

## Wilmington Delaware - Jobs, Housing, & Taxes

It is no mystery that the lack of jobs, low wages, and the cost of housing are the fundamental causes of poverty. There aren't enough jobs and there isn't enough housing available for everyone who lives in the city of Wilmington. The shortage of jobs keeps the wages of the least demanded workers at the Minimum—while the shortage of housing assures that some people will be homeless.

For thousands of years cities provided the most productive places to live and work. If you had anything to sell, there was the largest number of potential customers. If there was anything you wanted to buy, there was the largest and choicest selection at the cheapest possible price.

Today, American cities are plagued with unemployment, a shortage of affordable housing, slums, crime, pollution, and a shrinking tax base. Yet, Every city has within its borders the material resources and the inherent incentives to build and rebuild its homes and businesses, its infrastructure, its economy, and its tax base. Even Detroit, the worst big city in the United States, has the potential to become a model of efficiency.

What is a city, but a parcel of land with a well developed infrastructure, A very large number of people per acre, and a lot of buildings — some of them tall. Aren't the suburbs with shopping centers and tract-housing, simply low density cities?

The key to understanding how a city works is as simple as the reason why two identical buildings — apartments, offices, commercial buildings — rent for significantly different amounts of money. And the three reasons are: Location, Location, Location. Every building sits on a parcel of land at some location. Every productive activity takes place at some location.

So, if we make a distinction between the buildings, and the land or location on which they sit, we can say that the value of buildings will be relative to the cost of labor and materials—what they cost to produce—the cost of re-production, minus any wear and tear.

By contrast, land has no cost of production—yet we know exactly how to measure its value. If its residential land, we consider the proximity to jobs and shopping and recreation, access to public transportation, the quality of public schools, the level of safety and beauty, and even the sense of community.

If it's industrial land, the most valuable has access to deep water, rail roads, high voltage electric, industrial water mains, and easy access to the inter state highway.

Even a census area with a highly skilled workforce can add value to industrial land. And, if its commercial land — the most important factor is the number of potential customers.

Now. What actually creates the value of Urban Land? Can two people build a house more than twice as fast as one person who's working alone? Suppose one group grows food, another makes clothes, and a third builds shelter. Each group develops special skill and knowledge; they accumulate tools and machines designed for each specific job; and they make the same thing over and over, which they trade. Far more is produced than would result if each family were independently making their own food, clothing and shelter.

The denser the population, the greater the potential to sub-divide labor, to accumulate tools and machines for each facet of each production, and to produce in greater economies for sale. Imagine trying to set up an auto assembly plant in a community with less than a thousand people. You need all the workers in the factory, but you also need workers at the grocery store and the gas station. You need barbers, plumbers, roofers, and doctors. The list goes on.

As the population grows, the level of productivity grows. But, at some point transportation is hampered by mud, and the same rivers that connect one city to another, also impede transportation within the economic community. At some point well water is harder to establish, and human waste becomes harder to get rid of. At this point, each additional person does not increase productivity more than the last. We have reached: *the point of diminishing returns*.

So, we pave our streets, construct bridges, build water and sewer systems, establish gas & electric, police, and fire departments. Now, we can live and work in multi story dwellings and factories with greater and greater divisions of labor, that create a potential for larger and larger economies of scale. And the greater productivity, which results from denser populations, which is enabled by the infrastructure and public services, *makes each worker far more productive when they're working in a city*.

But, do people get paid higher wages when they're working in a city? Workers may be paid more dollars in cities like New York, but in terms of what you can buy, or a standard of living, would a person from Down State Delaware live substantially better in the City of New York? If they would, we would all move to New York, and wouldn't the competition soon bring the standard of living in New York back to the common level. I only pick New York because it's our biggest city.

If you lend money for project in the City of New York, do they pay you higher interest rates? We know by observation and experience that Wages and the return to buildings, machinery, inventory tend to an amount below which productivity would fall. That is to say: if they offered lower wages, the workers would not be as productive. The least productive workers are assured the Min. Wage. All others receive only what it takes above that Min. Wage for the supply of each type and level of skill and knowledge to meet the demands of the market. The return to buildings, machinery, and inventory is never more than is necessary for the supply to meet the demand.

