

ORER Letter

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How to Revive a Dying City

Mason Gaffney

Following is an edited text of the 1988 Henry George Lecture, presented in October by Dr. Mason Gaffney at St. John's University in New York City. Gaffney is a Professor of Economics at the University of California at Riverside. Henry George was an economist of the late nineteenth century, whose views still influence debates on property taxation.

Introductory

My grandfathers saw New York City as the center of civilization. It was a livable, optimistic place: a growing, vibrant, trend-setting, prospering, cultural city. A little crooked, sure, and great grandfather was probably no saint, paving streets for Tammany Hall. But it had a present and future, a life and soul, not like the hopeless despair of today's Bronx.

But we are here to talk of the future. I hope to see those good times and better ones come again, preferably without the graft. And we are here to review the ideas of another commuter between New York and California, Henry George, and how his ideas might help to revive dead cities. Henry George was a journalist who taught himself economics. He had a flowing pen and a brilliant mind, and his book, *Progress and Poverty*, remains the

all-time best-seller in economics (except for forced-sale items, like textbooks and the *Thoughts of Chairman Mao*). People remember George, however, not for the volume of his sales, but for his enduring ideas. The reform program he developed combines incentive with justice. It comprises a plan not just to revitalize cities, but to reunify society.

Dead and Dying Cities

Some extreme cases of moribund cities are East St. Louis, Robbins, Harvey, and Ford Heights, IL; Camden and Newark, NJ; Benton Harbor, MI; and Gary, IN. Large parts of many once-vibrant cities are half dead, seriously blighted, and trending downwards. New Yorkers know the South Bronx well enough to avoid knowing any better. In Milwaukee it is the near north side, called locally the "inner core," a galloping blight whose area has tripled in the last 20 years while population has dropped. In Chicago it is South State Street, near the Madison Street crossing which for generations was the most valuable corner in the nation.

Blight is not restricted to stagnant or declining cities. In booming Los Angeles, there is Watts. In nearby Riverside, one of the fastest growing cities in

ORER News

Alumni Luncheon

Charles M. Hill will speak on "Restructuring the Thrift Industry" at the fall luncheon for University of Illinois alumni working in the real estate field. Hill is Executive Vice President of the Federal Home Loan Bank of Chicago and a member of the ORER Advisory Committee.

The luncheon will be held on Friday, November 10. Gene Stunard has again arranged for the use of the Chicago Yacht Club's facilities. The cost of the luncheon, which is open only to U of I alumni and their guests, is \$25 per person. Contact Brenda Bishop at the Office of Real Estate Research for reservation information.

Henry George Turns 150

The work of economist Henry George has been a subject of particular interest in this 150th year following his birth. George is known for his advocacy of taxing land value as a substitute for the typically-encountered tax on combined land and improvement value.

As a tribute to George, *ORER Letter* presents "How to Revive a Dying City," by economist Mason Gaffney, as this issue's feature article. The article explains Georgist views which, though formulated in an earlier era, provide insights into problems of today's world.

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the nation, the CBD is surrounded by blight which, among other things, frustrates years of subsidies aimed at reviving the moribund CBD itself.

These extreme cases are not anomalies, not simply ghettos and embarrassments; they are symptoms of systemic malfunction. They could be portents and symbols for the rest of the economy. Blight may be defined as failure to maintain, replace, and renew capital inherited from the past. Studies indicate that all of American industry faces this problem, compared with vigorous foreign competitors. In learning to cure blight, we may learn to restore the greatness and pride of this whole troubled nation.

Cities That Have Revived

There is also good news: some cities have risen from the grave. Indeed, all land development is resurrection in a sense: all land has been used before for something. The history of a city lot usually shows that there were several antecedent improvements, layered like the ruins of ancient Troy. The goal should be to make renewal happen faster and more widely, while we are still here to benefit.

Germany and Japan recovered from World War II with breathtaking speed. Atlanta recovered from Sherman, albeit in its own courtly time. Chicago burned in 1871, leaving 90,000 homeless, but recovered without breaking stride. San Francisco and Anchorage recovered from devastating earthquakes. Washington, D.C. recovered from the 14th Street riots and arson. The basics were right; the locations remained good. Disaster may even have forced "instant urban renewal," by demolishing obsolescent capital and releasing land for rebuilding.

