Land Value as a Tax Base in Milwaukee
By Dr. Mason Gaffney

Article citation:
Gaffney, Mason. “Land Value as a Tax Base in Milwaukee.” 18 September 1967. Notes.

Fair Use Disclaimer
The Robert Schalkenbach Foundation, a non profit private foundation, is publishing this article, at no cost, pursuant to the Fair Use provisions of Section 107 of the Copyright Act which states that under certain circumstances, the fair use of a copyrighted material for purposes of criticism, comment, teaching, scholarship and research is not an infringement of copyright. If you have any concerns about the publication of this article, please contact us at **info@schalkenbach.org.**

The Robert Schalkenbach Foundation’s Digital Collections and Archives is an extension of the Robert Schalkenbach Foundation’s Engel Georgist Library. It collects, organizes, preserves, and provides free online access to researchers and the general public of Georgist literature including books, newspapers, pamphlets, scholarly articles and archival materials.

RSF is particularly proud to offer free online access to the works of the late Georgist scholar Mason Gaffney, made possible through the generosity of the Danica Foundation and with the consent of the Mason and Letitia Gaffney Trust.

Robert Schalkenbach Foundation: https://schalkenbach.org/
Engel Georgist Library: https://www.librarycat.org/lib/EngelGeorgistLibrary
RSF Digital Collections and Archives: https://schalkenbach.starter1ua.preservica.com/

LAND VALUE AS A TAX BASE IN MILWAUKEE

read this weekend

Mason Gaffney

Research Outline, Sept. 18, 1967

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

   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)

      ~~Thesis: Effects on land use of site value tax rather than bldg + site tax.~~

      (i) Land

      (ii) Buildings

      (iii) Exemptions

      (iv) Utilities

      (v) Interjurisdictional relations

      (vi) General:

         A. Effort to minimize vocal protests

         B. Discrimination vs. industry and commerce and absentee and less organized groups.

      (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) (# of years between renewal?)

(iii) Increase of renewal gap, by anticipated building taxes

(iv) Areas where PV_1 (property value) of 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.)

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.

(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, (land value tax) 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.)

(i) 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 builers, 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. Talsky's Chicago study. Milwaukee's many multi-story industry.

V. Parking structures

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, i) Some users cover more land, but others less. What is net effect?

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.

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.

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 gan 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 <u>common utilities and transport--the "intersite" sector</u>--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 <u>raison d'etre</u>, 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 centrate 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)

- 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)

- 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.

- 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.

d. 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.

(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

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.

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.

"The Urban Potential." 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.

(ii) 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."

(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.

(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.

(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.

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.

(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.

(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.

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 <u>will</u> to grow, a willingness of some urban group or agency to accept theadded burdens of larger size.

6. Adequacy of the land tax base.

a. Assume an open economy, (but with some local unemployment and underemployment 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).

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,

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.

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. and truck fleets. 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 innter suburbs would gain population and capital and land value from outer suburbs, <u>if</u> 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).

Premature outer suburbs would be drained of both tax base and need for one.

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 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 Provincees, '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 anyways, 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.

V. Leasing

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

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.