The greater productivity that results from superior opportunities and denser populations, which is enabled by the infrastructure and public services, attaches itself to the land. In fact, the greater productivity over and above what goes to labor and capital, is exactly what gives value to land. To see this clearly, Suppose Wilmington went bust. All the police and fireman went home, followed by garbage, sewer, water, and street repairman. Off goes the street and traffic lights. It would cost more to construct a building. It would cost more to bake a loaf of bread. No police, no clean water, and roads that require at least a 4 wheel drive. The cost of production would go up. Things produced within the city would be more expensive. What would fall is the value of land. Governments do not increase wages or the value of food, clothing or buildings by the expenditure of public revenue. The only value that governments actually help to create, is the value of land.

And yet, when cities like Wilmington go to finance public expenditures, they tax buildings, wages, and net-profits. I think Wilmington is now the exception without a sales tax. Only very small percentage of their total revenue comes directly from the value of land. However, in the process of taxing other things, they destroy part of the land-value they helped to create.

I'll start with the tax on buildings, because that is the largest source of revenue for most cities. How much income could you get from a vacant lot? Without paving it, you couldn't even park cars on it when it rains. In order to get the most money from a parcel of land, you have to make an investment in buildings and other improvements. Together, the land and the buildings yield a far greater income than both the land and the buildings separately could have generated. That is to say: If I tried to get as much income from the land as I could without a building. And if I owned a building on someone else's land, what I would get from my vacant lot plus what someone else would pay me for the use of my building would be a fraction of the income that the land and building together would yield.

The landowner gets the entire income, minus what it would have cost to have someone else provide maintain and manage the building. The more it costs to build, maintain, and manage the building, the less is left to the owner of the land (land-rent). So, any tax on the buildings simply increases the cost of providing the buildings and lowers the income from the land.

What if they doubled the wage tax on workers? Wouldn't less people want to live and work in the City of Wilmington? How would the employers keep their workers? How would they Attract new ones? They would have to offer higher Wages. The more they have to pay in wages, the less business is willing to pay for the use of floor space at that location. If the employer owns the land, the less they have left as an income from its ownership.

And the Sales Tax is no exception. What does the sales tax do to prices? What do higher prices do to the total sales? If the volume of sales goes down, what happens to the rents that a merchant is willing to pay for any location?

All taxes are paid out of what would otherwise go to the owners of land and other monopolies. This is not a problem in areas where land values are high. All Cities could raise taxes in their most valuable areas and they would still be profitable. We know this because in spite of the taxes now levied, the land in those areas sells for millions of dollars per acre—even in Wilmington. If taxes were raised in the best areas, all other things remaining the same, the value of the land would be less. However, it would be virtually impossible for taxes to increase so much that the most valuable areas of any city would become unprofitable.

The problem is: taxes on buildings, sales, and wages, are applied at the same rate at every location throughout the city. In the worst areas of all the old industrial cities like Philadelphia, Detroit, and Cleveland, there are thousands of parcels where the dis-advantages already add up to more than the advantages. Even Wilmington may have some areas where the land has no value at all. Any investment in those areas would yield less than the general rate of wages and the return to buildings. In other words, there's no potential to make a profit.

Any increase in tax rates — and those non-profitable areas will get bigger. The land is worth Zero, you can't even give it away. The land is worthless because, on average, every dollar invested on it will yield less than the stock market or anything else of equal risk. That's when people refuse to reinvest in a neighborhood—the same neighborhoods that were once thriving communities. In many cases they centered around factories. And in the 1960s and 70s when they were unable to compete with cheaper foreign products, they shut them down. They didn't auction

them off to the highest bidder who would put them to some other use. They shut them down and left them idle. Perhaps they were waiting for tariff protection, or some other subsidy, but in fact, they stayed idle. The workers went other places looking for work. The communities declined from lack of jobs, and the value of the land went down with it. I don't know about Wilmington, but in Philadelphia, many homeowners left their houses empty or rented them out for whatever they could get — thinking that jobs would again return and the value of their homes (the value of the land) would rise again. Of course in the most distressed areas that did not happen. Redevelopment money was spent in some areas; a few areas were revitalized, and that probably encouraged other landowners to hold on.