Other revivals, while less dramatic and publicized, are more impressive and relevant because they are revivals from normal decay and obsolescence, pushed along by good public policy. Southfield, bordering Detroit, is thriving and flourishing as fast as its parent central city is dying. Rosslyn, VA, across the Potomac from D.C., is a forest of high-rises that rose while Washington was burning and derelict in the 1960s. Sacramento's once-depressing center has found new life.

Pittsburgh, of grimy repute, was recently named the most livable U.S. city. Hong Kong, Singapore, and Taipeh, once best known as fetid ports of call, are three of the "Four Tigers" of southeast Asia.

Local policies in these modern stories of economic success and social revitalization show the hand of Henry George at work. In Taipeh, we hear that they are guided by the philosophy of Dr. Sun Yat-sen, a Georgist convert. In Pittsburgh, we find a "graded tax plan" applied, framed, and supported by the Henry George Foundation. Throughout Pennsylvania, we see smaller cities emulating Pittsburgh's partial application of George's policies; such cities bear close watching as they bounce back.

Then there are cities with explosive growth after slow periods. These include Sydney and Johannesburg, both notable for their use of Georgist policies. Whatever their social faults, these cities have burgeoned to become the economic capitals of their continents. There are other examples in Africa, like Nairobi; and in the Antipodes, like Brisbane and Auckland. Many cities of western Canada, including Edmonton and Vancouver, grew with partial use of Georgist policies in the early 1900s. Georgist policy was applied more informally (through assessment discrimination) by San Francisco, Seattle, Portland, San Diego, Houston, and other growing western U.S. cities during the same period.

It is comforting to know that degeneration and failure are not our predestined fate. We may choose them, but we may also choose renewal and success. It is a matter of attitude and know-how.

Why Cities Should be Revived

Some cities should be abandoned. Towns around played-out mines are obvious examples. A farm town becomes redundant when new roads let customers patronize a larger or better town. Salvage what you can and move on.

Some would apply the same logic to all cities. Dead cities aren't lost, they say, but rebuilt elsewhere; they were cash cows that have been milked dry. Their depreciation allowances are reinvested on new frontiers; people and vi-

tality move with the capital. It is an important half-truth, but a half-truth is also half wrong. The basic original site stays put; land cannot move. Public and private social capital cannot move, either.

We cannot afford throwaway cities in a finite world. New natural sites are not common. There is only one Hudson Valley with only one mouth, and here New York City has stood for 350 years. We cannot abandon the Bronx and duplicate its environment somewhere; we cannot rebuild the natural setting, and the sunk social capital is too costly. Relocating to suburbs involves commuting cost in terms of money and congestion. And then, when we tire of the new suburbs, where will we go next?

Furthermore, blighted areas have high potential market values. Picture a topographic map of a city where the contour lines represent points not of equal elevation, but of equal market value per square foot. The peaks, the Everests and McKinleys, are in the city retail centers, where just one square foot rises to \$2,000 (about \$90 million per acre). Land just a few miles away from dizzying altitudes can hardly be worthless. Harlem is near Park Avenue; Watts is near Beverly Hills; South State Street is very near the Sears Tower. Newark is 15 minutes by train from Manhattan. Newark office rents are \$25/sf per year. That is less, of course, than in Manhattan, but in Riverside, California, we are throwing up offices to get rent of \$12/sf per year, while Newark stagnates.

Capital earning \$25 is obviously more productive than that yielding \$12. I do not mean capital in the floor atop a high-rise, which likely costs \$25/sf (in annualized terms) to build and operate; but capital in lower floors, which costs less to build but rents for as much, yielding a surplus. To get more such capital and the corresponding surplus, renew more land in high potential areas, like Newark. Not to renew is to waste potential surpluses. Each year's loss is gone forever; services of land perish with time.

Urban revival works best when healthy pieces remain on which to anchor development. In the worst scenario no such place remains, but even Camden

has Campbell Soup; Newark has a great airport, a new Hartz Mountain Industrial Park, and the Pru. Life is persistent and resilient; seedlings that sprout seek only sunshine, water, and cultivation.

