

Deadline - Oct 1

I should est. L.V. per cap., cf. inc. per cap. ~~from~~ -- or taxable inc. per cap.

Part 2

Sunday, January 10, 1971

THE MILWAUKEE JOURNAL

Sun

Tax Return to Communities Reflects 1970 Recession

Journal Madison Bureau
Madison, Wis. - State income tax distributions to Milwaukee and nine suburbs declined during 1970, reflecting a poor business year.

Hardest hit were Glendale and River Hills, where shared income tax receipts were down 32% and 27%, respectively, from 1969.

River Hills, however, came off best in proportion to its population. It received individual and corporation income tax shares totaling \$233.03 per resident, compared with \$39.73 for Milwaukee and \$26.74 for the lowest ranking suburb, Muskego.

Other top ranking suburbs

were Fox Point, with \$133.45 per person; Bayside, \$111.56; West Milwaukee, \$104.22, and Elm Grove, \$92.54.

The lowest ranking suburbs, besides Muskego, were Franklin, \$28.19 per person; Mukwonago, \$30.35; St. Francis, \$30.50, Greendale, \$32.84, and New Berlin, \$34.13.

Based on Income

The state each year distributes to each city, village, county and town a share of what it collects in income taxes from individuals and corporations in the municipality involved. The per capita payments are highest to municipalities having

wealthy residents or profitable corporations.

Total income tax payments to Milwaukee County and its 19 municipalities were just under \$56 million in 1970, down \$2 million from 1969.

Municipalities that showed drops in shared tax revenue were generally industrialized communities and those with large numbers of wealthy taxpayers.

The industrialized communities suffered because corporation profits were down, and thus corporation income taxes were reduced, according to Alden Hayes, a researcher for the

State Revenue Department. Declines in some wealthy suburbs were blamed on the drop in stock values, reduced dividends and other factors.

Some Hold Their Own

Middle income municipalities generally held their own or gained slightly in 1970 tax distributions. This was because the pay of many middle income wage earners increased during 1970, in spite of the business slump, Hayes said.

Municipalities that received smaller income tax distributions in 1970 than in 1969, be-

sides River Hills and Glendale, were:

Fox Point, Milwaukee, South Milwaukee, West Allis, West Milwaukee, Whitefish Bay, Elm Grove and Waukesha.

The income tax distributions are an offset to local property taxes. Thus, if a community's receipts fall or if they grow less than had been expected — as they did in most cases this year — the loss probably will be eventually reflected in higher property taxes.

The following table lists income tax payments received by Milwaukee area cities and villages for 1970 and 1969,

with the per capita amount based on 1970 population.

Milwaukee County			
	1970	1969	1970 Per Capita
Bayside	\$ 497,667	\$ 469,368	\$111.56
Brown Deer	514,971	418,924	40.80
Cudahy	845,605	771,596	36.30
Fox Point	1,059,212	1,091,364	133.45
Franklin	345,201	319,609	28.19
Glendale	1,076,344	1,592,456	80.11
Greendale	495,402	466,774	32.84
Greenfield	775,338	691,873	45.28
Hales Cor.	\$ 351,906	\$ 334,517	\$ 45.28
Milwaukee	28,492,424	29,463,825	39.73
Oak Creek	835,002	831,456	60.07
River Hills	363,757	501,094	233.03
St. Francis	319,932	292,364	30.50
Shorewood	1,217,044	1,210,715	78.14
South Milw.	952,648	983,777	40.89
Wauwatosa	3,740,132	3,664,222	63.74
West Allis	2,976,126	3,118,060	41.19
W. Milw.	459,068	540,537	104.22
Whitefish Bay ..	1,335,152	1,574,160	76.76
Ozaukee County			
Cedarburg	\$ 305,584	\$ 298,837	\$ 39.70
Mequon	649,523	633,565	53.64
Grafton	362,772	315,038	60.48
Th'sville	158,154	162,838	56.80
Pt. Wash.	497,089	451,816	56.80
Waukesha County			
Brk'field	\$ 1,782,608	\$ 1,766,022	\$55.46
Muskego	309,488	277,679	26.74
New Berlin	919,340	806,322	34.13
Waukesha	1,829,468	1,855,688	45.44
Elm Grove	666,366	672,259	92.54
Meno. Falls	1,162,163	1,094,666	36.66
Mukwonago	71,827	69,217	30.35

TIME

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TIME & LIFE BUILDING
ROCKEFELLER CENTER
NEW YORK 10020
(212) JU 6-1212
EXECUTIVE OFFICES

May 27, 1970

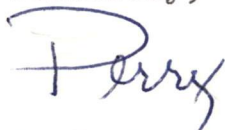
Dr. M. Mason Gaffney
Resources for the Future, Inc.
1755 Massachusetts Avenue, N.W.
Washington, D. C. 20036

Dear Mase:

This is just a P.S. on the letter I sent you earlier this week.

Great as my interest is in your newly-discovered figures on the progressivity of L.V.T., I would still be much more interested in having you get down to enough specific examples in Milwaukee to substantiate your earth-shaking statement that shifting the whole incidence of the property tax to location values alone would so change the arithmetic of property ownership that it would pay the owners of practically all the aging or inadequate buildings that now preempt more of the land in downtown Milwaukee to tear them down and replace them with new buildings that would make better use of the site--all this with no subsidy at all.

Sincerely,



P. I. Prentice

Land Value as a Tax Base

Economic Effects ~~on land use~~ of taxing land instead of bldgs.
using Milw. as a case study.

Intro. ~~and outline:~~ ~~Intro.~~ Problem, proposal, and evaluation

Current crisis of prop. tax

Chronic discontent & problems.

Proposal to assess only land, exempt bldgs.

Purpose & objectives of study: predict effects of proposed change; and evaluate,
Milw. City. as proving ground. in terms of mkt. norms. Latter is more certain, less quantitative.

Preview of findings.

Lift sights above: Milw. land use, urban tidiness. Proximate focus is on land use, land mkt., p.w. for land dev. But this is human dev., welfare.

I, ~~II~~ Economic problem (related to property taxn.) that the tax change will affect.

A. Land use. The malfunctioning market

B. Public ~~investment~~ ^{spending}. ~~Waste of dear capital, & Excess costs, esp. capl.~~ ^{Intensify costs esp.}

C. Distrib. of tax burden

II, ~~III~~ The well-functioning market: how it should work

A. Pvt. parcels

B. Response to public spending

C. Distrib. of tax burden

Files to Keep

Outline

Title & Intro.

I. Land Use Problems: ^{the} ~~market~~ malfunctioning market

II. ~~How the Market~~ The well-functioning market: how it ~~should~~ ^{Perseus} solve land-use problems
(M + L from LRTPP)

A. Renewal times & freq. C. Ht. 1. Rural 2. Resid. 3,

B. Quality

D. Density (own)

III. The R.E. Tax as a barrier to market function

A. What the tax is: concept and execution.

1. Land

2. Capl.

3. a. Bldgs

b. Land devmt.

c. Utilities

3. Exemption

4. ~~Discrimination~~
~~Utilities~~

5. ~~Interjurisdictional relations~~

a. ~~Equalization~~

b. ~~Sharing; overlapping~~

c. ~~Consolidation~~

Relation to income taxes: dilution and fortification.

5. ~~Discrimination~~

B. Effects of our land use: ~~creation of capital~~

1. Assumptions and definitions

2. General bias towards lighter-taxed uses

3. Contraction of higher-taxed uses: intensity differentials

E. Lot coverage

F. Type of use

G. Subdivision

H. Cond. & qual. w. public & other pub. uses

4. Aspects of ~~reduced~~ intensity

a. Renewal timing & freq.

b. Quality

c. Height: i, General; ii, Resid.; iii, Office; iv, Industry; v, Parking;

d. Density

vi, Retail; vii, Storage and

e. Lot coverage

wholesale; viii, Other,

f. Type of land use

g. Imperfect subdivisions and assembly

5. Reduced complementarity

a. To p.w.

b. ~~Int~~ Among priv. uses.

c. ~~Disint~~ Decentralization & disintegration

6. Market viscosity

7. Regressivity

a. Heavier taxes on uses by poorer

b. Reduced use of land by poorer

C. Other barriers to market function: (relative weight of taxes on capital.)

1. Zoning
2. City capital budget priorities
3. City & Federal preemption of land
4. ~~Just~~ Loan & insurance neighborhood stereotypes
- 5.
- 6.
- 7.
- 8.

IV. a tax on site value

A. The proposed base

1. The concept of site value: definition
2. Practical aspects of defining the tax base
 - a. Mapping
 - b. Sources of data;
and interpretation

ci. Tax avoidance: ^{techniques} and counter measures

ck. Options in ^{recognizing} ~~finding~~ latent values

3. The Assessor

4. Exotic components of proposed base

B. Effects on Land Use

1. ~~of untaxing bldgs.~~ Individual parcels
2. ~~of taxing land rentability~~
 - a. Untaxing bldgs
 - b. Taxing land rentability

2. Public costs per capita

3. Synergism

4. Limits to growth

- a. Congestion
- b. Demand for city space

C. Adequacy of land tax base

D. Distribution of Tax Burden

1. Functional
 - a. Factoral

b. Among use types

2. Personal

3. Spatial

a. Neighborhood

b. Jurisdictional. (Equalization; sharing & overlapping; consolidation)

E. Transition

V. Summary & Conclusion

A. Benefits of the reform.

1. Trends of urban problems under present policy
2. Positive benefits of reform

B. Political & Instl. strategies

1. Effective barriers to reform. a) Ignorance b) Political structure: power not ~~focused so as to put~~ in hands of publicly motivated groups.
2. ~~Paths to~~ Routes toward reform.

Distinctive color code: ~~Red~~ Orange

✓ Title & Intro,

✓ Outlines, Organization

II. The well-functioning market

III, A, 1: Land

III, A, 2, a: Bldgs and on-site

III, A, 2, b: Land development, inter-site

III, A, 2, c: Utilities

III, A, 3: Exemptions

III, A, 4: Assmt. Discrim.

III, A, 5: Relation to income tax

III, B, 1-3: Effects on land use, general

III, B, 4, a: Renewal timing & freq.

III, B, 4, b: Quality

III, B, 4, c: Height

III, B, 4, d: Density

III, B, 4, e: Lot Coverage

III, B, 4, f: Type of Land Use

III, B, 4, g: Imperfect subdivision & assembly

III, B, 5: Reduced Comply.

III, B, 6: Market viscosity

III, B, 7: Regressivity

✓ III, C: Other Barriers

<u>IV</u> , A, 1	Definition of rent and site value
<u>IV</u> , A, 2, a	Mapping
<u>IV</u> , A, 2, b	Sources and interp. of data
<u>IV</u> , A, 2, c	Tax avoidance and counter moves
<u>IV</u> , A, 2, d	Options, degrees of latency
<u>IV</u> , A, 3	The Assessor
<u>IV</u> , A, 4	Exotic Components Rents
<u>IV</u> , B, 1, a	Effects of untaxing bldgs.
<u>IV</u> , B, 1, b	" " taxing land
<u>IV</u> , B, 2	" on public costs
<u>IV</u> , B, 3	" " Synergism
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<u>IV</u> , E	Transition
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(Brief)
 "LAND VALUE AS A TAX BASE IN MILWAUKEE"
Research Outline, September 18, 1967

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 - B. Discrimination vs. industry etc.

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D. On Lot Coverage

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B. Complementarity

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II. Welfare

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(b) Downgrade residences

III. Schools

(a) reduces # of Private Schools

(b) increases % of land used for residences

(c) to (g) other bad effects on public costs

IV. "Commons"

(a)

to (c)

V. Consider "High Density = high public costs"

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finis

September 11, 1967

Dear Will:

I keep looking at the literature on economic development for reference to that great pioneer in the field, Adam Smith. Take the following sentences:

"The greatest improvement in the productive powers of labour, and the greatest part of the skill, dexterity, and judgment with which it is any where directed, or applied, seem to have been the effects of the division of labour." "This division of labour, from which so many advantages are derived, is not originally the effect of any human wisdom, which foresees and intends that general opulence to which it gives occasion. It is the necessary, though very slow and gradual, consequence of a certain propensity in human nature which has in view no such extensive utility; the propensity to truck, barter, and exchange one thing for another." "As it is the power of exchanging that gives occasion to the division of labour, so the extent of this division must always be limited by the extent of that power, or, in other words, by the extent of the market."

If Smith was right, it would be interesting to know how many billions of dollars have been wasted, just since 1945, through failure to follow these simple guide lines which Smith laid down in the first three chapters of his treatise on "An Inquiry Into the Nature and Causes of the Wealth of Nations."

Sincerely,

Weld S. Carter

Mr. Will Lissner
3435 Giles Place
Bronx, New York 10463

Committee on Taxation, Resources and Economic Development

574 A Bolton Hall University of Wisconsin-Milwaukee

Milwaukee, Wisconsin 53211

Telephone: 228-4402

Antioch 9/30/67

CHAIRMAN:

ARTHUR P. BECKER, Ph.D.
Professor of Economics
University of Wisconsin-
Milwaukee

Dear Mase:

Many thanks for the copy of the excellent "Outline" you have drafted on the Milwaukee study.

PAUL E. ALYEA, Ph.D.
Emeritus Professor of Finance
University of Alabama

KARL FALK, Ph.D.
Professor of Economics
Fresno State College

As I first read it, I realized that I was not grasping its content. I found myself going back to see what (ii) or b. referred to, what the difference was between a. and A., between 3., (iii) and III. So I briefed the paper and suddenly it took on structure. So then I briefed the "brief" and the structure stood revealed in its full perfection, beauty and excitement. So I sent you copies of the "brief" and the "brief of brief" and also forwarded them to Vie.

M. MASON GAFFNEY, Ph.D.
Professor of Economics
University of Wisconsin-
Milwaukee

RICHARD W. LINDHOLM, Ph.D.
Dean
School of Business Administration
University of Oregon

I was delighted to find the quote from Adam Smith on p. 20. (I finally got around to sending Will Lissner my letter on this - copy attached.) And your idea of "Individual Option" on p. 30 is not only sneaky but fascinating. (You might want to strike out the last three lines on p. 9, which are repeated - more fully - on p. 10. Also there is no (iii) on p. 18 and no 9. on p. 31. And I hunted in vain for ICMS.

CARL MCGUIRE, Ph.D.
Chairman
Department of Economics
University of Colorado

I am slightly mystified by the sparse attention to the research doen in Milwaukee. Instead, the Outline appears to be the structure for a magnificent theoretical exposition of the case for a shift from the real estate tax to a land value tax in the urban context. I am sure you intend to use the research findings fully, but the Outline does not show this - at least to me. Please do not take this to mean that the theoretical should be subordinated - but only that, in a way you have not herein shown me, it will be related to, or derived from, or buttressed by, the case study.

WILLIAM S. VICKREY, Ph.D.
Chairman
Department of Economics
Faculty of Political Science
Columbia University

When you start work on the actual production, I hope I'll be invited to offer suggestions, for a very few minor points occur to me. Now however I want you to know how thrilled I am by the prospect the "Outline" offers. If you follow it, this will be another outstanding contribution, a fitting complement to Extractive Resources and Taxation. Think where you'll be professionally when these two are in print!

Vie tells me that you are having trouble getting a renewal of terms from your Deans and that if they don't come through you may have to scale the final production down to fit the \$9,000. That seems to me positively terrible!