None-the-less, at some point when a major repair is needed, that is when it is clear that it would be a better investment to put the money in the bank or the stock market than to put on a new roof or install a new heating system. And that is when land and buildings are abandoned, and cities stops getting revenue. By the way, if you don't pay your real-estate taxes, they only take your real-estate; they don't take anything else you own including other real-estate.

Brown Fields, are enormous polluted unusable areas of old industrial cities, and they certainly exacerbate the problem. I am told that 24% of Wilmington is polluted. The land cannot be redeveloped until it is cleaned up and inspected by the EPA. The issue of liability and the enormous expense of clean up, which is sometimes more than the land could be sold for are certainly preventing industrial re-development.

One attempt to rescue distressed urban areas is Enterprise Zones. Taxes are exempt in part or in whole in order to stimulate productivity and encourage re-development. I have no doubt they have made some difference in distressed areas where they have been enacted, but, they only address one extreme symptom of the urban dilemma.

Tax abatement is another program where new buildings are exempt for ten years or so in order to stimulate redevelopment. It seems to have stimulated some new buildings, but by no means yielded enough jobs, housing, or revenue.

And Wilmington's Vacant Housing Registration Fee, which increases until the point where it is hoped the landowner will sell or fix up the building himself. There are definitely fewer empty buildings as a result, but all that the law requires is that someone is living or working within the building, or that its owner tears it down. In no way does it encourage the full economic use of the site.

In all cases the current tax structure did not create a sufficient incentive for those who shut down factories and laid off the workers—to sell to someone, who would put the site to some other use—providing jobs and public revenue. Under the current system, every time a city raises tax rates, the areas that are unprofitable for reinvestment become larger. Given enough time without any rewards for repair and replacement of buildings, and certain distressed areas of the city would yield no revenue at all.

On the other side of the equation, how many empty buildings are sitting on valuable land that could be sold tomorrow? How many vacant lots are there in the valuable areas of every city that could be sold today? They get no income from the buildings or the land, they're just sitting idle, and they have to pay the real estate tax. In Wilmington, they pay a little less than 2% of what the assessor said it was worth in 1983, and they have to pay it every year. If they sold the land, and put the money in the bank or the stock market, they'd be getting money instead of paying it out.

Why would they give up getting income while paying out the Real Estate tax? And the answer is: They expect the land to increase in value far more than the income they're losing, plus the taxes they're paying. In other words, they're Land Speculators. Even when the price of land is falling, as it was from 2008 to 2010, a lot of these guys were thinking long term the price will go back up. "Now is not the time to sell".

And if they park some cars on it or rent out a dilapidated building with a leaky roof, whatever income they do get, offsets the taxes paid to the city, and adds to their overall profit. In spite of its many parking garages Wilmington still has several surface parking lots in rather valuable areas. Sometimes they rent out the first floor commercial space of a building, and leave all the upper floors empty. That's because the building is worthless—will be torn down when they finally sell.

Land speculation: non-use & under use of land grossly reduces the number of jobs, dwellings, and public revenue. And cities need money. It costs as much to pave the streets and maintain the pipes and wires in front of a vacant lot as one that people are working or living on. It costs as much for police and fire to travel past the empty buildings as all the rest. What about all the one, two, three story buildings in commercial districts where the zoning and the highest and best use is 10 or more stories tall?

The city has to maintain the infrastructure just in case every one of those landowners actually does build to the most profitable height within the legal limits.