The Urban Surplus

One reason we remember Henry George is his pioneering study of how cities work and the good they do. Previous economists showed limited understanding of location value and its causes. Even von Thunen, father of location theory, approached cities in an antiseptic way that left out what today we call urban linkages and synergy. George was a *mensch*, seeing cities in human, interactive terms.

George saw cities as *foci* of civilization's basic mechanisms. People with mutual access, associating on equal terms, expedite cooperation and specialization through the market. Multivariate interactions are synergistic. Indeed, while each parcel is developed in the stage of decreasing returns, the composite city is generally in a stage of increasing returns, thanks to synergy: the whole exceeds the sum of its parts, and increases to the whole yield more than the sum of increases to the parts. Synergistic surplus, said George, lodges in urban land rents. Thus he explained a phenomenon which other economists overlooked: the unparalleled rise in urban rents and land prices, and in owners' wealth and power.

Building investment exhibits diminishing marginal productivity. For example, the first \$10K spent yields 30%, or \$3K; but \$1K (10%) is paid in interest, leaving a \$2K surplus. To acquire a superior location that confers this surplus, the buyer can spend up to \$2K annually, which means paying up to \$20K for the land (at 10%, \$20K costs \$2K/year). The next \$10K spent may yield more than 10% too, say 20%, conferring more surplus and adding more value to the land. The idea is to invest until the last \$10K unit yields 10%, just enough to pay interest.

To understand ground rents and land prices is to understand cities; not to understand is to remain mired forever in confusion and fallacy. Ground rent continues forever, generally tending to rise; therefore, to buy title to land, people pay

AREUEA Nominates Colwell

ORER Professor Peter Colwell has been nominated to run for a three-year term on the Board of Directors of the American Real Estate and Urban Economics Association (AREUEA).

The membership will elect four Board members from among eight nominees. Other nominees are Jack Goodman of the Federal Reserve Board, David Ling of Southern Methodist University, Frank Nothhaft of the Federal Home Loan Mortgage Corporation, Ronald Rogers of the University of South Carolina, David Seiders of the National Association of Home Builders, James Shilling of Louisiana State University, and Anthony Yezer of George Washington University.

University of Illinois Economics Professor Jan Brueckner serves on the AREUEA Board of Directors. Former ORER Director James R. Follain is the organization's current President.

Ursin Addresses Illinois Realtors®

ORER Advisory Committee member Don Ursin addressed the Realtor® of the Year Banquet on June 7 in Springfield. He had been named 1989 Illinois Realtor® of the Year.

In his speech, "Reflections of a Realtor®," Ursin outlined his educational and professional history, and noted contributions that others had made to his career success. He then suggested steps that others in the real estate field might follow.

Ursin has been in the real estate business since 1957. He has been active in Realtor® activities at the local, state, and national levels, serving as President of the Illinois Association of Realtors® in 1981.

prices that look high relative to current cash flows. In Riverside, a low density city of 208,000, land prices go up to \$18/sf. In San Francisco, with high density and 800,000 people, prices reach \$1,000/sf; in Manhattan they exceed \$2,000. In Tokyo, probably the top of the line, one sale is reported at \$25,000/sf. Urban land prices take your breath away.

Land prices vary extremely from city to city or block to block. The cost to build a square foot of floor space is fairly constant from place to place, but demand varies with location. A small rise in floor rental translates into a large rise in ground rent and land price, because the land owner gets everything above what is required to operate and amortize the building. Thus, in Riverside, neighborhood mall space rental of \$12 just pays for the building, with only a little left over, resulting in land prices of perhaps \$5-\$8/sf. In Manhattan, rentals are triple those in Riverside; all surplus accrues to ground rent, resulting in land prices 300 times higher than in Riverside.

At key locations in bigger cities, land prices are not just high per square foot, they are higher per capita than in small cities. They are even higher relative to building values, in spite of the high-rise buildings. Remember that each additional floor adds more ground rent, because floor space rental is more than enough to cover the added cost.

Land prices across cities and neighborhoods are much more differentiated than other measures economists commonly cite. For example, the median income in upper east side Manhattan is about 8 times higher than north of Central Park, while the price of land per square foot is probably 40 times higher.

Urban land is also highly concentrated in ownership; a handful of people and corporations own most of it. A growing share of income property is held by wealthy aliens, who want to diversify and acquire secure wealth they can manage by remote control. Aliens even hold a good deal of residential property in international "jet set" communities.