This study is like the planting of a crop and the nurturing of it to harvest. When I think of the returns that will accrue to you at

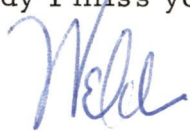
9/30/67

harvest, I don't see how you can bear to go light on the cultivating, now.

A year ago you were faced with the dismal prospect of having to conclude this work on your own, and it was important enough to you that, even under those circumstances, you wanted to finish it. Now you have access to \$9,000. to help you through it. PLEASE, under these circumstances, don't now approach it with the thought of scaling it down - for you would be the principal loser.

We hope you had a great trip west and are finding the new associations completely to your taste.

- and hurry back! Already I miss you.



Correction Copy

LAND VALUE AS A TAX BASE IN MILWAUKEE

Mason Gaffney

Research Outline, Sept. 18, 1967

300 pp. -- good.
10 pp. for ea. p. of outline.
-1. Intro. Current risks. Chronic discount.
0. objectives

1. Land and fiscal problems related to property taxation (much of this already drafted; emphasis on costs of sprawl. Material being Xerox'd and sent separately.

2. The present general property tax: ~~incentive effects on land use~~ characteristics that bear on its likely effect on land use.

~~a. Basic theoretical effects, a priori~~

b. The tax as modified in practice (aspects relevant to incentive effects on land use; and distributive equity).

(Detail on pp. 2-6, ICMS) See IDA write-up.

(i) Land

(ii) Buildings

(iii) Exemptions

(iv) Utilities

(v) Interjurisdictional relations

(vi) General: Discrimination

A. Effort to minimize vocal protests

B. Discrimination vs. industry and commerce and absentee and less organized groups. Census of Housing - Beric

MR? (Send brief questionnaire to assessors, asking their procedure [re key points only] as developed on pp. 2-6, ICMS.)

3. Effects of property tax on land use

a. The effect on renewal frequency: an aspect singled out for special attention.

(i) Economic criteria for timing of site renewal

(ii) Neutrality of land component of property tax (except for effects discussed in 5, b, below)

(iii) Increase of renewal gap by anticipated building taxes

✓ (iv) Areas where PV of ^{threatened} building taxes > renewal gap (a large empirical study, comparing land value map and map showing total value of land and buildings, by assessment districts. Half done.)

✓ (v) Estimate of number of years by which building taxes retard renewal. (At the least show whether income of old buildings falls off fast or slow. If fast, tax policy has little effect on renewal timing. If slow, it has a great deal of effect.) *Study shows it is slow.*

Downing's law of heterogeneous neighborhoods points up that most sites preserve some renewability value despite neighborhood deterioration. But negative spillovers from old buildings do rob neighborhoods of renewal value, and in neighborhood as a whole retard renewal further, a cumulative process whereby small independent effects have great leverage. Waico,

(vi) Other causes of retarded site renewal. (I have several pages on this.) Relative importance of tax policy. Reinforcement of tax policy by other policies: need for unified approach.

(vii) Replacement of "intersite" capital. Slower renewal of central sites diverts new capital to outer sites, requiring longer lines at lower density. These are renewed less often.

(viii) Long-term effect on renewal frequency, as second generation buildings are built with less quality because taxed.

b. Other effects, summarized.

(Note on expository strategy. I begin by speaking of the effects of taxing buildings. Then when I get to LVT, there are no "effects" of switching to LVT--rather, just a removal of effects of taxing buildings. Thus, LVT is not presented initially as incentive taxation, but the removal of disincentive taxation. Later (in 5, b) can note more subtle ways in which land taxes themselves take the fun out of advance purchase of land reserves.)

(1) Introductory and general

- The meaning of "effects." One must specify what is held constant and what else changes as tax is imposed. Follow James Heilbrun, assume some public services, reduced neutral tax, or reduced onerous tax. Thus no "income effect."

- Begin with atomistic parcel; then add spillover; then agglomeration or complementarity effects; finally aggregate effects. In this section only the atomistic parcel is treated.

- Marginal approach. Common fallacy of noting some building occurs despite tax liability, and concluding therefore if some do it, tax didn't deter anyone else. Tax cuts out marginal inputs: frequency, quality, height, coverage, and marginal supersession of farm land to city. Analysis analogous to Ricardo's of tithes, but building tax is only on the capital input and so has a substitution effect as well, against the use of capital. That has the saving grace of allowing non-capital intensification of good land, e.g. by high turnover; but this adds to street congestion and all public costs, while driving away capital, the tax base.

- Generality of the tax does not preserve proportions of land and capital, because they react differently to being taxed. Thus the notion of neutrality by virtue of generality has no basis.

- Basic distortion summarized: Landowner maximizes present value of land after taxes; social optimum is maximum present value before taxes.

Apply marginal analysis, using marginal net product of land after capital costs. The addition of building taxes to capital costs reduces marginal net present value of land to uses heavy on capital; increases relative bidding power of uses light on capital.

So service stations, 80% apron, compete with low apartment buildings successfully.

All uses with little capital:land ratio are encouraged to expand. But not all uses expand. On contrary, those with high capital:land ratio have to contract. [This is apart from credit rationing effect, which strengthens it.] Work this out--analytically there is still a bug in it. Do building taxes lead to great contrasts of intensity of land use? Why doesn't the equimarginal principle still hold after taxes? In a perfect market, would neighboring lands have comparable intensities? See ii, G, below.

(ii) Effects on intensity of land use: the atomistic parcel

A. Land tax component is essentially neutral, but save closer analysis for 5, b. (Credit rationing effect; anti-speculative effect)

B. On height

I. Marshall's basic analysis; height as index to land value., and vice versa. Value of land is cost saving from going lower. Scarcity and obsolescence of published information. Scan Ph.D. dissertations for unpublished work on this. Pump Irv. Hoch; Bert Goldberg; et al.

II. Residential:

- Apartments. High-rise vs. low rise. Downing's completed analysis. Allan Retzlaff, Skyline Realty; Max Neutze study.

- Single family, 2 and 3-story as in Whitefish Bay vs. ramblers and splits farther out. Scan House & Home for studies of relative costs. NAHB. Local builders, etc.

- Farm homes. Why have they lost height? We must understand what factors other than land value are involved in determining height of buildings.

- Importance of air conditioning, and automatic elevators.

III. Office

Similar to apartment. Also to classroom, although here there is more of a peak-load elevator problem. Campus building people a source of information. Effect of tax exemption on height of campus buildings.

IV. Industry

Refute the glib chestnut that "modern methods" "require" one level. ^{Alchuler & Footlieb} ~~Falsky's~~ Chicago study. Milwaukee's many multi-story industries.

V. Parking structures

^{Smith} ~~Wilfred Owen's~~ analysis and data.

VI. Retail

Economics of the escalator. Development of interior and upper space by large department stores.

VII. Storage and wholesale

VIII. Miscellaneous (e.g. hospitals, from Sy Gottlieb and HAPC)

C. On quality (relate to durability, cf. 3, a, viii)

D. On lot coverage (here we just discuss the individual lot.

Spillover effects covered later)

Building tax leads to great disparities of coverage, e.g. gas stations vs. apartment buildings. (But cf. 3, B, 1) Some users cover more land, but others less. What is net effect?

- not the primary problem.

Building tax lowers bidding power at fringes of urban use. I.e., makes it harder for city to take land from less intensive farm uses.

Thus may tend to overcontain city in the aggregate. Work that out, too.

✓ Countereffect is, it leads to sprawl and excessive spread of urban price influence. Amen!

Counter-influence of age factor and lot coverage factor.

Building tax delays renewal of old sites, and they have high lot coverage on small lots.

E. On types of land use

Building tax makes the following uses expand and/or move to central land: vacant; parking; gas aprons; old buildings; residences on large lots; low-rise buildings; truck terminals; railroad yards; land-using institutions; tank farms; the Port of Milwaukee.

Makes the following contract or move outward: apartments; office buildings; vertical storage; department stores with escalators; intensive manufacturing; retail; etc. (Why does it make them move outward?)

Result: systematic increase of distance among complementary land uses, adding to costs of intersite sector, reducing urban potential.

Develop that in 5, d.

F. Effect on human density

I. Residents

Less neighborhood specialization, but within neighborhoods less equal intensities. Apartments to outlands and away from view sites. Low density to center. Again, paramount effect is that uses of higher complementarity get separated.

New buildings driven from center. High-income residents driven out with new buildings. Income-density or spending-density therefore falls by much more than population density.

II. Employees

Big employers are generally fiscal surplus generators when buildings are taxed, so tax reduces their power to bid for central land.

Thus, tax reduces neighborhood specialization. Scatters employers. Again effect on intersite sector is profound.

Substitution of durable capital by labor may increase employment. But substitution for capital by land is likely to be equally strong, with less intensive use. And each man will have lower average product, so productive density falls, on each site, to say nothing of scatter.

III. Customers

Scatter of residences and employers causes scatter of all customer-oriented activities, as secondary result. There is also feedback, but retailing is market-oriented as to location.

There is also independent effect tending to scatter retailing by weakening bidding power of intensive users of central land. Complementarity is greater here than among residential or manufacturing land-users-- and also depends on the latter two's being concentrated as well.

G. On evenness of use. Does building tax cause unequal intensity on neighboring and comparable sites?

H. On ratio of building value:land value.

iii. Extended effects of taxing buildings: spillovers; complementarity; public costs; aggregates. (These are to be treated more fully later when we discuss the effects of untaxing buildings. Here, give a foretaste only. There might be a small amount of repetition, but that has expository value for this more subtle materials.)

A. Spillovers

These are immediate effects on neighboring parcels.

Age of building obviously has negative neighborhood spillovers. This is the most glaring damage from taxing buildings. Esthetics, safety of streets, rats, etc.

These effects bear some quantification. They not only impair neighboring land values. They also rob standing buildings of some of their value, so a sound building on N. 24th Street that would sell for \$18,000 or so if in a good neighborhood, goes for \$5,000 (but double check that, it may be a panic figure).

- Effect of height. Premia for land evident around many tall buildings: Allen-Bradley, American Motors, UW-M, Prospect Towers, Marine Plaza and other Water St. Banks, Pfister Tower, etc. (But beware, in Milwaukee as in many cities, highest land values are not found exactly where buildings are tallest, although that probably has another explanation.)

- Effect of quality. Obviously positive.

- Effect of lot coverage. (relate to height also) The most parlous aspect. Some postulate as an article of faith that building to lot line impairs neighboring land value. Find some empirical evidence. Certain it is that many low-coverage uses are undesirable neighbors: parking lots, gas stations, auto wreckers, junk yards. Cemeteries are clearly bad for retail across the street, and a tax-exempt parochial school breaks up a retail focus badly. On Prospect Drive, an old rooming house with side yards is clearly a less desirable neighbor than a high-rise apartment. Etc.

On the other hand, a neighbor building to my line threatens to consume some of my land, in effect. But then, I can also build to his, and I have the advantage because he has committed his capital first. E.g. if he

has a bunch of windows with wild fraternity boys ogling my garden, I can put up a blank wall an inch away--or get him to pay me not to!

In any event, if we do decide to require low coverage, taxing buildings is a very ineffective means. Zoning is more direct. A tax on lot coverage (regardless of value), is also more direct.

- Effect of type of land use. Here, the damage is a maximum. Breaks up foci of neighborhood specialization, or "natural zoning," by preventing the highest bidder before taxes, who is the one most complementary to the neighbor, from bidding highest after taxes.

Drives out fiscal angels, or patrons, attracts fiscal dependents, leaves them in a crisis.

B. Complementarity

- All land uses served by common utilities and transport--the "intersite" sector--and increase its costs by being further apart.

- Land uses complement each other in very many ways. These go by names like "linkages," "agglomeration economies," "economics of urban scale," "critical mass," etc. Taxing buildings, by breaking up specialized neighborhoods, and the city as a whole, impairs this complementation. This strikes at the heart of the city's raison d'être, for such complementation is the source of urban land value. The facts of this problem have been sketched out under 1, Land and Fiscal Problems. The loss of potential urban advantage is treated at length and in detail later, under discussion of effects of untaxing buildings, under heading "The Urban Potential."

C. On public costs

I. Private facilities that substitute for public ones

- Taxing private buildings

C. On public costs.

Lay out postulates. We must consistently define what "public" we mean. I mean the public of the local taxing jurisdiction where property tax decisions are made. When I allude to larger "publics" I will specify. Cf. assumption of "open economy" discussed under "Adequacy of Tax Base."

I. Private facilities that substitute for public ones

- Taxing private buildings taxes many facilities that substitute for public costs. Vertical transportation especially. Etc.
- Marginal stories of building produce less direct rent than early stories. May therefore add to public cost without adding to tax base. This is widely believed and a basic rationale for taxing buildings. (Marginal acres added to fringe of city add to public costs by a much larger factor, i.e. they indeed produce too little direct rent to repay the added social costs. But in high buildings the analogous costs of extending utilities are mostly privately borne.
- New buildings provide parking
- Recreational facilities
- Storage space (means more street trips required, when building taxes reduce everyone's storage space. The most used and therefore productive storage space is that nearest to consumer.)
- Esthetics

II. Welfare

(a) Reduced employment. Here, reality departs from pure "open economy" assumption. Every city has a big reservoir of unemployed and underemployed on welfare, partly at its own expense. Reduced local demand for labor, instead of just driving people away, or preventing their coming, puts them on welfare. Therefore to some extent, locally induced unemployment is a local cost.

Building taxes reduce employment by:

- reducing building. Construction is a smallish share of all direct employment. Indirect effects are greater, although much of them are felt in cities other than where the construction occurs.

Task: estimate relative importance of building construction as an employment generator.

- reducing number of employers in the city. This factor is paramount and undisputed. City loses employment base as industry moves out in search of lower taxes and cheaper land. Limited success of "land bank" program suggests that of the two, relative importance of high building taxes is great.

(b) Downgrade residences, attract and hold more welfare cases, fiscal dependents.

Some resistance to urban renewal comes from maudlin myopia of those who see in every demolition the displacement of a welfare case. They do not see the aggregate upgrading of the housing stock for all.

Repeat and emphasize here the open economy assumption, whereby exporting fiscal dependents looks better than from the national viewpoint. At this point some readers will insist on a look at national effects. So note national effect of taxing buildings is to increase number of fiscal dependents and worsen building supply.

III. Schools

(a) Reduces number of private schools by reducing means of average resident.

(b) Increases percentage of land used for residences, because industry and commerce are more intensive land users, and "fiscal patrons" when buildings are taxed.

(c) Reduces share of dwelling units which are apartments, thus increases number of school children per dwelling unit.

(d) Old houses offer cheap floor space, attract large families.

(e) Increases transportation cost getting children to school. Direct costs of bussing are not large, but indirect and hidden costs are large: time of children and their chauffeurs; need for larger number of smaller schools, lose economies of scale which Conant emphasizes; traffic hazard to children, and increase of congestion of streets; etc.

(f) Lower quality of school children--for the open economy.

(g) On the other side, the marginal story or marginal new house may add nothing directly to tax base unless building is taxed. This is reason commonly held for snob zoning to keep out new building, especially in suburbs, and same thinking would apply to building taxes (and is developed in part by James Heilbrun). But this hardly matches factors a-f; and is itself offset by the contribution of marginal residence to retail land values.

General Summary, re Welfare and Schools especially.

✓ Taxing capital repels capital more than it repels people, and the people run up the costs. This case is made from the selfish local viewpoint. From the larger view it would be modified, but the conclusion is not changed much.

