysis and comment on the core issues of political economy. It aims to explore how our common wealth should be used – and to demonstrate that this is the key to building the bridge of sustainability between private life, the public sector and our resources – between the individual,



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