Sharing the Surplus

Because urban rents are a social surplus,

not a payment for anyone's making or supplying land, parties other than the landowner have a claim. A good deal of American politics deals with how to assert that claim and share in the surplus.

Dividing a big pie seems a pleasant enough task, but Confucius knew better: "It is easier to face a common enemy than to share a surplus." The common ways of sharing surplus are clumsy, divisive, and destructive; they bear some responsibility for dead cities. With too much quarreling over spoils, there are no spoils to dispute. Consider how spoils are shared, and how we might do better.

Rent Control

Rent control, which shares surplus with tenants, is a tempting route that several cities follow. Renters feel abused and neglected by tough managers and anonymous landlords. Supply is inelastic, at least in the short run, so owners can't cut and run. Poetic justice is served. But there are several spots on this policy:

Limited number of beneficiaries. The original tenants carve out an equity in the landlord's estate, but benefits spread no wider. Tenants may sublet to others, becoming landlords themselves. Rent control is at best a zero-sum game among the few, not a social reform.

Lower incentive to maintain supply. It becomes unattractive to build new rental units, which are allowed higher initial rents but are vulnerable to future caps. So rent control is worse than a zero-sum game, it becomes negative-sum. Rent control confiscates land income and building income alike; buildings do not receive needed maintenance if there is no return. Too, land can be reallocated to uncontrolled uses, such as condominiumization. A new wrinkle in Santa Monica is to buy a cheap rent-controlled apartment building and convert it to a single-family residence for the new owner.

Wasted space. Tenants lose incentives to economize on space that is underpriced to them. In the extreme, tenants move away, but retain their apartments to use a few weeks of the year.

New class society. Old renters become a privileged class. A lower new supply, and wasted space, force uncontrolled rent

on new buildings above the market level.

Owner-tenant clashes. An owner's main goal under rent control is to evict and repossess. Nastiness and intimidation have become routine, and the war stories legendary. In Tokyo, outright extortion and violence are frequent.

Aborted incentive to maintain and improve. Landlords, and tenants retaining precarious tenures, lose all economic motivation to maintain or improve property.

Dogged obstructionism. Sitting tenants, who cannot gain by site renewal, fight it every way they can. Obstructionists have a vested interest in the status quo, however obsolescent, however decayed, however inappropriate to the site.

Undertaxation. Equity that tenants carve out of landlords' estates has no market value, because it is inalienable (at least legally). Assessed values and tax yields drop. The privileged class pays low rent and avoids supporting public services. Higher tax burdens are dumped on others, and worsened public services are suffered by all. By way of analogy, I am a small farmer with canal company shares that allow me to buy water below the market price, but no right to sell my water. So I and my fellow shareholders waste water and create a chronic, artificial southern California water shortage.

The rationale is that housing or water is too important to leave to the market, and must be price-controlled. The result is regulation much worse than anything a market could accomplish. Around 1973 there were shortages of coffee, raisins, and even toilet paper. These were too unimportant to regulate, so their prices rose, demand fell, supply rose, and the crises quickly disappeared. Rent control ensures that we will not overcome the housing crisis so simply, if at all.

"French Equity" (Equity in Kind)

Under the Code Napoleon, a French testator must divide real estate equally among all children. Money cannot substitute for land; the Code requires equity in kind. The resulting fine subdivision is called *morcellement*, and the Code demands it without regard for efficiency. Each heir, in fact, must get an equal share of land of each quality: meadow,

woodland, etc.

Today we approach French Equity indirectly, and expensively. We distribute land haphazardly, but seek to make every parcel equally good by extending utilities and roads to all parcels on the same terms, regardless of cost or location.

Economists call such schemes "postage stamp pricing," because postal rates do not vary with delivery costs. Manhattan has 64,000 residents per square mile; Montana has 5.4. It costs a lot more to collect or deliver mail in Montana. The reason postal rates rise is that the U.S. urban population is spreading out more like Montana and less like Manhattan (which once had over 100,000 per square mile). Here are five other examples:

The British Columbia Ferry Service.

This socialized system has two urban lines that make money, but the whole system hardly breaks even, because lesser lines serve remote areas. The worst costs \$12 for every dollar of revenue.