IV. "Commons:" parks, streets, air, utility lines, water, etc. Open-access or underpriced local resources whose use may be rationed by keeping out people. (III, Schools, are a special case of this.)

(a) Where feasible, the economical solution is to put user charges on the commons equal to marginal social cost of their use. This is a logical extension of the reasoning behind land value taxation.

Granted that there is a cost to the imposition of such control, and a loss of informal innocence of rural days, but those preferring such joys may always move back to the depopulated countryside, if on balance that is their preference.

(b) It is only desirable to impose high user charges on commons if they are congested and in the stage of long-run increasing costs. If they are congested but undersized, it is past time to replace them. Prove that analytically and express popularly. Generally, the only commons in the stage of long-run increasing costs are land-using: parks and streets. Even that is questionable if a little ingenuity and imagination is used in developing parks and streets for high density.

The proposed Tivoli-like Gardens for Milwaukee was declared unfeasible, not because of high density, but the opposite. Mass transit requires high density and relieves street congestion. Same for high-rise buildings. Etc.

(c) Land uses encouraged by building taxes often impose high street costs: gas stations spill onto streets, endanger sidewalks; private driveways kill street parking space; parking lots debouche in rush hours, as Ed Hoover points out; old buildings lack parking, use streets; old heating plants pollute air; etc.

V. Evaluate insinuations of Margolis, Beck, et al. that high density of central city leads to higher public costs.

D. Aggregate effects

c. The effect of taxing buildings is economically harmful. This warrants exploring tax alternatives. So we proceed to next topic.

4. Proposed tax on site value

a. Theoretical rationale (Relate to 1, a) *Hoped for effects -- brief*

- Opportunity price("highest and best use"); building is residual (Babcock). Capitalized income or market price methods.
- Steadiness (not constancy) over the years-nature of imputed land income from long-term improvements.
- Superiority of capital value to annual income as tax base.
- Public value concept. Environmental vs. owner-controlled factors.

What to do with a big owner who performs some public functions, collects for his spillovers, etc.

- Ability to pay and benefits received; fiscal deficit and surplus generators, or dependents and patrons.
- Reject historical cost and land-residual methods.
- Consider arguments of Fisher, Ratcliff, Wendt, et al against possibility of separating land and buildings.
- Compare different tax bases with corresponding rental arrangements.

Fiscal leverage vs. fiscal sharing. Taxation can be less depressive than leasing because of municipalities' legal power to assess land.

b. Defining tax base in practice

(i) Use of proximity in assessment: interpolation; access the key

- Contrast to current practice
- Significance of land value map. It shows use of proximity/ as measure of site, shows use of opportunity value as underlying concept.
- Development of cadastral techniques. Contouring, blocking, etc. A big project.

- Need for drastic change in habits, concepts, and attitudes of most assessors. Not simply taking present assessed value of land. Must bring

deep understanding of objectives of tax policy to the operating level; also bring operating know-how to theory level.

(ii) Sources of land value data; their interpretation

- Sales; bid and ask prices; rents of old and/or uninsured buildings; income from parking lots, golf courses, drive-ins, cemeteries, and trailer parks; effect of different lot sizes and lease terms on sale values; effect of street widening; appraisal by experts: model building; comparability method (Babcock); expressway acquisitions of vacant land (unfortunately where they acquire land with old buildings, their breakdowns are useless; but they also acquire a lot of completely vacant land. Also, see how they justify allocating a low share of a price to land next door to a vacant parcel for which they paid higher.)

- Possible supplements generated by shift to land value tax: self-assessment of vacant land; registry of bid and ask prices; active turnover of city-owned land; faster turnover of private land due to land value tax; lease bids for city-owned land; put up zoning for bid; assess by zoning (danger!); let anyone bid for temporary use of vacant land; let city assemble land with plottage potential, using eminent domain, and reap latent plottage.

- need for new experience tables for depth, corner, plottage, etc.

(iii) Signals for changing valuation

No longer anything mechanistic, like a building permit or a sale, or other registered happening.

Gradualism, over time. Value of ripening land rises along compound interest curve, rather than moving abruptly to higher use. Value of remaining vacant lots rises rapidly as a subdivision fills in, and so, therefore, most value of land under standing buildings.

(Gradualism over space, as well)

Continuous functions - must be brought to the operating level.

- Public works plans and completions call for reassessment.

(iv) Special problems in use of proximity

- Non-location differences like subsoil
- Difference in access: abrupt changes, exceptions to gradualism.
- Plottage and subdivision (size of parcel owned). (Include here further comment on the big owner problem opened in a.)
- Spot zoning
- Demolition costs
- Monopoly, and bilateral monopoly (one buyer expanding; preemptive buying of key sites for new shopping centers, etc.)
- Public taking--is this a land value?

(v) Tax dodges to overcome

- Exemptions for unused land allegedly attached to or planned for development in an exempt use.
- Covenants for low use
- Large lot zoning; exclusive low-use zoning; spot zoning and other ambiguity. [Assessing of high-density zoning is actually done, but beware the trap: low-density zoning is the tax dodge.]
- Delinquency, with redemption rights exercised if area develops
- Elderly exemption

(vi) How far to carry the ferreting out of latent value?

- Ways that latent value is suppressed or concealed
- Failure to subdivide or assemble; weak owners; rejection of incorporation; preclusive incorporation to reject urban development; neighborhood failure with inter-dependent externalities (work in from the fringes, tax grandfather privileges of old buildings)

- Pragmatic criterion. Do as much as you reasonably can in the circumstances, and what will do the most good.
- Latitude in recognizing latent value. Coordination of assessment with public works and zoning and planning.
- No compromise with low-use zoning, it strikes at heart of land value taxation. *On low-use covenants.*
- Room for compromise--discount latency for improbability and futurity. Use discount factors rather than sharp classes. [Political value of lower assessment of small lots with latent plottage, where they are occupied by weak resident-owners.] Thus, small lots with latent plottage are assessed for value in present bounds plus part of plottage, on rationale that plottage will be realized sometime, so it is like assessing peripheral land for discounted development value. Added rationale, assessing plottage speeds realization. The actual assembly of land and realization of plottage may finally raise value, making this a tax on assembly. However, the deterrent effects are overcome by the compromise solution of assessing the wrongly sized parcels above the terminis paribus value, so the landowners are always better off to assemble or divide to the optimal size.

(vii) Presentation of a tentative map of land valuation as is. Discuss it. Is contouring appropriate? Alternative block methods, etc.

(viii) Discuss probable land valuation contours after buildings exempted.

C. The Assessor

- (i) His great latitude and leverage.
- (ii) Need to coordinate with other officials.

Must keep cadaster up to date, change frequently, without regard to sale or building on the site being changed. A difficult concept for present assessors to get, departs from current practice. (Cf. 3, b, iii)

(iv) Need for fundamental change of outlook and ingrained habits.

Assessor's methods are as important as legislation. Present methods are basically inappropriate in many ways. The formation of opinion and professional attitudes through professional training and conferences and research--legislative bodies cannot spell out details nor do original thinking. Climate of opinion counts--both expert and popular. Assessors can lead, but can also be pushed by other groups. Desire for live, active, thriving community is essential. *This in turn calls for direct control on nuisances.*

(v) High relative importance of assessor and his operating concepts and methods. Modest self-image of present assessors, engrossment in minor detail, fear of protests. Change in job--would be upgraded; require fewer men but more leadership.

d. Some exotic components of proposed tax base

Grandfather privileges

TV frequencies

Use of space on city streets: taxis, delivery trucks, gas stations
Franchises; milk distribn. monop.
 Uncontrolled combustion?

Liquor licenses

e. Some related but distinct proposals that shed light on present proposal.

Assessment freeze, etc.

Municipal absorption of demolition loss

Increment tax

Public acquisition and leasing

5. Anticipated Effects on land use of untaxing buildings and collecting the same levy from the land value base.

a. General

- Comparative statics the method here--transitional problems come later
- As before, explain meaning of "effects."

b. Positive Effect of taxing land

- Credit rationing effect
- Offset to income tax exemption of implicit income
- Offset to income tax favoritism to deferred income from appreciating

land

- Leverage--psychological and measurement bias effect.

c. Effect of untaxing buildings on atomistic parcels

Reverse of effect of taxing buildings. Reprise.

d. Effect on costs of urban circulation. Gas distribution costs as a case study, using data developed with Milwaukee Gas Light Co. *Water distr. costs.*

e. Effect on public costs that are functions of space: flood control, trees, street lights, etc. Reprise of much material from 1, Land and fiscal problems.

f. Effect on public costs that are functions of people. Reprise of material on school and welfare costs.

g. Spillover and agglomerative effects of taxing land, and untaxing buildings.

Bring many threads together here--this is a climax.

⁰⁰The Urban Potential.⁰⁰ The benefits of bringing together complementary

uses.

THE URBAN POTENTIAL

(i) Maximize access to the cities' basic locating factors, for example, the waterfront, a focus of interregional transportation routes, a load-breaking point. The basic locating factors make a place of maximum mutual access for the region served by the city, a place for marketing, storage and service.

(ii) Develop the locating factors. Increase frequency of service by water, rail, air and highways. (The reason most commonly given by shippers who do not use the Port of Milwaukee is not the monetary cost but the delays.) Dredge the harbor, lengthen the runway for jets, and attract new forms of transportation. The location of airports in fact could be anywhere but they locate near centers originally established by other means of transportation. The basic locating factors are a city's window on the world; development opens the window.

(iii) Maximize mutual access of local people to each other for sociability and exchange.

(iv) Share the common costs of large-scale and highly varied facilities.

(v) Widen the market to permit specialization. "The division of labor is limited by the extent of the market." *Individual firms specialize; neighborhoods specialize.*

(vi) Maximize choice. Variety is the handmaiden of specialization.

(vii) Promote competition. In a small town there is room for only one each of several kinds of businesses, and if you don't like the price that's tough.

In a large city you develop neighborhood specialization--a financial district, high-style stores, office districts with doctors and lawyers, even honky-tonk strips like Bourbon Street, automobile dealers' blocks, produce markets, wholesale district, skid row, hotels near the railroad terminals, etc. The individual shops in these specialized neighborhoods compete and cooperate simultaneously. Like the individual petals on a composite flower they make a large

enough splash of color to attract the bee. Once he's there they compete but if they weren't competing he wouldn't come at all.

(viii) Achieve stability and reliability. Twenty-four-hour use of stores and utilities, high load factors, pooling of demand from different quarters-- the variations tend to offset one another so that the flow of demand and supply in a central market has much less percentage variability than that in any outlying market, just as the Mississippi or any river at its mouth is much more stable than any of the tributary streams. Unemployment of labor is distinctly less in larger cities than in smaller, for the same reason. *Diurnal, seasonal, cyclical, & secular stability — growth is more stable, too, & more predictable.*

(ix) Improve credit ratings, both individual and collective. Individual firms in the city have better credit because the city itself gives stability, and the city itself has good credit because of its aggregate stability. The city uses its credit to provide social overhead capital for business such as water supply and sewage disposal facilities which outside the city the business must provide with its own capital. Thus small business thrives in big cities better than in smaller cities. Individuals' credit also improves when they are nearer to lenders and Dun & Bradstreet. *(Better credit for this city is not an overall social gain, but we assume open ec.)*

(x) Multiply and diffuse knowledge and information. In the city information is circulated and pooled and is not lost in the telling and the sum just keeps on growing. Information travels faster and one keeps more current the more contacts everyone has. *There is a limit, a problem of overload of media, but and of attn. spans of individuals. But solvable by specialization of media.*
The city lowers the cost and reduces our dependence on advertising.

Buyers come closer to sellers and see them as they are--not as an image created by billboards (and billboards incidentally take up a 40-foot lot or so for each one and even more if they are to be effective on a high-speed expressway, while a small card in the window might have the same impact on a stream of pedestrians.)

Contacts increase with square of numbers. Consigny's work on evaluation of crime data.

(xi) High turnover. In the city you do more business per dollar of capital, which is all to the good.

(xii) Flexibility. The better the access among different firms the more they can cooperate, subcontract, join in syndicates, lease and sell buildings, borrow equipment, etc.

Also, higher turnover of buildings. Cities "light on their feet," ready to retool for new demands. Milwaukee's loss of new industry, excessive reliance on old standbys.

(xiii) Encourage small business. The big city is the obvious place for the small businessman who lacks the capital to build for himself all the things which the city provides for everybody. The system of free competitive enterprise depends on the city to make competition work. (Note my error in Urban Expansion.) Without the city the individual corporation takes on the functions of city government and virtually becomes government in the pattern of the company town, which is not too different from a feudal hacienda in Paraguay. *Vertical integration provided by the market.*

(xiv) Bring government into contact with the citizens. Compactness of population allows specialization in government just as in trade. The city lets governments organize functionally rather than regionally.

(xv) Maximize the great benefits of serendipity.

(xvi) Permit greater individuality and non-conformity. In the city you can find what you want to please minority tastes. The farther from the city the more one must rely on the boob tube. Or the less compact the city, like Los Angeles.

(xvii) Promote innovation, concentration of brains, information, materials, equipment, markets--that is obviously the place to develop new ideas. (See also 19, related but distinct.)

(xviii) Let culture flow. From the country juke box to the Metropolitan Opera. Let's not overstate that. The Emporia Gazette may be better than the New York Daily whatever it is, but remember I am talking about the urban promise, not the fulfillment of it.

(xix) Increase the number of combinations of people and resources, each differentiated. Number of possible combinations (of things taken two at a time). Increases with square of number of people [goods, buildings, machines, books, etc.] One selects the good combinations, of course. *Productivity of each resource as it is combined with more complementary complements.*

(xx) Bring storage near to supply and demand, thus minimize need for peak capacity in transportation.

(xxi) Lower distribution costs.

Accelerate initial use of capital in distribution networks.

Complete public works rapidly--minimize stretch-out wastes.

That is the urban "promise." The promise has not been fulfilled in Milwaukee because the city is not at all what it should be and could be. But the fulfillment of the urban promise depends on easy mutual access of the parts as well as timely renewal of obsolete buildings--which we do not accomplish.

But, if we did, we should find that the advantages of maximizing access among people led to a cumulating, snowballing growth of the strength and social value of the city.

h. Aggregative effects

There has to be a limit to urban growth. If there were constant demand for a city's exports, and increasing returns without limit, then one city would serve the entire world.

There are increasing costs: water supply, waste disposal, air pollution, etc. *Internal circulation generally - just like higher limit to bldg. bsn. need all ground space for elevators, so space limit to city as center becomes all xptn. But note how the limit can be forestalled by good policies.*
There is limited demand, so after some point a city wants, from its parochial interest, to limit production to valorize its property. Then, taxing buildings has a rationale.

The thesis here is, however, that there is no foreseeable limit to demand for Milwaukee exports. There are no significant increasing costs based on resource scarcity--least of all water supply. So the limits of growth are another kind of increasing costs: the costs of administering government. That is the bottleneck.

This may also be described as the will to grow, a willingness of some urban group or agency to accept the added burdens of larger size.

6. Adequacy of the land tax base.

a. Assume an open economy, (but with some local unemployment and under-employment of labor). Labor and capital migrate freely. The city has little monopoly power over hinterland--realistic for Milwaukee. The city bankers and FHA director talk as though they were cartel directors, stopping building to correct oversupply, but this is self-delusion based on looking at a small part of the local market at a time. (Katz and apartments; Uihlein and bank buildings, etc.)

b. Assume, as before, that increased land taxes are not "onerous" (in Marshall's sense), but either finance added services or lower other taxes.

