

Cities Need Help

The mayor of Los Angeles is now advocating revenue sharing from the Federal Government. With high rates of unemployment and large concentrations of poverty it seems like it might be the only reasonable way for cities to meet their expenses. Most old industrial cities have large distressed areas where unemployment, robbery, murder, and drugs make them unprofitable for business and incapable of providing the tax revenues they consume.

Although American cities have been grossly less efficient than they could have been, they have been largely self-sufficient throughout most of our history. Now, however, with the transition from traditional manufacturing to high-tech production and office buildings during the last 50 years, most old industrial cities have lost population and jobs are leaving vast regions, where there are more idle factories and empty houses than those that are in use — where unemployment, crime, and violence are high, and reinvestment is no longer profitable.

The primary reason that cities are in financial trouble is the empty factories that were shut down in the 60s and 70s when many manufacturers could not compete with cheaper imports. They may have been waiting for tariff protection or other subsidies, but many companies shut their factories down and let them idle. As unemployment increased many workers moved to other regions in pursuit of work. As workers left, houses became vacant and whole neighborhoods declined.

Had each of those idle factories been sold to the highest bidder, no matter how little was offered when they first shut them down, it is more than likely some other businesses would have found a profitable use for the sites. The same number of people might be employed and living in those neighborhoods. None-the-less, they did leave them idle. They let the buildings deteriorate, they got reduced assessments, and they paid lower taxes. One motive for not selling is that the land must be free of pollutants and inspected by the E.P.A. before it can be sold. In some cases it was cheaper to pay or even owe real estate taxes on the land, which was falling in value, than to pay the cost of cleaning up the pollutants. And some of those corporate owners are out of existence and the cities now own the sites, which they must eventually clean up.

Now, 40 or 50 years later, these extremely distressed areas have degenerated to the point where, under the present circumstances, they have no potential to rejuvenate themselves. Anyone who would invest in buildings, machinery, and inventory within these areas would on average get little or no return on their investments at all.

However, even in the most distressed cities there are large residential and commercial areas that are desirable, profitable, and yield ample revenue for the maintenance of the streets, sewers, and public services within them. It is true that all taxes, whether levied on buildings or wages are paid out of what would in their absence go to the owners of land. But, because buildings cost the same amount to build no matter where they are built, workers must be paid the same wages no matter where they work, the same tax rates that are completely affordable in the best areas of any city are unaffordable and prohibit investment, employment, and production in the worst areas.

Every time tax rates are increased it lowers the income of landowners, but in areas where the income from land is already very low, it is often the factor that makes them unprofitable. Economists have long advised old industrial cities that, at some point, an increase in tax rates will so stifle investment and production in the less valuable areas that the city, as a whole, will actually get less revenue.

Nonetheless, all cities have the potential to be self supporting entities with profitable business opportunities and jobs for their residents. The more densely populated an area becomes, the greater the potential for subdivisions and specializations and the more efficient each worker becomes. The greater the concentration of people, the greater the potential to produce things with automation, from automobiles to bank statements. And an infrastructure with paved streets, water, sewer, police and fire departments enables a far greater density of population, which results in far greater productivity.

In Karachi, Pakistan, more than half of its 13 million people live in areas without paved roads and working sewage systems. Although Karachi is acutely crowded, New York City is far more than twice as densely populated and many times more productive per person. With an efficient infrastructure and good public services cities can accommodate high-rise buildings with thousands of people per acre, with the space to specialize and employ machines for every facet of each production. People who work in cities with the right infrastructure and public services have the potential to become many times more productive than they are in sparsely populated regions.

This greater productivity that results from the cooperation of people living and working in close proximity, which is enabled by the infrastructure and public services, attaches itself to the land and is accounted for in its rental value. As it is, the reduction of taxes on buildings, wages, and sales in some less severely distressed areas would make some of them profitable for business, jobs, and housing, but any reduction in tax rates that helped the distressed areas would reduce taxes in the prosperous areas as well, reducing overall needed revenue. Taxes are levied at the same rate throughout each city. Therefore, tax reform is necessary to change the equation.

By shifting all municipal taxes from buildings, wages, and sales to the rental value of land, taxes would be zero in the most distressed areas and proportional to the value of land in all others. This gives the city ample revenue and stimulates the redevelopment of the city as a whole. Not only would it not give up any revenue in the process of eliminating taxes in distressed areas, but it would create an incentive for all landowners to put each site to its highest and best use, for the tax would have to be paid whether the land was actually used or not. For this reason, taxing the rental value of land would also create more jobs and housing in the valuable areas, than are currently present.

By taxing the rental value of land, redevelopment would eventually radiate back into the distressed areas, and with increased population and economic activity, those areas would again become valuable and provide their fair share of the city's revenue.