British Columbia Hydro. This socialized power system charges uniform rates throughout the Province. Users living in high-density Vancouver are cheap to serve. A few live on the Yukon border, where (I surmise) it costs hundreds of dollars to earn a dollar of revenue.

Water and sewer service in Milwaukee County, Wisconsin. City investments have been captured, controlled, and milked by suburban land development interests, helped by state legislators.

State university campuses. The legislative ethic demands a prize, such as a university campus, in every electoral district. Most of the eight UC campuses have excess land; some have excess floor space. Sacramento solves rising enrollment not with more intensive use of existing campuses, but with the costly creation of new ones, each to enrich influential land speculators.

Water supply in California. The high real cost of serving new settlements is passed on to older settled areas through an accounting device called "melding," stirring all the accounts in the same pot. Melding passes through several levels: a state wholesaler serves the metropolitan district, which serves local districts, which serve cities. At the end of the

line, in Riverside, it costs society \$1800 to serve the marginal acre-foot (a unit of water) selling for \$20. This subsidy is worth fortunes to developers; the cost is spread so others won't notice.

Problems with French Equity

There are two problems with these subsidies as an approach to equity: they are not equitable, and they are wasteful. Equity achieved by regional cross-subsidy is not interpersonal, but interregional. It is like U.S. "foreign aid" programs, which tax the poor in rich countries to aid the rich in poor countries. Some who hold speculative land and enjoy subsidies are among the world's richest people and corporations. Equity is not served by milking middle-class neighborhoods to further enrich wealthy owners. "Public works for private gain" is bad enough, but worse when profiteers are already rich.

How about waste? Subsidy creates waste in the amount of the subsidy, almost by definition. The New York Regional Plan Association estimates the social cost of creating a new lot on the urban fringe at four times the lot's price (probably an underestimate). Why develop a lot worth only one quarter of its cost? Because other people pay the other three quarters. This process transfers ground rent from areas of overcharge to areas of undercharge, but it destroys much of the ground rent. To spread the surplus, we lose much of it.

Has French Equity any merit? It passed for a way to create jobs when Keynes actually urged waste as a route to full employment. Those ideas are now dormant, but we still do not understand the problem. If we had to fire teachers or policemen each time a city extended utilities to a campaign donor's raw acres, we would better sense the true cost of public works for private profit.

George's Constructive Program

The key to renewing cities is shifting from *obstructive* ways of sharing rent, like rent control; and *destructive* ways, like looting and subsidies; to *constructive* ways. Henry George showed us how equity and efficiency go hand in hand, how the magic of justice combines with the

magic of incentive.

First, by George, equity need not be in kind. The monetary mechanism overcomes the clumsiness of in-kind equity. If four families inherit a one-family house, all four don't crowd in; they sell and divide the money, or one buys out the others. There is equity in money as well as in real estate. Money is often better; the reinvestment opportunity puts the house on a magic carpet to follow you anywhere. Money is wonderful!

Second, by George, use the tax mechanism. Do not divide land into unusable morsels, or shackle the market with rent controls, or dissipate rent in subsidies. Give land to the highest bidder, and tax ground rents to support government.

Power to Destroy or to Redeem

But we've always heard that tax destroys incentives. The news in Henry George is that we can tax all the rent out of land, and not one square foot will walk away, nor will God switch off the Creation. Man creates capital by saving; some Other Force created land, and sustains and serves it every day, undeterred by taxes.

Nor will Georgist taxes leave owners sulking on their land, but the contrary. A 1983 *Fortune* magazine article calls them "Higher Taxes that Promote Development." The fixed tax is levied on land value, based on opportunity cost. The owner uses land harder and improves it more to meet a fixed tax; or sells, releasing surplus land to those needing more space. Taxes stifle enterprise only if they increase with enterprise. Land tax increases only with opportunity cost, which is independent of the enterprise of the owner. The only activity this tax impairs is withholding land from use.

George's land tax promotes equity toward the landless in at least four ways: it relieves them of taxes, to the extent that landowners pay more; it supplies them with more goods and services, as land is used better; it offers them jobs producing those goods and services; and it offers them a better chance to acquire land, as surpluses are released to the market.