Then they should not lower land values, unless a, a government is inefficient, or b, added services are mostly welfare payments to fiscal dependents.

Remission of building tax capitalized into land values, "conservation of economic energy," (see my Testimony before Douglas Commission), so land taxes can be raised without lowering land values. However, the rate may have to be higher. Present mathematics--worked out in my letter to Percy Williams.

c. Reduced urban sprawl and floating value is likely.

Reduced holdout asking prices are likely

In that sense land values should fall. But asking prices are not presently part of the tax base anyway.

d. Remission of building tax more than capitalized into land value because:

I. Excess burden. Higher use of land yields more economic rent.

Yields it sooner, as well--see my talk to Oregon Tax Policy Institute.

II. Spillovers

III. Realization of urban potential

IV. All land taxed as though at full potential--now only a little is

V. Reduced public costs, because new and higher buildings substitute for public outlays.

Cite Sydney's high land values, and other Australian experience.

Refute Heilbrun's gloom on this. Chide unimaginative use of assessed values of land subject to building taxes, and of Nat. Bureau data.

e. Land tax base can be increased without limit if necessary. (This is a prime factor scaring local landowners away from it. Otherwise it is to their myopic advantage.)

f. Increased employment reduces welfare costs, with no increase of school costs (because the people are already here).

The important difference between two routes to raising L.v.: Δ g demand (d) and reducing supply (c). (Like levelling up vs. levelling down in int. trade.) Lvt levels up, by Δ demand for land. It is the Δ d demand that leads to higher L.v. Same time, there is Δ supply, maybe net movement is even to lower price

g. Ease problem of adding institutional land to tax base, where not really used. You can't put a market value on a church, but you can put an opportunity value on its land.

h. Arguments for inadequacy

I. Marginal capacity (e.g. a story) yields no rent, but adds to public costs, congests commons.

Refuting: taxing buildings is not taxing people or autos, the congesting agents. It encourages autos, greatly. Welfare cases live in old houses. Police and fire costs are higher there, too.

There is truth in this argument re new outlying subdivisions. These receive great subsidy from central city, which building tax tends to offset, because they have dear buildings on cheap land.

But economical solution here is to stop subsidizing these areas in utility, street, and other policies.

Develop this.

II. Marginal capacity competes, lowers rents for all.

We have assumed away arguments on which this rests, that city has a monopoly position to exploit.

III. Commons are congested, in stage of increasing costs

This is a short-run argument, refuted earlier.

IV. It is necessary to screen out fiscal dependents and other less desirable citizens by a high admission fee: require high building standards, enforce land consumption by zoning, then tax the buildings besides.

7. Changed distribution of tax burden and pattern of land values; implications for equity.

a. Among types of land use.

The usual generalizations are misleading, because based on short run,

Public costs & gains. (?)

i.e. the standing improvement rather than the potential improvement after taxes.

Thus, vacant lots pay more. But exemption of potential buildings benefits them as much as, and often more than, land under standing buildings. They can take advantage of the new opportunities sooner. So the value of much vacant land will rise.

The long-run shift of values will be in favor of land whose best use is capital-intensive, regardless of present use. The remission of buildings taxes will increase the land tax base, so there will be no great redistribution of values. Redistribution will be only minor, in favor of land whose excess burden from building taxes has been greatest.

The historical concern with "confiscation" has been greatly overdrawn. So long as the tax levy remains the same, there is no overall confiscation of land; nor any great shift among types of land.

b. Among vicinities

In short run, tax burden clearly shifts toward center of city, and toward fringe areas around expanding city and around expanding CBD.

In long run, much depends on factors which I do not expect to be able to forecast accurately. Central renewal will tend to suck in a lot of demand now scattered over four counties. But removal of taxes from buildings on marginal land, taken by itself, tends to extend the margin, i.e. to pull the city outwards.

Probably the answer is that cities which cease taxing new buildings will also be moved to cease subsidizing new subdivisions in their capital budgets and utility policies, so the net effect will be a stronger centripetal pull. That is also supported by consideration of large amounts of vacant and derelict land in the inner city.

Granting that, then fringe land will lose value--not largely from higher taxes, but lower demand.

c. Among taxpayers ranked by means, income, liquidity, and other measures of progressivity

Ownership of appreciating land is especially concentrated. Also CBD land. General shift away from intermediate middle-class belt, to center and speculative fringes. *Data? Man on disn.*

Gottlieb's data on attitude toward land as a superior good.

The International Major Oil Companies as a major group whose taxes would rise: gas stations and tank farms, and pipeline terminals. Railroads a second. The Uihlein family a third.

Tenants. Short-run gains, as supply of buildings rises. Offset by immigration to this open economy.

Effect on extent of tenancy. Apartment scare, but condominium helps, cf. New Westminster, B. C., with highest percentage of owner-occupied homes in Canada.

Refute Haig's specious reasoning on this.

Effect on credit rationing and thence distribution.

Equity: winners automatically compensate losers from public works changes.

d. Among jurisdictions

Relate to (a). City of Milwaukee and inner suburbs would gain population and capital and land value from outer suburbs, if all shifted over. Problem is, given local option, some outer suburbs would shift over and inner wouldn't, the overall result being uneconomical. Argues for moving the decision to State or County level--mandatory to exempt buildings (precedent: California Water Code of 1917). *But central city, bes. of present dense pop., is riding the tiger, and has less option not to renew than new low-density suburbs.*

Premature outer suburbs would be drained of both tax base and need for one. *If pop. of metro. area remained const. But it wd. probably rise.*

Relative contributions to County of different municipalities would change. This affects political feasibility. Analyze these relations. Central city may be more exposed to onerous taxes under land system.

See ICMS pp. 20-22 for incipient analysis.

Many suburbanites own land in city; and absentee owned real estate is more land-intensive. Annexing suburbs cannot touch biggest absentees, jet-setters now in Miami, La Jolla, etc. But the land they own is ^{taxable} in Milwaukee.

8. Transition

Important. Most of our lives are spent journeying hopefully, rather than arriving. And the journey comes before the arrival.

a. Public works.

Inherited: a pattern of public works keyed to land use intensities and types based on present tax constraints. Also, a pattern of criteria for building and sizing extensions. The poured concrete is immovable, the thinking of city engineers is almost as concrete, but more hopeful of change. It needs to be coordinated with new tax policy.

Inherited excess capacity of civil engineering, land development investments. No need to hold up outer land prices to stimulate more, during transition.

✓ But we do need to expect to raise capacity of inner lines. At first this may disguise some of the cost savings.

More thinking needed. See work under 1, Land and fiscal problems, on costs of urban circulation.

b. Divided interests

- Mortgaged land

- Leaseholds. Who is liable for tax increase? In Hawaii, the lessee.

Beware this problem. Sovereign can specify on whom it levies taxes; contracts in anticipation should be void.

c. Incremental approaches to tax change.

I. Begin with best land and work down to marginal. Avoid sudden burst of growth that would create short-run glut, or medium-run boom (as in Prairie Provinces, 'teens). Investment forecasting is very hard when a city changes character rapidly.

But which is the 'best' land? Probably in center, but it depends on intensity quotients. See ICMS pp. 20-22. Sequence of development is important, just as with Columbia River dams, or oil wells. Work this out.

II. Voluntary basis

- Local option of existing municipalities

- Urban Renewal Districts

- Individual option. This is sneaky. A few would change, and soon everyone would realize he had to change, or be left behind. Those who didn't change would find their land assessment rising anyway, as it was bid for by buyers who had the option of changing.

.III. Partial

- Freezes

- Graded tax

IV. Zoning

- Auction high density zoning to high bidder.

- Give high zoning only to those who go to land value taxation system.

- Caution: Open door to tax dodges.

Ld. Val....

V. Leasing

City acquires land in renewal areas. Reaps plottage, replatting increments (cf. Walras rationale). Reaps spillover gains from new buildings. Leases out land free of building taxes.

10. Need for coordination and perspective.

Property tax policy is only one of several urban policies to enhance welfare. Reprise of other relevant policies specified earlier.

Essential matter is the intent of the power establishment. Needed future research in political science: how create a power structure whose concept of self-interest coincides with the general economic welfare? Our section on interjurisdictional relations is a basis for such study.

Meantime, every city complex can help itself realize the urban potential by reforming its local property tax.

Terms to complete for Milw. study ("ICMS")

on

I. Est. of volume of renewal blocked by bldg. tax; and of underused capacity of land (along lines of urban expansion article.)

A. L.V. map

B. R.E. value map

C. Areas where $LV > R.E.V. - PVTaxes$. I.e. where $PVT > renewal\ gap$.

✓ D. Depreciation profiles, to est. how much bldg. life wd. be shortened.

1. From evidence of the map, coupled with dating of bldgs. of various values

2. From independent depreciation studies

a. Theoretical

b. Observed

3. Reinforcement of above by neighborhood effects on renew-

ability
4. Evidence from Whitefish Bay; Urban Renewal Program in Milw.

E. Immediate transitional impact vs. long run ~~effect~~ equilibrium rate of

F.} renewal - How important is bldg. tax? % of gross & net going for taxes; popularity & success of tax shelter: Butler, Glendale, W. Milw.

II. Adequacy of Tax base

(but w. unemployment)

A. Assumption of open economy; Δ popn. & capt.; no unemp. power
assum. of either reducing other taxes or Δ services which Δ tax. Benefits fall to L.V., so base > outlays.

B. Capn. of bldg. tax into L.V. tax base

B. $\frac{1}{2}$ All land taxed on the fully improved. Now, only a little is.

C. Introduction of regul. capt. yielding no rent; using commons

1. Higher stories

2. New housing for middle class

3. Lose unemp. gains -- assumed away.

Key qn: does the regul. capt. create rents enough that tax on them cover the Δ costs?

D. Offsetting Δ tax base & lower costs

1. Elim. bldgs. regul. by virtue of age. Gain big ex. burden and get it sooner

2. Elim. motive & need for city to subsidize new areas.

3. More vertical xptn, partly financed

4. Soak up unemployed already in city -- modifies part of

open ex. assumption. Converts welfare liability into producing asset, no Δ of school costs, etc. pure gain.

a test & analogy - Does enforced land consumption by means of zoning Δ tax base per cap. by more than Δ costs?

5. ¹ Reduce distances (elim. bldgs. that are subopt. by virtue of great distance from center.)

a. Public savings reduce tax needs

b. Pvt. savings Δ l.v. tax base

6. External economies

The Urban Promise - aggregation ecs.; spillover ecs.

E. Ease problem of adding inst. land to tax base.

F. Needed Δ of tax rate to maintain revenue.

G. Possibility of increasing rate without limit. Fixed supply.

H. Steadiness and flexibility of base. In imputation process, land gets (over)

III. Features of present g.p. tax (esply. relevant to l.v.)

1. Exemptions.

2. Assessment of bare land

1. Underassessment of rising land. Tendency to capitalize

~~Realized income~~ - a realizable income and assume cap. gains not inc. Tendency to stick with historical cost. No change of asmt. until there is a "happening".

2. Underassmt. of risen but unrenovated land. Tendency to capze. realized rather than realizable inc. Land not assessed on opp. cost basis.

Evidence from demolitions

Use of underzoning coupled w. spot zoning to min. carrying costs, as on E. Side.

3. Consequence of underassmt. Benefits pasting lots. Encourages

old owner to demolish w/o replacing. Or to build a cheap improvement -- then asmt. is just underassessed land plus cost of improvement

4. See D

A $\frac{1}{2}$. Assmt. of land under old. Bldgs. No l.v. map used. Adjacent identical lots differ in ass. value, bcs. ass. uses hodge-podge methods, based on realized inc., etc. Violates Hund.

B. Assmt. of new bldgs. Somers, Purdy, Zouquette. Put these on a map. dramatizing difference.

1. Based on cost of bldg, not income possibilities.

Thus avoids bringing land into tax base -- provided there is no sale.

Thus historical cost basis is doubly pernicious: here & in

a. 1.

steady yearly income. Capl. absorbs shocks. So it is appropriate for land to bear a steady tax, and its ability to pay steadily is greater. That is esp. evident where land is leased: lessor gets steady payment.

H. Irrelevance of present and. values of land, even under current tax regimen. Failure to use maps, and adjacency.

Irrelevance of Goldsmith's, 5:1 ratio.

But note, use of maps denies plottage. Every lot is on front foot basis, altho some are not opt. size. Value based on sales is biased toward sizes that happened to sell — probly on balance below value of opt. size, altho occasionally above it, incl. expansion. So areas below expansion purchases, above odd size whole purchases.

If assessor "capitalized" cash flow from old bldg. w/o taking cognizance of short life, he wd. be taxing land 13

C. Assmt of older bldgs.

1. How fast does assmt fall as bldg. ages?

To encourage renewal, it would be best if assmt. fell immediately, thus minimizing burdens on new bldgs. Then rose.

But we get worst of both worlds. Assmt. stays hi long enough to penalize the owner of new bldg. Then falls very low. E.g. now in inner core.

2. Remodeling. Exemption of some interior work, not of bldg. permit work painting?

move to Q 4

D. & Assmt. of street improvements, subdivision

It probly rises tax, the subdivider. Small lots sell for more than large, & this platage is ~~tax~~. So subdividing outside tax by not subdividing. a serious bias. It should, unless city invests.

Can tax are holder on potentiality. Dept. store sites downtown are assd. on potentiality of escalation, etc. - are holder can pay on pot. of streets.

E. Assmt. of rail & utility property

Tax cost is little felt bcs. automatically passed on.

No cost of holding idle land, save the desire to build up traffic in service area. And they may prefer sprawl, higher rate base.

F. Special Assessments; frontage maintenance

They simulate land value tax, except are based on frontage ~~base~~ & not value.

Street, curb & gutters, sidewalks costs. In W. Bay, a fair 7%, maybe 10%, of total.

~~The~~ Labor obligations: shoveling snow, lawn care of parkway.

G. County-munic. equalization & relations

Large-lot zoning as tax dodge

Reduced munic. incentive to max. local position -- brought out in arguments vs. generalizing City of Mil. ass. freeze. City wd. give up some of its revenue for a freeze pd., to enhance future tax base; then City shares in benefits. This even stronger in a Munic. like W. Milw. where School taxes go outside the munic. And even where the S.D. is congruent w. Munic., as Wk. Bay, the two instns. may not act as though they had a community of interest.

Spread of Wk. Bay Comm. Renewal Plan also inhibited by above. (But encouraged by shared inc. taxes.)

Any tendency by assessors of munic. to recognize untapped potentialities of land and assess them is inhibited ✓ by interjurisdictional sharing. If this were to be done, it would have to be forced by county level.

This may be a paramount problem in getting constructive ✓ action. I may have to recommend changes of political structure to create incentive pattern which would then automatically lead to L.V.T.

H. Discrim. vs. absentee owners.

Discrim. vs. indexing. (a pattern of psycho. dependency, or group masochism, -- a good way to describe parasitic attitudes.) Is discrim. vs. bldgs.

Discrim. by city vs. suburban owners? Little evidence, but contrary. These absentees have developed effective defenses, (unlike absentee owners of Minn. iron mines, etc.)

Courts are effective defense. Absentees tend to be richer, can go to court.

Absentees often yield fiscal surplus. They own incl. comm. prop. in city, require services in suburbs.

I. Relations with State

1.] Shared state income tax encourages munic. to attract new housing.