And, Where do they get the money? They increase taxes on existing buildings and the wages of those who are living and working in them — further expanding & depressing the worst areas of the city. Most cities have lost population — Wilmington lost between 35 & 40% since 1950, while the population of the United States doubled. Unfortunately, the city's expenses don't diminish proportionately with the loss of population.

In fact, The problem comes down to this: Collecting revenue based on the value of buildings, sales, wages, profits, or income, eliminates the cost of holding un-used and under used land—which results in a shortage of jobs, housing, and revenue, and it manifests in slums, crime and impoverished populations.

So, How do we create an abundance of jobs, housing, and public revenue? Abolish all other taxes, and collect whatever revenue is needed from the rental value of land. A tax on the value of land is not really a tax in the sense that it doesn't confiscate property. It is simply a charge levied in reference to the value of benefits received by the payer. What could be more reasonable, equitable, and deliver a better outcome?

By taxing the value of land only, it would relieve the worst areas of any city from the burdens of taxation. While these distressed areas have streets, and sewers and a police presence, they're filthy with crime and drugs and violence. And the market says the disadvantages are equal to, or in some cases, even greater than the advantages. Does Wilmington have any areas with zero land values? Certainly some of the "Brown fields" which are so polluted that given the cost of clean up, plus the wage tax on anyone who will work there, plus the building tax, and you have no potential to make a profit. You would get a smaller return than if you bought stocks or bonds. Because landowners in the worst areas have no land values, they get no net benefit from the city or society as a whole.

At the same time, Wilmington or any city that shifted to land value taxation would get substantially more revenue from the best areas. Land value taxation would create a stimulus to put all valuable land to its highest and best use within the legal limits. Whether the land has a 10 story building or is left vacant — whether anyone works on the land, whether anything is sold on the land, or whether any income is derived — the payment is the same. It is based only on the Potential—the rental value of the land. In time re-development would radiate back into the slums. And, as the previously worthless areas provided jobs, housing and a healthy safe environment, the land within those areas would obtain a value, and represent its fair share of the city's revenue.

To implement this, you simply abolish all other taxes and increase the rate on the value of land until you get the same total, or needed revenue.

Wilmington needs a reassessment. Since the last reassessment in 1983 the best areas have increased in value far more than the worst areas. After you subtract for inflation, the worst areas have lost value while the best areas have gained great value. In fact, a reassessment, by itself, would help provide additional revenue, and give some relieve to the most distressed areas from the over assessment.

Shifting taxes to the value of land within any city for municipal revenue will grossly reduce land speculation and blight within that city. As every owner of valuable land puts it to use, the city will increase its number of jobs, units of housing, and population. It will become a more desirable place to live and work, and the value of the land within that city will go up. Whether all taxes are replaced by a tax on the value of land, or it is only a shift of the real estate tax from buildings to land, the more fully any parcel of land is put to use the less its owner will pay in comparison to the present tax system. That is because the guy with an empty building or a vacant lot will pay exactly the same as the person who maintains their house or business building in excellent condition. The difference in taxes will vary with the desirability of the neighborhood or the number of potential customers, not the condition of a building or how hard someone works and how much they produce.

There is no question, land value taxation will create an abundance of additional jobs and housing in any city that adopts it. And, when it is applied to all taxes throughout the country, there will be full employment and affordable housing for all. However, as many more jobs and units of housing are created in a single city, competition for those jobs will come from near and far. So, it won't put every single person with the lowest level of skill and education to work—but, it will generate sufficient revenues to pay for public housing, education, and social programs that are needed.

I am not exempting personal responsibility and the importance of self improvement, but no matter how responsible and productive the individual is the current system as it is will continue to insure unemployment, subsistence wages, and unaffordable housing.

And I do acknowledge that under this partial and limited application of land value taxation, the biggest winners by far are the owners of land. However, is it not better to increase the number of jobs; is it not better to increase the number of houses or apartments instead of people living on the streets; is it not better to get rid of the slums and abandoned buildings; is it not better to have an ample source of revenue, even if landowners are the biggest winners in this initial phase before we collect the full rental value of land throughout the entire country. []