Land-Use and the Markets

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Ordinarily, land-use planners have as much use for markets as generals do for anarchists. Yet with a little modification, markets can make life for planners much easier. Correcting the flows of rents and taxes would reverse the forces that now make markets so insufferable for planners.

Taxes - an aspect of politics, not of markets - mislead people who then change their use of land. First, since we now tax buildings (and many other goods we say we want), we discourage maintenance and breed slums. After the neighborhood really goes down hill and the owner has milked every last penny out of the structure, he just walks away from it. Thus urban cores decay - an entropy that seems natural and inevitable, yet is policy-induced.

Second, in growing areas, custom design creates more valuable homes, hence more tax liability. To avoid the penalty is one reason developers under-build or sacrifice esthetics. Cookie-cutter developments all in a row minimize built value and property taxes.

Third, taxing sales raises the cost of living while taxing income lowers the ability to afford to live. Like a vise, regressive taxes squeeze out the discretionary income of the poor who cannot afford to live in the city they may like. They have to cram into the structures that cut corners.

While taxes are creatures of legislatures, ground rent is a phenomenon of markets; what's political is what we do with it. Most of us forget it's there, letting it reward speculation and sprawl - which inflates the cost of public services. The taxpayer picks up the tab for extending infrastructure past empty lots and for erecting new schools on the edge of cities while closing old ones closer in. Old residents blame new, but don't complain when selling out at inflated prices.

Planners have a litany of great ideas for rebuilding cities - set-backs, landscaping, pedestrian bridges, etc - but have no idea of how to pay for them. One way is to let them pay for themselves. Improving a city raises its land's value. A tax or fee can collect this ground rent that can then be used to pay off the earlier investment in ecologizing the city.

Indeed, the expected change in land value can be a perfect measure of some proposed improvement's worthiness. If it can pay its way, throw it up. If it can't, then back to the drawing board.

While collecting rent, the local government should remove the tax upon buildings. The public does not generate the value of homes and businesses; homeowners and business owners do that.

Every time it has been tried, de-taxing improvements has resulted in more and better buildings. No longer inhibited by the property tax yet spurred by the annual land dues, owners and developers get busy building apartments, stores, offices, schools, theaters, etc. To maximize their return, they mix these uses together, giving us automatically the kind of integrated city that planners drool over.

> Collecting rent while de-taxing buildings puts sites to their best use...

Planners have been helpless against sprawl, even with the sternest growth control measures. If planners are ever to win their holy grail of compact cities, they must first redirect the flow of site rent. Rent is higher where density is higher. Nobody by himself made density; we all do that. Via our agent, a local government, we could collect public rent for public betterment.

Collecting rent while de-taxing buildings puts sites to their best use organically; it unplugs the "metro tub." Like removing a dam from a river, the flow of development would return to its natural course, filling in the vacant lots and abandoned buildings. No longer able to tax willy-nilly and thus more dependent upon site rent, newer cities would squeeze streets, overly wide to accommodate cars (not people), replacing parking lanes with space for sidewalk cafes beneath rows of shady trees, alongside lanes for bikes, and thereby drive up site values.

Might collecting rent work too well? Might it spur edge-to-edge development, leaving no lot unbuilt? On the contrary, collecting rent would open the heart of the city to all citizens. The very center, being the most valuable location, would carry such a high annual dues that the only ones who could afford it would be the public. With just the tiniest bit of cooperation from planners and politicians, land dues turn the core into a new commons. The new plaza, and perhaps even an open-air market, would quickly become as popular as a watering hole in the Serengeti.

To pay their high land dues, owners of large lots that cover fragile marshes or steep hillsides might want to develop, until they figure out how much higher would be their surcharges. Requiring an Ecology Security Deposit and Restoration Insurance from owners would steer them away from the riskier sites: cliffs and river banks.

These owners might then want to exchange their property margins for local bonds. The locality could then link the margins up into wildlife corridors and hiking trails.

Not only would land use be better organically, politics, too, adhering to the bottom line, would stand up for open space. In New York, the city council keeps Manhattan's Central Park unbuilt not because Greens rule the Big Apple, but because property values overall are higher with the park than with luxury condos on the site.

Since the land tax or fee or dues would eat up the gratis profit in land speculation, there'd be less wrangling over land use. The biggest US geonomic city, Pittsburgh, PA, taxes land six times more than buildings. The city converted its most valuable location, the Golden Triangle where the three rivers meet, into a park without developer resistance or an agonizing grassroots effort. Pittsburgh also renewed itself without federal subsidy and enjoys the lowest housing costs and crime rate of any major US city.

While each owner may want to build, the community may prefer to keep some space open. Too much in-fill lowers overall site value. Land value is at its maximum when land use is at its optimum - mixed use including non-use. The higher land value is, the more rent government can collect, putting localities squarely on the side of the land's health. Municipalities would try to optimize land use - build here, leave pristine there - not maxi-

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mize the area with border-to-border buildings, and would buy the frustrated owner out.

Presently, owners can profit only from developing. Were residents to receive a share of collected ground rent then everyone would gain most when this dividend is fattest. The dividend is fattest when site values are highest. Site values are highest when land is healthiest. Land is healthiest when its use is not maximized but optimized, leaving some parcels blank. Thus owners are partially compensated for non-use of their land.

A dispute over the use of some site could arise yet be easily resolved. After land dues have lowered land prices, then some sites become affordable to purchase and set aside for parks and open space. The Nature Conservancy does as much of this as it can, but after prices fall, even a local ecology club could raise enough money to buy land for a preserve. Assigning the land for non-use, their bond and insurance would be zero.

Were all the acres held in private speculation and in public procrastination put on the market, the augmented supply would drop the price. Saving money, buyers and builders could invest more in esthetics and efficiency. As in land-taxing Pittsburgh, more residents could afford to own their own homes. As owner occupants, people have more motivation to plug heat leaks and conserve energy, put in south side windows and sun decks, convert a garage to a granny flat, etc.

How long would it take to ecologize cities after shifting its property tax? The South African city of Johannesburg levied a rate of only 3% on site value - yet, while doing so enjoyed the fastest site-recycling rate in the world, a little over 20 years. As cities grow more livable and lovable, their site values rise. The resultant increase in land dues would push owners to continually convert to highest and best use automatically. Thus cities would constantly renew, in a positive feedback loop.

Correcting the market, so that taxes and rents no longer interfere with the choices of owners and developers, would attain esthetic architecture, creative infrastructure, and best use of sites automatically. What's left for planner to do? Plenty, really, but doing it will be much easier when planners swim with, not against, the mighty current of rent.

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We thank the following people for their generous contributions this past year.

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Karul Baleisis
Allen I. & Alison K. Barry
Eric Borrer
Buchbinder Tunick & Co LLP
J. L. Busey
Joseph M. & Cynthia L. Casey
John D. Chambers
Samuel H. Cohen & Jerome D. Cohen
Harriet F. Comar
Edith & Steven Cord
Margarita & Mario E. Cordero
Council for Economic Inquiry
Carmen C. Crespo
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Sandra Santana Fletcher & Ron Fletcher
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Everett W. & Mildred L. Gross
George W. Hansen & Cornelia Hansen
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Yolaine & Guiguine Michaud
Bruce Michels
Mobil Foundation, Inc.
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