Is opposed by social critics of the dependency school. They do not see effect of reaction to taxes. Assume inelastic supply of capital. See only little parts of whole picture at any time, scorn aggreg. anal. as "trickle-down"

2.] Shared sales tax. Based on inventories.

I. Relations w. Federal

Deductibility of prop. taxes. They are sometimes capt. costs & shld. be capitalized: apprais land

They sometimes pay for services that yield implicit un-taxed income. To deduct costs but not tax corresponding income reduces impact of tax.

If you improve develop land yourself, Δ is ordy-inc, costs are capt. But if munic. dev. land for you, Δ is cap. gain and costs are expensed, either as taxes or special assmts. (But you cannot deduct sp. assmts.?)

Major biases:

1. Vs. cash income, for implicit inc.
2. For unrealized Δ s.

3. For deferred inc., current costs. Inc. tax also moderates some of 16
the damage done by bldg. tax, by letting early losses be expensed. Indeed, in absence
of bldg. tax, effect of inc. tax wd. be to direct too much cap. into bldgs.

Propty. tax helps compensate for those biases - shd. be
encouraged to, not blocked.

~~Quest for cap. gains treatment; a better, complete avoidance~~

~~Looked in effect~~

~~For~~ Use by IRS of annex: allocation, land vs. bldgs. Let people depreciate
~~Residual~~ land. Creates local motive & pressure to undervalue land comp.

K. Differences among jurisdictions. ^{Latitude of address.} Punitive-dependency psychology in City

of Md., go after big fat cats. Suburbs more encouraging to youth & quality, but discourage

IV. ^{emerging} Describe proposed site value base

A. Market value the ^{underlying} ~~basic~~ idea. (also "public value")

1. Opp. price of land. w/o bldg.

a familiar ec. concept -- yet this is one of few
places it can apply, bcs. land has salvage value comparable to value in
place.

Curiously, costs. meet the concept here as tho it were
an oddity -- "highest & best use" regarded as something arbitrary,
imposed by dictatorial assessor.

Residual or MP approaches, they are equivalent. Both yield evidence.

2. Treatment of demolition cost

3. Rejection of ~~historical cost~~, alternative concepts

a. Historical cost

b. Land residual, bldg. at hist. cost less deprec.

✓ 4. Use of adjacency in assessment

More than makes up for having fewer data

Development of cadastral techniques is at heart of this project. Give it [7]
some weight. See Orange Sheet D7-1

Problem of areas where new strts. are put. Then only acreage l.v. can be found by interp. So in new areas, define l.v. as acreage. As more in, l.v. becomes lot value, when streets are replaced by city.

Presentation of Bird's eye l.v. map. (noting need for fine tuning, or another stage, to show detailed anatomy of neighborhoods)

(Note how different it wd. be in absence of bldg. taxes)

Assessment problem generally. Possibilities of supplementing (over)

5. Ceteris paribus concept of l.v.

But not omnibus paribus. Specify what may be considered mutandis.

Take it in stages. Each one adds a degree of uncertainty.

Treatment of ^{don't tax subdiv. & assembly.} plotage; of zoning ambiguity; of neighborhood potentialities. (Cheaper xptn. makes all lots too small, MP > AP. Use of such sales might overstate l.v.)

6. Meet arguments of E.M. Fisher, R. Ratcliffe, maybe others who say one cannot separate land & bldgs. Mgtl. anal. vs. onelette school. Margin in space & time.

7. Treatment of street improvements, &c. put. dev. outlays.

Solved by 'public value' concept. Basic idea is environmental vs. owner-controlled factors.

Except where taxpaying landowner gets ahead of deprec.

Then he is the 'public' who created the value.

Quantitative info. on subdiv. costs.

How treat l.v. in area of new subdivs?

8. Superiority of capital value base to:

a. Capitalized current income. Use plans extend over yrs, so one yr's inc. involves smoothing out a long stream.

b. Realized income (fiscal profit-sharing)

c. Gross inc. less expended capt. costs.

9. Importance of zoning

9 ¹/₂. Problem of old bldgs. w. grandfather privileges.
Problem of homogeneous strms w/o reuse value.

(Might even let anyone use vacant land, e.g. put a trailer there, if owner not willing.)

- Get index of rents in Mke. Have they risen much?

Correlate w. l.v. in space & time.

- Ben Smith's methods. Parking lot revs.; dilapidated rural bldg.

- Must not fall for several uses now in common use. E.g. underzoning to min. carry's costs. On e. side, they get low assmt. bcs. of low zone, but can shift to higher zone at will when ready. So in integrating tax and zoning, don't just take zoning as is. Requires rational and public minded zoning. Zoning now so corrupt, wd. be better to use tax policy to offset it.

sales data with self-assessments of vacant land only. -- includes land under vacant old bldgs, etc. Includes residences w. oversize lots. Parking areas.

If Thus create a mkt. whenever it lacks.

City could bid on all lots. Any bid refused raise assmt. above bid. This is altern. to self-assmt.

Surplus side yards are biddable. Who would want them? A neighbor who wants to widen his house ^{or meet a required F.A.R.} Or build a play yard for his kids. ^{or a garage, or parking apron.} Or a firm that needs more parking. Thus bilateral mktg. ceases to be so imperfect. Bids are registered, and raise assessments.

Demolition is always evidence of l.v.

Widening streets, clip off bare land. Smaller lots worth less. All this market action would create a mkt. in all areas.

Individual prefs. would determine lot size. Individuals would individualize lots.

Under self-assmt., owners wd. overstate, as risk premium. But as all wd. do this, t.r. cd. be less.

13. Supplements to sales data. Bid & ask prices. Contemplation of model bldgs. Compare prices of large and small lots, gives good idea of (over)

Lvt speeds demolition, adds to data. Speeds turnover by making what more commensurate.

14. Problem of area where l.v. rise but existing bldgs. obsolete, so taxes rise while overall mkt. values fall. Not likely, and if so, no inequity.

15. Need to assess bare (over)

10. Distinction of proposed base from other measures & proposals

a. Assmt. freeze -- leaves land low (altho Manny said maybe land could rise). Land fails to change with environment. Discrim. vs. middle age bldgs.

b. Munic. demolition. Leaves buyer inhibited.

Leaves apprais land untaxed. No leverage, etc.

11. Define land. Use intro. to Ground rent article. & Welfare Ecs. Public and environmental factors vs. owner controlled factors

12. Needed change in assessor's techniques. More drastic than just using present assessed. l.v. Must develop cadaster; keep current. Get used to changing values w/o any bldg. permit or other special occasion. Involves assessor in much less detail than now, but more broad-gauged; elevates & upgrades the job. Fewer, better people. Breeds

V. Legal feasibility

Classified prop'ty. Tax legal in W's.

Requires legish. action.

Precedent -- Grimstad Bill

Confusion from recent Sup. Ct. decision re freeze

instinctive resistance from people who make their living from an essentially meaningless operation, counting windows on bldgs, etc.

ask Harold re legal aspects.

VI. Changes in ^{individual atomistic} land use resulting from neutral taxation

a. Adopt Heilbrunn approach. The neutral tax is the standard.

Find the changes from ex. use caused by bldg. tax.

B. Begin with individual parcel, atomistic. (Then study spillovers in next section, VII)

c. Mgmt. approach. Tax cuts out mgmt. inputs: height, quality, newness, lot coverage; taking of farm land.

Ricardo's ~~tax~~ tithes analysis applies partly. Reduces mgmt. use.

But is also a substn. effect, bcs. only capl. input is taxed.

Generality of tax does not preserve factor proportions, bcs. land & capital react differently to being taxed. Land remains, tax is capl.

ingul. value of land. After all, every "improved" lot has lots of bare land at the fringes. How much is paid to us large lots, in free wk? Do owners build to permitted coverage? Make project of listing ingenious ways to est. l.v. Let this be D7 project, supplement data and perfect map.

~~Use Fire Rating Bureau. Allen S. Dimoff. Rents of old Bldg. E.g. on E. Silver Spring, &c. old commercial Bldg. > 50 yrs. old, defines as pure ground~~

land today, bec. so much land is used bare for parking, golf.

So assessor has to do bare land anyway, to do present job right. Let lighten his burden.

16. Integrate self-assessment idea with plottage.

If there is potential plottage, add premium to assd. value. If anyone squawks, offer to buy at his price. Thus city collects lots. Then condemn last lots, reasonable, reap plottage.

17. Inclusion of exotic uses - TV freqs., whose value has become signif. Licenses to use the streets. Liquor licenses

Grandfather clauses. This could be terribly important to speed flexibility, adaptability. Justifies putting hi tax on old shenanigans over the new value of land is not high.

18. Use long term lease to max^{imum now possible}, move to that system over long pd. as city acquires land outright

Right adjust for nature of new contract? custom bound. Now new rise but so do vacancies. (Vacant old bldgs. are characteristically empty land). Rent from trailer park, good income.

And Tax is not general anyway, bcs. non-capl. inputs are exempt. This compensates for revenue bias in inc. tax, in part, in closed ec. But in open ec. causes substin. of labor for capl. (Thus defeats one alleged purpose of taxing capl., to keep out people. Taxing capl. keeps out capl., not people.

D. Quantitative studies. How much effect does bldg. tax have?

1. On height

a. Hi-rise apt. vs. low rise.

E.g. on East Side, could compare Bradford bldg. vs. typical 3-story. "How high to rise", Appraised Ind. Talsky's money, on indy hi rise. Study farm homes, why change heights?

2. On services that reduce public costs.

- a. Parking
- b. Vertical xptn.
- c. Recn. facilities -- pools, playgrounds, rec. rooms, storage space (means fewer trips)
- d. Esthetics

3. On ^{total} ~~ratio~~ of bldg. value ~~to~~ on any given site.
On quality

4. On lot coverage

- a. Gas stations and parking lots would give way to apts., whose bidding power is now reduced by tax
- b. Apply regul. and. using MNP of land, use of capl. costs. Capl. costs fall, MNP rises for those users heavy on capl. They expand

Extrem-
ality. { Note that gas stations with low coverage are very nuisance to immediate neighbors. They cover the lot with untaxed cars -- and expand onto neighboring streets. They bother neighbors with light and noise. By comparison,

- a lot covered by a nice quiet building is not bad.
- c. Credit rationing effect. Won't affect all the same
 - d. Effect will vary by neighborhoods
 - e. Aggreg. effect, city may expand, so careful about regarding land supply as fixed.

5. On freq. of renewal

$$\text{Renewal gap} = \text{R.E.V.} - \text{L.V.}$$

L.V. is net of PVT on new bldg. (and also net of rent destroyed by tax, a refinement)

So when does Renewal Gap (RG) < PVT?

- { a. In stable neighborhood. }
- { b. Under locational obsolescence. }

I need a better concept of renewal gap, using current income rather than R.E.V. Bes. REV is circular, depends on renewal date? Not really -- a small convenience.

If inc. of old house falls off quickly, taxes won't change renewal life much. But inc. falls off ~~quickly~~ slowly.

Values fall to remarkably low levels in neighborhoods that become bad. But the annual cost may still be high, if life of bldg. is short and land area is very small.

Downing's Law of heterogeneous neighborhoods. More land preserves its renewability.

~~6. On quality~~

6. On pop. density

a. Residents

Fewer sq ft of floor space, but floor space deeper

More sq ft land? Find net outcome of cross currents

i. More height in center

ii. Faster demolition of old bldgs, ~~are~~

They are on mini-lots

But they will be replaced by apts., often

iii. Remove tax from ungal. land

Pvt. buyers can develop ungal. land

But city ~~must~~ ^{may} stop subsidizing entry of ungal.

land -- specify methods -- but. of reduced hopes for tax yields.

So: fewer city worker extensions; more use of existing extensions. Net result, higher density per land area.

(Re interstate sector, this means accelerating overload of central lines, advancing their replacement. Thus obsolete central sewers wd. be replaced sooner; leaky central gas lines with Oabate joints; overhead power lines?

iv. Rich move to center. Measure density in terms of ec. output per land, it goes way up.

b. Workers

Centralize employment sources.

(Overload central streets -- but thus revive mass transit.

Also, spend money on central streets, bridges, bottlenecks)

(Construction workers at first will be employed centrally.

But they will build sources of employment.)

Factories & office bldgs. &c. will become higher -- that is the point here. Use intel. from Leo Talsky on vertical factories. Write I-v Hoch what has he learned. Am. Motors' Plant and other multi-story plants look better.

There will be more ^{and nearer} capital per worker. That might reduce worker density. substn. of capt. for labor. But substn. of capt. for land is equally or more likely to be paramount.

Output per worker in center rises, as they work with new capt. Productive density rises.

c. Customers

More floor & quality per customer; more storage space, hence deeper inventories.

Subdivision costs. How much? Who pays? What is land value?

E. Qualitative studies. Types of land use to expand, contract, & move in, move out.

1. Contract: Vacant; parking lots; gas aprons; old bldgs;
2. Move out: ^{wards:} single family residences, large yards; low-rise bldgs; truck terminals; r.r. yards; instns.
3. Expand: Apts; office bldgs; vertical storage; dept. stores w. escalators; multi-purpose bldgs like Marina Towers, Habitat 67; mfg.
4. Move in: apts; retail

F. On evenness of use & intensity. In developing areas, wd. bring all up to new standard quickly. But wd. it solve mystery of the broken skyline? 14

VII. ^{Direct} Effect ^{and other public} on intensity, costs (e.g. welfare, schools)

A. Greater private provision of

Transport

Parking

Utility lines

Etc.

B. Shorter lines due to reduced sprawl.

(a.) Why reduced sprawl?

1. As land ripens for higher central use, succession comes faster -- that means intensification comes sooner. When lines are built, they fill up.
2. Opt. intensity rises
3. Clustering of bldgs. As opt. intensity still further.
4. Intensity sector capacity expands in center
5. City loses motive to overdevelop margins.
6. Tax base, necessarily much affected by adjacency or propinquity, expands outwards in compact circles, stimulating supply the same way. Zoning, tending toward compaction, becomes more mandatory, as assets follow zoning.

7.

(B). Why are shorter lines cheaper, and how much?

Ecs. of scale from thicker lines. Gas study. Cobweb graph.

(x) Land treatment costs that Δ with area.

C. Reduced welfare costs.

1. Δ employment. Draw on local reservoir of unemployed before Δ popn. (elastic labor supply is partly local)

2. Sources of employment

a. Constn.

b. Work in new factories, bldgs
Mfg.

Commerce, wholesale & retail

3. Upgrade residences, export ^{"Fiscal"} dependents ~~Types~~ who live in old, cheap housing.

Critics will call this dumping. But remember:

a. we are taking open ec. view, consistently, & sometimes it works vs. system, e.g. re school costs

b. If we took closed ec. view, net result of 1 & 2 would be good for welfare dependents. This is a case where each jurisdn. follows own self-int., brings aggrec. result good for all, even tho in myopic view is repelling them.

D. Effect on school costs.

1. More priv. schools, as 1 means of ave. popn.
2. More apt. dwellers w/o children
3. Fewer large families preferring older houses, large yards.
4. More indy. & commerce to share tax base. Less bias than present system tending to attract residences & repel indy. & commerce.

5. Δ popn. $\rightarrow$ Δ school costs.

Δ popn. $\rightarrow$ tax base.

Which is greater? Does policy bring in users of common services who do not carry their weight? cf. II. C, p. 1, on adequacy of tax base

E. Desirability of taxing land uses that put a strain on commons.

1. only applies if commons is congested, and in l.r. Δ g costs. ~~or~~ if in s.r. Δ g costs
2. If possible, tax the use of commons directly. but l.r. - Δ g costs, should be replaced, is overdue.
3. Otherwise, what uses do congest commons.

a. Gas stations spill over onto streets

b. Pkg. lots debouche in rush hour.

c. Tall bldgs.? No!

Allen-Bradley Δ s nearby l.v.

Marine Plaza " " "

Cutler Hammer hq.?

Prospect Towers? Shorenwood Apts? They are there to strengthen Oakland Ave retail.

Arm. Motors?

A.O. Smith?

UWM? Inuau Village?

Come up with several e.g. of where tall bldgs. clearly strengthen nearby l.v.

d. Old bldgs. -- large families move in.

They lack parking; pollute air

On balance, taxing bldgs. is a poor way to ration commons.

VIII Indirect effects of on economic health & hence on tax base.

a. Clearance & replacement of old bldgs. raises neighboring L.V.

Present low tax yield from slums, and from attached retail areas.

Environmental externalities from old bldgs.

Children lower quality of schools

Rats, contagious diseases

Crimes

Fire

Raise general costs that get spread over everyone: fire insurance rates; auto ins. rates; gas & electric bills; milk prices; etc. Bos. of tendency to uniform pricing, lean territory free loads on rich. Slums & low-density land are lean territory, so L.V. penalizes lean territory to compensate.

Riots there, inconvenience entire city.

Empty bldgs

Esthetic -- psychologically depressing

Tenants. Old bldgs. less likely to be owner-occupied

Retail business

Cfr. shopping

One-trip shopping

Deliveries to stores

Utilities etc. for stores

Industry

Share supplies, services

Share xptn. facilities

(There are several case studies in this for D7.)

B. Urban Promise. Widening the market. Externalities.

Adding flexibility, adaptability to mkt.

Letting neighborhood specialization develop. ^{or other complementation} This is part of putting land to highest use

Do ^{or cite} one e.g. of scatter of something better centralized: hospitals
gas stations auto repair specialists (Mke. is remarkably lacking in this,
cf. to Eugene or ^{Raleigh?} Columbia: just a bunch of small towns.)

IX. Mke. land & fiscal problems.

Introductory matter — need to fill in blank spots

X. ~~Effect~~ Relative power of ^{property} ~~city~~ ~~tax~~ Taxes over land use in light of other controls.

Zoning. Enforced land consumption

Condemnation of old bldgs.

Inc. tax — revenue bias in some ways. But as relative importance of property tax revives, its peculiar faults rise in importance.

Long list on outline of 5-2-66

Efforts to Δ tax base by attracting uses that pay hi taxes, e.g. land banks
urban renewal; s.o.c. subsidies to new land

and interjurisdictional
 XI. Aggregate impact. Effect of fructifying excess capacity. (Forward shifting?)

A.] Open economy assumption assumes that intersector terms of trade won't turn against land. (But in practice there will be a local wage and int. premium lasting several years.)
 (But durable capl. tends to subst. for land; less durable capl. for labor. So ceasing to tax bldgs. and development capl. $\rightarrow$ Δ subst. for land.)

Open ec. leaves possibility of limited hinterland, in elastic demand
 Doesn't apply to Milw., bcs. exports are worldwide. Only captive trade territory is N & NW; but there are many small city & irregular labor

✓ competition. Is losing to Chicago anyway.

Cannot assume away the fear of inelastic hinterland, however. Is paramount ~~the~~ obstacle to optimal urban policies, tax & otherwise.

(But if demand is elastic, and there are ecs. of urban scale, why would any city ever stop growing? There are disecs. in scale of leadership, just as w. corpus. Purpose of this study is to see how leadership may overcome some of these disecs.)

Basic assumption ^{in this study} ~~here~~ is that city has no limit but it's leadership. Recommend another study on gn. of demand elasticity. Each little jurisdn. in city, especially, has elastic demand & need to grow.

Can't toss off gn. that easily, tho. Present sprawl will be drawn in, unless there is huge Δ popn.

And which govt. is in gn. -- which leadership?

B]. Intergovernmental impact.

Reminiscent usual s.r. nation. Extant bldgs. hardly relevant.

Central city can stimulate its growth most by this means. (?)

But historically, ^{some} suburbs have used it, being more eager to grow, more marginal, more in need of maximizing their positions.

E.g. ^{Thinsville.} Central city had ~~more~~ less elastic demand for its land; and also supply of inputs, bes. larger. Had less need to grow to achieve economies of scale -- e.g. its own independent water supply.

Outer nuclei were moved to grow, or not, depending on need in part. If wealthy, conservationist ~~people~~ misanthropes took over (do they love birds or hate people?), kept out employers.

If needy, they welcomed indy. Hence sprawl. Product of Balkanization.

✓ Today, center is moving accelerando into irregl. position. Needs to compete, renew, hold exptn. lines, etc. ~~So~~ It is prime candidate for lve now.

a. Is good, bes. that is where land shd. be highest developed.

b. May be viewed astrance by city, bes. exposes it to "onerous" taxes more than any other kind of tax, since on best land, l.v. will always be a higher % than on poorer land. Even when all is new. So county wd. get more from city.

But city is heavily exposed to onerous taxes anyway.

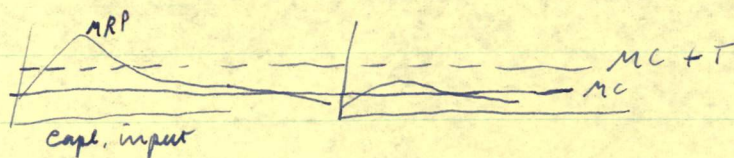
(Mun. land is by defn. that whose full ec. rent must be taken to support local govt. at minimal level neeq. to keep land from being submrgd. Including a share of costs of central govt: as a minimum the direct costs incurred. It might be spared a share of other costs, just like the mun. customers of a utility.)

Mun. munic.s. of Mke. Cty. are spared the appearance of so being by urban sprawl. I.e. they have lots of vacant land per capita, which is tax base per cap.; deludes them into thinking they're rich; but makes them resist growth?

During growth period their essential marginality is disguised by capt. gains. I.e. landowners are willing to pay prop. taxes on vacant land bcs. it is rising. (This may be good argument vs. capt. value basis) But if it is rising, it must be moving to supermarginal status.

? I believe that in cbd center, even a new bldg. isn't worth much more than site. [On fringes where they put hi-rise apts, maybe it is.] So LVT means a shift of taxes to city center, even permanently after center is renewed, (and certainly now, in transition.)

But the %Δ in l.v. should be greater on fringes, from removing excess burden.



$$i.g. \equiv \frac{\text{Non. land inputs}}{\text{Output}}$$

Low capacity farm land often has low i.g.; range-land, wheat land,

barley. So as one moves to lower density, cannot generalize that land grows more incl.

✓ { Rather, within each use class, some land is used at hi i.g., & that land is incl. for the use. E.g. apts. on fringe land. The land is incl. for apts. But the same apts. close-in would be low i.g. And the same land, if used for any land-using use, wd. be low i.g. -- e.g. estates, nurseries, greenhouses, drive-ins, parking lots.

Thus on the fringes there is low i.g. land use; and in the center there is high i.g. use. It would take some empirical study to support any generalization that fringe uses are higher i.g.

✓ Intermediate belts of middle class housing are hi i.g. Central & fringe lands both tend to lower i.g. This is probably the accurate generalization.

→ Anyway, this is the gn. that needs to be explored. And the l.v. map is the neg. tool.

→ Begin with best land, ok. But what is best land, is the gn.? The Center, bes. fringe land is only good for pub. uses bes. of submrgd. public inv.

XII. Transition

Existing imbalance of interstate capt. & onsite capt. Excess capacity -- but not that simple. Lines are too long, but not wide enough to accommodate Δ demand in best areas.

Transitional devices:

- Limited freezes on new bldgs. (Discriminates)
- Begin in center & work out. (Maybe biases devmt. to center)
- Voluntary: 1, Renewal Districts, Synchronized. 2, Individual.

D. Zoning. Select areas for renewal, assess land higher. Give hi density zoning only to those who go over to new system.

E. City acquires land in renewal areas, then lease it out, long term, free of bldg. taxes.

Problem of extant leases -- must lessee pay tax? Sovereign can specify on whom it levies taxes.

Problem of redistributing values & taxes. Not nearly as bad as usually thought, bcs. usual approach is s.r., based on extant bldg. Land that gains is that whose best use is capt. - intensive.

XIII.

Effect on ~~tenancy~~ distribution.
Big oil cos. as prime e.g. of indy. requiring much land. Stations, tank farms.
Effect on tenancy. Apt. scare, but of New Westm. Also, condominium helps.

Progressivity of base. Refute Heig. Cite Gottlieb, M. Reid.

Effect on credit rationing.

Equity: winners compensate losers.

Absentee owners, tend to have more land, less bldg. Tend to own

old land; ~~not~~ speculate. Annexing suburbs doesn't touch them, they live in Miami; but they own land in Mke.

XIV.

Keep in perspective.

Taxn. is only one of several factors slowing renewal, etc. L's & the others. Needed changes are bigger than in tax policy.

Lift sights to macro-e. issues. Don't get hung up on golden rule approaches.

Outline

III. An alternative way of taxing r.e.: site-potential as a tax base. ^{- capacity}A. Reasons for considering the alternative tax base ^{always be provided (p. 7, 2-28)}

1. The rationale of spt. ^{(Rationale depends on extent capab. in soc. - but also implies duty except that always be provided (p. 7, 2-28) (money based on sheer ignorance or debater's rules, not considered here)}
2. Some negative thoughts - (stress uncertainty of effects, need for forward look, object of this study) ^{Early congestion is paramount - streets & schools. technically,}
3. Method of this monograph: foresee probable effects, objectively, leaving taste to others. ^{Will then be in position to evaluate objections.}

B. Defn. of the tax base

1. The basic concept - ^{So tax not contingent independent} any impersonal potentiality, "public value". ^{What the proposal is next L v. 4, p. 4, 2-28 (sect. 1)}

2. (The possibility of ambiguity) Criteria for resolving ambiguity -- end-oriented defns. (Writer uses ~~to~~ assumes latitude; postulate ends, tailor base to achieve them.)

2. End-orientation of the basic concept. (Object is to devise the most beneficial tax, not to hew to any dogma. Set criteria accordingly, & follow them in apply'g to cases - remembering that circ. alter cases.)

3. Separating l.v. from assoc. inputs: mgnl. anal. vs. the onelette school.

- a. Mgnl. prodty. method of inputn. (Old debate, settled by mp, Euler, etc. Can ~~inputs~~ single out contribn. of one input. Cite Muschik, & older works, ^{vs. the onelette school.} Hobson - Lester position will keep cropping up, but whenever a position will not bear anal. it must discredit anal. itself.)

(Weakness of mgnl. anal., timeless. I have added - cite pp. in Timber study, & Land & Rent...)

(Map of land, over time - the basic idea. Weakness of mgnl.

anal., postulate changeable boundaries - what wd. add to neighbor's open, etc. W. Land, bi-lateral inputs, etc., sometimes hard to think in small do. Can still do so in time, but that comes

See for B, 5

doesn't add much to one, same value, same in the case.

But input method reveals some special problems, re expansion of big neighbors. Also reveals input. dynamic factors, e.g. when opt. acreage rises, everything bid way up, thus sustaining values for a while when auto etc. move toward permanently lower one values.

It takes input. anal. really to point up the issues in land assembly. And subdim. - let apt. size fall, as w. intensification, and glut of land, but everyone has too much. Thus, a vital difference of apt. spread & fringe spread.

3,

b. Separating l.v. from old bldgs. (Hesday for Charlotte school. But more like scraping off skillet, really very simple. L.v. is what wd. remain after a fire. Needn't burn down house to waste pig - just contemplate. Model bldg. ^{Not just a game for Profs.} Farwell Ave., imagining hi rise apt, values so based.)

(Expend at length. Privileges appurt. to old bldgs., like variances, lower standards. Lack of reuse value in slums. Demand for streets etc. Value around expending users - e.g. of UWM. Ribert. mupg. Etc. Always apply end-oriented criteria)

Lack of reuse value? Housing low ^{Method of effm of near neighbors works much better for land. N.g. for bldgs. less of Boston's} ^{lay} ^{demolitions as source of data. Not just eager buyers, but weak seller. Woodruff's colo. mtd.} ^{area all built up - l.v. = cheapest bldg.} again, usually there is a value.

c. Relation of l.v. to demt. costs. (v. p. 3, 2-28 outline)

(Circ. alter cases. Depends on who bears cost, etc. End-oriented approach, the point is don't tax subd'n, as now often done.)

Better break here, relegate complexities to appendix, avoid early embroilment.

4. ~~How far ahead to look.~~ Alternative levels of perception

(Om. per., term. per., cet. per., l. mut. mut.; & even further, macro.

~~Om. per.~~ Disturbing to have such a range of choice? I must 'need for precision of defn. etc.', old p. 17)

Om. per. is out. Term. per. is min. approach. Wd. surely go further - we already do, spread areas, re subd'n. (if not any.) (Note, term. per. proceeds w/o impl. anal., b/c latter involves boundary changes.) ^{attainable} Mut. mut. might seem entirely unworkable. Yet is very important. it be reached. Fluctuating values, fear of glut.

None of the static concepts is adequate. ^{Such changes as they contemplate, they (over)} Here, victim to spt becomes one act. A vital one.

Begin in center, work out. But is that logical? Must set up central renewal distcs. Trade spt for higher zoning. Will detail later, after more anal. of probable effects on land use.

regard as finished; while the essence of problem is, changes aren't finished. We are always in change. "Transition" isn't an after thought, but the essence. "The system" is not the prototype at the end of change, but the path from here to there. Mutandis mutandi^(?) - changes being made - is the realistic level of perception. It is no argument to say "Under my system we didn't be in this mess." Past is irreversible, must always begin from here, now.

"Synchronized
Renewal Distr." or Intensification Distr.

approach has advantage of being incremental.
Set of limited & controlled models, experiments, supply experience for further applicn., - & of course vs. areas on old system.

^{synchronized}
Renewal Distr. has disadvantage of being partial, hence unbalanced. Thus, to encourage only apts. brings a glut. But to encourage indy. & commerce pari passu, is no glut until hinterland is overbalanced by city. But if mkt. are nationwide, no problem.

We shd. be suspicious of mut. mut. approach b/c becomes as v. messy thinking, & govt. shd. take longer view.

Best compromise is take small central area, w. some of everything - uses are mixed enough so can't do it. In this case, mut. mut. effects will be greatly positive. No mkt. glutted, but neighborhood renewed.

Above amounts to zoning Taxn. Might achieve same by hi degree of coordn. between zoning & ~~tax~~ assmt. Big problem is where neighborhood appears to want a lower zone. Largely resolved by granting wish, withdrawing floating value to elsewhere; & by varying value of floating value by whichever bldg.

5. Some special problems in defining tax base

From p. 17 - need for precision

Need here for definite ~~decisions~~ assumptions of what tax base is in various circumstances - so can say what effects will be. Doesn't preclude other interpret. in practice. Give Mke. e.g.s.

- When regul. ^{land} value very diff. from other. - expansion.
- " l.v. dominated by one buyer: i) Pvt., ii) Public iii) Xway & str.
- Preemptive buying & holding - how to rack up key holdout.
- Internalization of external ecs.
- When A l.v. is payoff for part. bldg. of soc.
- Possible ^{in opinion of} ~~confiscation~~ of bldg. value due to local obsolescence.

(Answers: 1, less sprawl, etc., minus problem; 2, Owner gets warning b/c cannot rise; 3, Everyone builds less desirable, esp. in damp areas.)

g. L.v. when no vacant land.

There is no such area. Even in most established, fully built areas there are many houses w. adjoining vacant lots. Before they are all sold, new ones invade, & old houses are demolished - at which pt., all is L.v., at least on worst houses in area.

East side as e.g. (complicated by zoning)

h. L.v. when is no sense value of land.

area limited where that may be true

Old bldgs. achieve privileges, de facto spent zoning. Ok to tax them. Capze. inc. from violations. Easier to tax than prohibit outright. [That occurs automatically under assmt. freeze method, old bldg. is all taxed. Best not so good, taxes mature, later fix up, etc.]

Rationale: if a bldg. is near condemnation, its life is near end, has little value. Is no depress. So inc. must pertain to land, or privilege. Likewise, no price inc. indicates bldg. w/o much value.

i. Truly permanent improvements

after 40 yrs. incorp. into L.v. makes no sense.

j. Shd. we tax "invasion of adjoining lands' privacy" of adjoining lands?

If so, not ad val., but by coverage & ht. Problem is not so much new apt. as old shuns. Roast pig principle - use that phrase thru out. Probably better to do this in a way that affords a direct offset of

costs & bus. Define semi-public "buffer strips" around each lot. ~~to~~

Widen them until 1 lot values = cost of buffer. Use an ex. criterion

thus. (L.v. here repr. cost of soc & pot. xpt cost)

III, ~~the~~ Meaning of ~~the~~ site-potential as a tax base

A. General

1. ~~the~~ Legality. State legial. can authorize, by simple statute, most states. Many have ~~the~~ classified prop'ty, exempted some classes.

Latitude of assrs. They have a good deal, as shown by variation of practice. As just shown, they can take lead if wish. Precedents - ~~Construction on assrs. = n; Courts.~~

Pastoriza, Moody, etc. They went beyond latitude.

But certainly our. has latitude to bring land up to what law requires; & probly to go as far above it as he now goes under

So there is room for as much movement toward sur as the public is likely to accept, w/o more than a statute

2. ~~the~~ On the need for precision of defn. & merit.

Precise def & merit are very desirable, & shd. work hard. to work towards perfection. ~~Imptut. to~~ Not likely to reach

or achieve perfn., however, it is hardly a thing of this world. Accordingly the skilled debater for the negative always seeks to ^{embroider upon} ~~require of the~~ ~~affirmative~~ ~~higher standards of~~ ~~clarity & unambivalence~~

~~that~~ in doing so quibbles over defn. & merit. of new concepts. Easiest way to win debater's points, but not a balanced guide to judgement & ^{logical decision-making} ~~imptut.~~ in ~~good~~ impartial judgement to cf. new concept less vs. unattainable vision of a prototype, but a standard of

workability.

Thus e.g. 'income' has proven to be a remarkably elastic concept whose defn. fills a five ft. shelf of books & consumes the time of thousands of our most talented lawyers & acctts. ~~Let it~~ Had the voters anticipated the ambiguities they might have quailed before them & never passed the fateful 16th Am. on the grounds that its central term was undefined. Yet, whatever is, is possible, & we have been taxing something we call 'income' since '13.

It is $\therefore$ not essential that we find a perfect & unexceptionable def. of l.v., w. a clear line & no penumbras or fuzz. Workable def. is essential, & is matter of judgement.

B. Genl. criteria & rationale for spt.
B.B. Resolution of ambiguities Assumption of latitude by writer

There are aspects of proposed tax base subject to ambiguity, & many are subject of debate & splinter among its advocates. There are several straw men set up by opponents. There are rigid theoretical dogmas

Writer has assumed prerog. of defining s.p. base in his own way, following genl. criteria: it repr. an effort to raise very public revs. w. min. neg. effects on incentive, & max. positive ones. In hammering out details, has kept that end in mind. Not hesitated to suggest modifns. of basic concept where they seemed more likely to promote the announced ends. In ^{judg'g} determining the possible

workability of a proposal, seems only good sense to formulate it in the most workable form, unbound by dogma, remembering these circ. alter cases.

A. Reasons for considering the altern. tax base & rationale

B. ~~Defn. of site-potential~~ Incl. criteria for spc (v. Res. Chg. Hse talk)

Spt proposal culminates from search for tax not debilitating or weakening ~~or perverting~~ incentive to produce, ^{or perverting incentives} to allocate res. to their most production use.

Thought is, doesn't matter how heavy a tax is, but only how the tax changes when taxpayer makes a move. ^{e.g., bldg. tax = 33% sales tax.}

Problem is to find a base for such tax. Most tax bases are specific human activities — buy'g & sell'g, earning inc., — or results of human activity — bldgs. And many There is a fear that any other base wd. be regressive, & ~~pervert~~ the industrious & talented pull away from their fellows. [p. 20]

~~From~~ A ^{non-discriminatory} neutral tax wd. be to the taxpayer as a fixed cost, as inevitable fr. of time & the tax base.

Sometimes called 'neutral' but probably a nonsense.

Essence, not neutral. Applies leverage. Neutrality a misleading

term, presupposing norm w/o taxes, unrealistic. (p. 4 - - -)

Some object to too much leverage in tax. Prefer fixed profit-sharing, ^{either from jealousy of success or compassion for failures} Perhaps there is room for ~~to~~ some of each. ^{in a ~~balanced~~ system.} If so,

hardly affects present subject for we are here discussing only a proposal to introduce a little fiscal leverage into a system that has gone very far in the other direction.

Poll tax possible, but obvious wrongs. Acreage tax, also bad.
 Human capax. tax - but not appraisable, & is ~~subject to~~ partly product of
 labor & sacrifice anyway. Land capax. tax.

Capax. of land appraisable ^{over} Is a profession already. ~~Ownership~~
~~among the wealthy~~
~~owned, so not regressive.~~ Ownership coned.

Advantages of the base:

In what sense is supply fixed?

(H, 2) Counter-arg. Elastic supply for any purpose. But fixed
 inside tax'g jurisdiction, by def. - the jurisdn is an area of land.

People come & go; so does capl. Land can't get up & walk -
 Inside jurisdn, can bring more land into what by better spt. In that sense (over)
 Individ. can avoid tax by selling land. Trees, &

many wd. But others wd. buy, & their demand augmented by freedom from
 bldg. taxes. Jurisdiction wd. not thus lose any tax base.

Above is obvious, but a 1st step to a more interesting qn. - might gain
 more in costs. That is a prime motive vs. spt -- will treat later.

b. Ownership coned. The fact is conceded by oppos., bes. argue vs.
 Has often been one argument

prop'ty. tax that majority don't pay, will be irresponsible. (The
 prop'ty. as. still does, sporadically). Dominant philos. seems to be
 the opp., however, & ^{v.e.} prop'ty. more coned. than inc.
 Land gully, more coned than prop v.e., bes. small parcels
 more intensive

In addition, several other possible advantages. Summarize them.
 Synchronize w. p.w.; help assembly, & challenges v. defenders qn'g; facilitate zoning etc. ^{flexibility (over)}
 (2) Other hand, several possible drawbacks. - summarize. Present paper

Many issues involve larger qns - what one describes as an advantage, another calls a drawback.
 So this paper will merely describe effects - on land use.

impossible? Whatever is, is possible. Ok., Calif., Antip., etc. Partial applies in
assmt. freeze. Like a perpet. freeze. Diff. in that assmt. changes, but
not in response to activity of indiv. landowner, but to environmental
changes - xpt., neighborhood. "Public value" of land.

supply not fixed. - & this kind of supply elast. input to remember when
forecasting future l.v. Is the reason l.v. go down as well as up.

But is not a simple price-elasticity. It is partly the public that
supplies the xpt. that supplies the new land. Hi pr. l.v. serve as
incentive only in sense of incitg pol. activity by landowner to get
xpt. built ^{that leads to argument that this is svr wd. disintegrate land production, but} ~~to~~ extend they are taxed, a commercial incentive
to govt. to a tax base. And since govt. is prime mover here, svr seems
better called to incite govt. - tying the reward to the production.

A intensity is sometimes called producing land. But again, spt
pushes that way. Indeed, that is a prime concern

rapid adaptation; stimulate bldg. ^{& all allied} bus, attract outside cap., reduce cap.
outflow; reduce public costs per pr. d.v.; ~~§~~ permit micro-renewal w/o
bulldozing; reduce need for public subsidies; facilitate land assembly

ASPE, 1-17-69

Replacement Pol. & Property Tax

1. Death of Property tax.

Predicted; wished for; recommended --

But not happening.

Not going to.

Fastest growing tax. \$306 / yr.

Not preempted by fed.

2. 4% rate, 25% gross rent apt.

Add that to 8% i.r. Not much left.

~~The~~ Results: spectacular decline of bldg.

City of Mpls. detached resid., bldg. permits

1954	3200
1966	610

Soaring rents, low vacancies, yet no bldg. response.

City not even replacing itself.

3. Surplus generators flee; deficits remain.

4. Power to destroy. But paradox. Rising land, brings down.

Is powerful to different ends, depending on whether land or bldg. is base.

Clue to reform.

5. ~~City needs new~~ If cut services, also hurts city.

Needs servs. w/o taxes.

Mayor keeps trying. But no one else wants ours of collectg taxes while he gets credit for spending.

6. Tax land

Heavy taxes stifle enterprise? Depends how tax varies.

Tax the hell --

7. Effect on renewal

Challenger - defender. Tax bias for less taxed use.

Renew when resid. land inc. from new bldg. > defender inc.

Taxes on new bldg. reduce that residual

If ~~tax~~ bldg. value is $5 \times$ l.v., 49% of bldg. value is 20% of l.v., say about $\frac{1}{5} \times$ the resid. land income (if 59% of l.v.)

Remove the tax^{threat or differential} and increase the resid. land income ~~for~~ under new bldg. to $5 \times$ present level. ($20\% \div 5\%$)

Thus bidding power of new over old rises; demand for renewal eats into backlog of ~~into~~ defenders.

Already, in 10% of city, renewal value = r.e.v. Exempt new bldgs. more like 40%, and ~~more~~ that means for the present 10%, renewal value > r.e.v.

8. Approaches

~~Sydney & Jo-burg, ec. capitals of their respective continents, went all the way.~~

Partials:

Assum. freeze -- loses rev.; discrim., regression

W.B. plan

Graded tax. Crenwinshi

Mo. law; Boston -- also regression

But Sydney & Jo-burg went all the way.

~~End~~

Became ec. capitals of respective continents. If we want our city to boom rather than just survive, do same.

market for a property tax cost of as low as \$5,000 a year, with up to 77 per cent of that \$5,000 deductible from his federal income tax.

- To let cities expand in an orderly manner instead of disintegrating in suburban sprawl and premature subdivision, with millions of close-in acres held off the market for speculation, thereby forcing homebuilders to leapfrog further and further out into the countryside to get land they can afford to build on and forcing industry to move further and further away from urban employment (and unemployment) centers to find enough land they can afford on which to build new plants.

- To save the tax waste of sprawl, which multiplies the cost of roads to reach sprawl-scattered homes, multiplies the cost of water distribution, multiplies the cost of sewage collection, multiplies the cost of mass transportation, inflates the cost of police and fire protection, and doubles the cost of getting children to and from school.

- To stop and perhaps reverse the futile spiral in which the multi-billion-dollar urban renewal subsidies are being capitalized into higher urban renewal land costs calling for bigger urban renewal subsidies that will in turn be capitalized into higher land costs requiring still bigger subsidies (land write-down subsidies, below-market-interest subsidies, tax exemption subsidies, or perhaps some new kind of subsidy).

These and other good reasons for taxing location values more heavily are spelled out at greater length in the careful research reports of

Prof. Dick Netzer for the Brookings Institution and the National Commission on Urban Problems; Prof. Lowell Harriss for the United States Chamber of Commerce and the Tax Foundation; and Prof. Mason Gaffney for the Urban Land Institute, the Lincoln Foundation, and the Schalkenbach Foundation.

And the Douglas Commission on Urban Problems is unanimously recommending that state governments vigorously explore the desirability and feasibility of placing new or differentially higher taxes upon land values.

And the President's Committee on Urban Housing (the Kaiser Committee) is urging a similar tax study "with particular emphasis on the potential beneficial effect of shifting more of the relative burden from improvements to land. Heavier taxation of site values has the apparent advantage of discouraging speculative withholding of land from development and of enabling the public to recoup more easily the benefits it bestows on local land owners through improvements like roads and sewers. Lighter taxation of buildings might remove existing tax disincentives which discourage new construction, rehabilitation, or adequate maintenance. This area seems a promising one for reform."

Says a Tax Foundation research: "A point of great significance and some urgency (is that) under present arrangements much of the intended benefit (of urban aid) will almost inevitably be incorporated into gains for land owners. They are not the persons for whom the assistance is designed."

No urban renewal subsidy at all should be needed if the property tax were shifted to land alone

This is just one of the many significant findings of the Urban Land Institute Study—specifically for Milwaukee, but by implication for almost any other central city facing problems of blight, obsolescence, slums and decay (as all big cities do).

This four-year sampling of more than 2,500 separate land parcels—property-by-property, district-by-district—was conducted with the cooperation of the Milwaukee Tax Commissioner. It provides the first comprehensive analysis anywhere of just what could be expected if a city were to (1) stop collecting any property tax at all

on improvements, (2) assess all land as if the owner was putting it to a use commensurate with its market price, whether he was or was not, and (3) raise the tax rate on location values high enough to make up for the revenue loss from untaxing improvements. At long last, this study (of which we were given the first preview) provides a factual basis showing that in Milwaukee and any similar city that now collects roughly two-thirds of the property levy from improvements and one-third from location values . . .

I

The shift would roughly triple the tax take from idle land, parking lots, gas stations, slums, and other decaying, obsolescent, or ill-advised buildings that add little (and sometimes less than nothing) to the value of the land they preempt. Actually it might do much more than triple their tax, because Milwaukee assessors, like all other assessors, tend to confuse the property tax with an income tax and therefore grossly under-assess underused land that is not bringing in enough income to pay the full tax on its market value.

So the shift would make it almost prohibitively unprofitable to keep close-in land idle or mis-used.

II

The shift would add roughly 50 per cent to the tax take from properties whose improvement value approximates the location value, and it would make no change in the tax take from properties whose improvement-to-land ratio is close to the city average of two to one.

But on good homes, good apartments, good office buildings, and good commercial and industrial structures whose improvement value is likely to run at least four times their location value, the shift would cut the tax take by 40 to 75 per cent.

III

The prospect of much lower taxation of good new buildings would jump the market price of close-in locations ripe for rebuilding at the same time that increased site value taxation would be putting heavy tax pressure on the owners of underused land to put it to more productive and more profitable use.

So the shift would so change the arithmetic of property ownership that no subsidy at all should be needed to make it profitable for the owners of almost all the parking lots and obsolete decaying or inadequate buildings that now preempt nearly three-quarters of the valuable land near the heart of Milwaukee (and most other big cities) to replace them with new buildings that would put the site to its "highest and best" use. This might be new offices, or new stores, or new low-cost housing, or new parking garages, or new high-rise apartments, or new garden apartments, or new single-family homes, or what have you.

IV

The shift should not only end the need of any subsidy for urban renewal; it should provide such a stimulant to new construction and redevelopment that it could create just the opposite problem. The old problem has been how to end the construction stagnation that results in slums and decay; the new problem would be how to control a building boom that could wildly over-tax the construction labor and construction financing resources of the city as thousands of property owners rush to take advantage of the tax shift.

The shift would, in fact, be such strong medicine for what ails our cities that it would have to be given in small doses spread over a period of perhaps 10 years (as was done 50 years ago when Pittsburgh and Scranton shifted to the graded tax plan making the city tax on land twice as heavy as the tax on improvements).

V

The shift would make good city planning at once much more necessary and more effective.

City planning is a negative power; it can keep property owners from doing what they ought not to do, but in a free economy it cannot compel them to do what they ought to do. Says the Douglas Commission in a fine understatement: "Regulations do not build cities;" and again: "Regulations seldom effect significant upgrading of deteriorating areas;" and again: "Regulations seldom effectively encourage imaginative urban design and too many times effectively discourage it."

Under the present property tax system that discourages new construction by heavy taxation and encourages obsolescence and decay by undertaxation, most of Milwaukee has passively defied effective city planning.

But when, as, and if a tax shift off improvements to land starts an all-out building boom, the planners would at last have a chance to prove their worth by directing its course to create a better city.

VI

Contrary to common belief, tripling the tax on land would not be bad for landowners if at the same time the tax is taken off improvements. A

three-times-as-heavy tax on land would indeed be almost confiscatory if the owner of unused or underused land persisted in leaving it that way, but untaxing improvements would enable him to triple his profits if he improved his property and put his land to its highest and best use. (See III above.) This smaller tax on the improved package would be capitalized into a higher price for the land, so the landowner would find himself better off instead of worse.

Perhaps surprisingly, first to benefit from the shift might be the owners of valuable idle land, for they could be first to take advantage of the tax exemption on improvements.

The only landowners who would stand to lose by the tax shift are the owners of fringe land that now derives a fictitious value because the owners of so much closer-in land can now afford to hold it off the market waiting for still higher prices.

VII

The shift would stimulate much more intensive use of valuable close-in land near the center of the city. In conjunction with heavier tax pressure on the owners of underused outlying land this would have important side effects:

- People who prefer low-density living should be able to find land they could afford roughly half as far out as now, for more intensive land use downtown would siphon off much of the demand that is now proliferating sprawl.

- Inner city and slum unemployment problems should be eased, because factories and other blue-collar employers could likewise find land they could afford closer to where poor people live. (Nationally, says the Department of Labor, 62 per cent of all new factories from 1960 to 1965 were built outside the central cities, i.e., remote from where unemployment is concentrated and more jobs are needed most.)

- More intensive use of downtown should, perhaps surprisingly, lessen downtown traffic congestion, because more people could walk, escalate, or use public transportation instead of driving to where they want to go. Says Professor Gaffney: "Sprawl is not a flight from congestion; it is a major cause of congestion by making more people use more cars to travel more miles to downtown."

- More intensive use of downtown should result in substantial savings on city costs, most of which are magnified by distance.

VIII

How big a tax rate increase the shift would require to make up for untaxing improvements would depend on whether the assessors assign to the taxable land or the tax-exempt improvement the big increase in the value of fully improved property that would result from reducing the tax on it by more than 40 per cent.

If assessors follow their present practice of assessing the building first at cost-less-deprecia-



1. COLLINS: With a tax rate approaching 6.7 per cent of true value there would be no new construction.

2. SAMUELS: We must find ways to centralize the financing but leave the execution decentralized.

tion and assign all the big increase in residual value to the land, then the tax rate increase required by the tax shift could be small. If, on the other hand, they assess the land first and assign all the big increase in residual value to the improvement, then the tax rate on land alone would have to be at least tripled.

Serious doubts as to the correctness and soundness of today's practice of assessing the building first are raised by the Milwaukee sampling, which showed nearly a fifth of the properties on which the assessors assigned a substantial value to the improvement would have sold for as much or more if the land had been bare.

IX

Assessment would be much easier and could be kept more accurate and closer to the present market if the assessors were relieved of the almost impossible task of assessing every improvement separately. Land only could then be assessed quite quickly from cadastral maps kept current by recording on them the market price shown by each sale in the area.

In Milwaukee today the assessors must spend 80 per cent of their time on improvements, only 20 per cent on land values.

X

First step in the tax shift could be taken by just reversing the present practice of assessing underused land at a much smaller percentage of market value than fully improved properties, a practice that is somewhat less notorious in Milwaukee than elsewhere. But a complete shift in Wisconsin (as in every other state except Hawaii) would of course require the repeal of state restrictions requiring that the tax rate on land and improvements must be the same.

XI

The shift should be popular with most voters because it would reduce the taxes on most owner-occupied homes (since their improvement-to-land value ratio is well above the city-wide average).

Taxes on slum property would be doubled or tripled but this would not affect many voters living in the slums, since most slum dwellers are renters and (as any good economist can demonstrate) taxes on land cannot be passed on, but must be paid out of the owner's own pocket (except under rent control).

The only voters hit hard by the tax shift would be the land speculators who are now making such a good thing out of today's property tax practice. (Unfortunately, they are by far the most powerful and effective pressure group in local politics.)

XII

Last, but not least, the tax shift would make the financial plight of the local government easier. Instead of depending on a tax base subject to accelerating erosion as the older close-in buildings deteriorate without replacement and as industry and upper-income families move to the suburbs, the city would find its tax base growing and the flight to the suburbs checked by the tax-shift-induced construction boom close-in.

The 40-per-cent-or-more property tax saving that the shift would assure new offices and new industrial plants would make the city a more profitable place to do business in, and could therefore be expected to attract more business and industry, thereby further strengthening the tax base.

* * *

Findings of the study in Milwaukee are already getting confirmation from the actual experience of Southfield, Mich., which almost overnight became the boomingest city in the state after a 1962 reassessment by outside assessors doubled the assessment (and therefore the tax) on land, thereby permitting a substantial reduction in the tax on improvements. Since then Southfield has recorded more new office building construction than 30-times-as-big Detroit next door; land values have continued to soar, until some acreage that was assessed at \$2,400 in 1961 is now assessed at \$100,000; and grateful voters have three times re-elected the mayor who instigated the tax shift.

More cities should collect more user charges and stop subsidizing what they want to prevent

Service charges can serve a double purpose: they can produce a substantial revenue and they can discourage costly and wasteful practices that need to be discouraged.

We are unanimous in urging more cities to make more use of service charges, including specifically and for example:

To discourage today's almost scandalous waste of water, all water service should be metered at rates high enough to cover the cost.

To discourage the on-street parking that is a main source of downtown congestion and traffic delays, parking meter rates should be raised at least as high as off-street parking charges in the same area. It is insane to let motorists park at the curb for 10¢ or 25¢ an hour where parking lots charge 50¢ or \$1.

To discourage industrial water pollution, industries that pour pollutants into streams and sewers should be charged the full cost of purification. If this policy can keep the Ruhr in Ger-

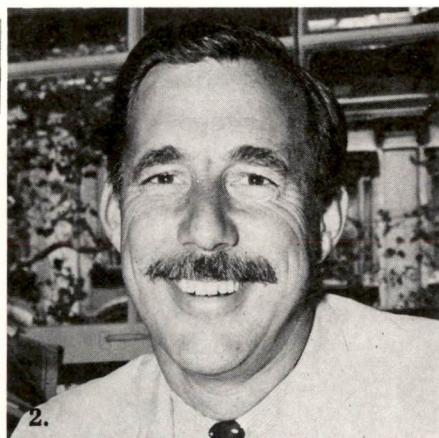
many safe for drinking there is no reason why the same policy should not do as much for the Hudson, the Mississippi, and Lake Erie.

To minimize air pollution, cities should charge property owners more for garbage collection than it would cost them to install and operate garbage incinerators equipped with water washers and electrostatic filters adequate to remove 99 per cent of all pollutants. The biggest reason New York cannot enforce its incinerator standards is that building owners just threaten to stop burning their trash and garbage and leave it for the city to collect and cart away free.

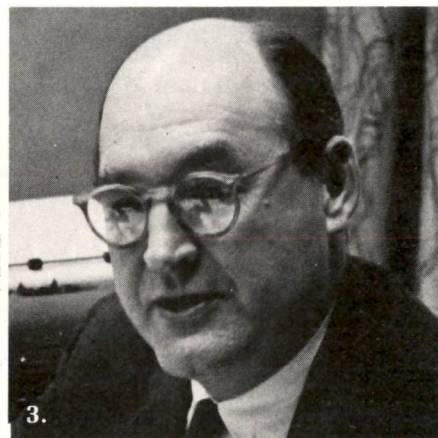
Instead of relying on the property tax to provide most of the local revenue, a few of us would even go so far as to favor abolishing this levy and substituting carefully-cost-accounted service charges to pay all the costs of local government except education, poverty, and traffic police (which they would shift to the state or federal levels).



1.



2.



3.

1. NEAL: People problems like welfare and education should be met with broad-based taxes, not by local taxes.

2. SWEET: School costs take half our total tax resources.

3. MADDEN: When you tax land low and tax improvements high you drive industry out of the city to find cheaper land.

One good way most cities could help themselves is to explore ways to get greater productivity

Private enterprise has been able to pay higher and higher wages only because over the years private enterprise has found ways to raise the level of labor productivity at least as fast as it raised the level of wages . . .

. . . partly by taking full advantage of mechanization to let machines perform faster and better many functions that were formerly done by hand;

. . . partly by job reassignment so skilled workers need no longer waste high-pay time on jobs that could just as well be handled by less skilled labor;

. . . partly by reviewing all their operations and eliminating work for which there is no longer any good reason.

Today, with far less productivity improvement, municipal pay scales are climbing nearly twice as fast as private industry's.

We are unanimous in urging that in most cities a broad review and reorganization of local government operations to improve productivity and hold down costs is now overdue. This review should also consider what savings could be achieved by making it worthwhile for private enterprise to take over many functions (like garbage collection) that are now performed by city employees.

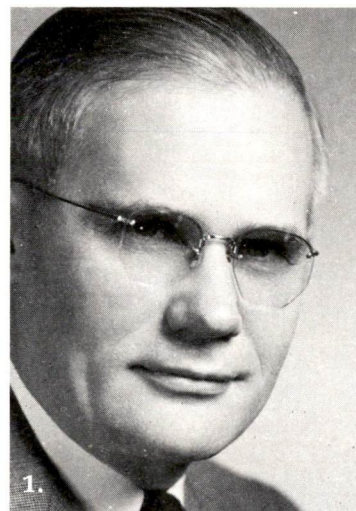
Here are three examples out of many we could cite to suggest that many cities could check their soaring costs by following the example of private business on mechanization, specification changes, and job reassignment:

Example No. 1—Cities could make it profitable for private enterprise to offer better equipment cheaper if they could and would coordinate and standardize their buying specifications. For example: today there is no such thing as a standard fire engine; almost every city allows its fire department to order something different and special. For another example: most cities could also save quite a lot of money rationalizing their fire hydrant purchases. What possible excuse can there be for tropical Honolulu's paying extra for hydrants that won't freeze in sub-zero temperatures?

Example No. 2—Most of us think it is high time

more cities began to coordinate police pay scales with police job requirements. It may well be true that many policemen are now underpaid for the dangerous and/or exacting work they are assigned to do; but it is also true that many jobs now done at full police pay (like ticketing parked cars and collecting tolls) could be done just as well at half the cost by persons with lesser qualifications. For some police functions like fighting organized crime the best is none too good; for other police jobs a high school graduate with courage, good health, and proper training can do at least as well as a Ph.D. So it makes no sense that in so many cities the starting requirements and pay scales for all police jobs should be so nearly alike. The end result of this leveling practice can only be higher costs for a mediocre police force.

Example No. 3—Cities could save much of the land cost for new schools on high-priced close-in



1.

1. PLEYDELL: We can't fix what's wrong with the property tax until we can get better assessment.



2.

2. SAULNIER: The tax on improvements is regressive, but the tax on the site is not.

Outline of 10A parts
never written
Cannibalize for
LVTBM

zoning

~~✓ Condemnation~~

~~✓ p. Other~~

2. Property tax

a. Administration of land tax

--Exemptions

--Assessment discrimination favoring vacant land

--Reduction of land assessment by holding land
vacant for some years between demolition and
renewal

--Increase of land assessment at time of renewal

--Other

b. Tax on buildings, in principle

Inflation of aggregate land needs by reduction
of intensity

c. *Intergovt. relations. Need to reward munis. for 4 pop. And not 2 outside
taxes for
munic. ent.*

B. Municipal planning and zoning

Cities as cartels: municipal mercantilism, and its
restrictive aspects. Municipal complicity in holding actions. Passivity
as a covert means of exploiting market power.

Compulsory land-consumption for tax base maintenance (low-
density zoning). Zoning bias against residences to avoid school liability.
The movement for "open space conservation."

Legitimate application of low density zoning to synchronize
neighborhood land use conversion between incompatible uses.

Grandfather privileges to old buildings.

Inadequate local matching of state and federally financed
public works. Lag of branches behind trunks.

Outward bias of municipal works to capture marginal terri-
tory. Neglect of more productive interior investments that would add
more to current effective land supply.

C. Market Imperfections

1. Assembly--bilateral monopoly. Self-reinforcing demand-magnification in a sticky market: exaggerated need for reserves.

2. Uneconomical "speculation"

Standard rationale for speculation--limits of validity

Interim use argument--"ripening costs." Appreciating land, progressive obsolescence of buildings. Apply capital theory, show these cases argue for earlier, not later, conversion, to maximum present value of site.

Uncertainty argument. Building spills over certainty; not building spills over uncertainty. Divergence of individual and social welfare.

Differences of credit availability ---- reprise.

Irrationality, herd psychology: conducive conditions of land market; historical evidence.

Heirloom attitude, anti-commercial bias, focused on land.

3. Concerted holding actions

Role of banks and other intermediaries. Interest of lenders in sustaining collateral values. Ability to act in concert. Established limited entry protected by law. Capture of FHA.

4. Diffused floating value, and shock-wave effect. Everywhere makes land a little too costly for socially optimal use. Decentralizing bias; feedback multiplier.

D. Legal Hangups, and Illiquidity of land

Covenants. Estates, divided ownership, trusts. Priority of property division over allocation of land to best use. Mortmain.

E. Tax-exemption of Municipal Bonds

Reduces apparent infrastructure costs of municipal land development; but increases real social costs, by waste of capital. Cost felt by housing indirectly via higher interest rates.

Reprise: Social costs from overpricing of land. Urban sprawl.

V. Recommendations to Abate Overpricing

These will be geared to the causative factors identified in (IV), and addressed to action organizations: U.S. Treasury, local government, state government, HUD, BPR, Utility regulatory commissions (state and federal), banks and their agencies, the courts.

In this section I feel the need for the cooperation of a lawyer with an interest and competence in these matters. I have discussed this with Stanley Hack, a Milwaukee attorney whom I would like to have join me in completing this section. If you would like to consider this suggestion, I will send more information about Mr. Hack. I regard him highly, and he is already professionally involved in issues relating to several of the points on which action recommendations are to be made.

His contribution would be to help me distinguish those recommendations which are merely theoretically attractive from those with early action possibilities in practice. Since the client is action-oriented, and the impact horizon is short, this would be a vital contribution.