This is supply-side economics with a kick. It works through tax transformation rather than tax reduction; total tax

revenue may rise or fall, as a separate issue. We can raise taxes and stimulate supply together; there is no hard choice between them. At the same time, it is demand side economics: untaxing investment raises the marginal after-tax return, which, to demand-siders, is the motor that drives the macro-economy.

George's program not only reconciles efficiency and equity, it squares taxes and incentives. What more can we ask of economic policy than to resolve stand-offs that have confused us, and dead-locked constructive action, for generations? It is an achievement on a par with resolving Evolution and Creation, except George's program is something we can do something about. We can implement it as quickly as we unclog the cerebral arteries and follow thought with action.

Many people are comforted to think justice must be sacrificed for efficiency, and schools starved or libraries closed to free up incentives, so nothing, really, can ever be done. We all feel compassion, but, to stay whole in this world of beggars and bandits, learn to harden our hearts. We screen out evidence of injustice and rationalize what we cannot deny. This mindset, while understandable, is unaffordable in a period of dangerous national decline and of growing division between haves and have-nots. Corking in feelings is difficult; there is satisfaction in venting compassion via support of constructive public policies.

Camden has the highest tax rate in New Jersey, causing a vicious circle as high rates drive away capital and further erode the tax base. What if only land value were taxed? The depressant would become a stimulant by the simple magic of converting a variable charge into a fixed, unavoidable one. So it is with most depressed cities, which today look vainly to Washington for salvation. They need enabling legislation from their states, on the Pennsylvania model, but given this power can save themselves.

The Doubling Effect

The counterpart of sharing rent through taxation is to untax things, like buildings, that involve human endeavor. This doubles the incentive effect. *If land tax is*

the stick, untaxing buildings is the corresponding carrot, and George's program makes both larger. Every lot with an old "Defender" building has a potential replacement, the "Challenger." Taxing buildings rigs the fight against the Challenger. Say the lot-cum-Defender is worth \$100K, and the Challenger would cost \$500K to build. Challenger cash flow must exceed Defender cash flow by enough to pay \$500K, plus added taxes based on it.

Georgist tax, by contrast, is impartial between Defender and Challenger; the market decides. In 1965, after a detailed Milwaukee study, I found that switching to the George program would allow 30% of the city to be renewed immediately, simply by untaxing Challengers vis-a-vis Defenders. (Sadly, Mayor Maier went the other way, so Milwaukee lost 20% of its people and much of its wealth.)

The Tripling Effect

New buildings face liquidity crises; almost all are built on credit and need time to yield cash. The timing of tax on a building maximizes the damage during the crisis period, for any given tax yield over time. Of course, every building uses public services, but new buildings in older cities pay for more than they receive, while old ones receive more than they pay for. Think of building tax as a forced loan to the Treasury, to be recovered when the building is older. What could be more counterproductive than forcing a loan from a builder passing through a credit crisis? *The Georgist tax is low when the builder's cash needs are pressing, and rises slowly over time as the site ripens to its next best use.*

The Quadrupling Effect

Urban blight is cumulative and self-reinforcing: blighted buildings cast a pall on land around them, discourage upkeep, and stifle renewal. Whatever slows renewal of one site slows the neighborhood in a vicious, downward spiral. Conversely, new buildings stimulate renewal. There are exceptions; some new buildings sterilize blocks with blank walls. But the exception is not the rule, and abuse is not the precept. The rule is that

new buildings draw tenants from old and weaken other Defenders, so that other owners also renew. When they do, where better than next to the newest building? Renewal, like blight, is cumulative, but in a benign, upward spiral.

Competition for sites raises the tax base if land values are derived from ground rents. *The higher base allows the city to improve public services without taxing buildings or scaring away generators of fiscal surpluses.* In this scenario, buildings raise the tax base indirectly, by raising the value of land around them.

The Quintupling Effect

Riverside built a downtown pedestrian mall when they were in vogue, and has been sorry ever since. It did not work; retailers deserted, and half the stores are empty. I asked the developer of a successful mall why he thought downtown failed, and got a two word answer: "absentee ownership." I should have known, having preached it for years.

Farm advisers say, "The best dressing for soil is the owner's shadow, applied daily." In town they ask, "Who's keeping the store?" Absentees aren't the only negligent owners, nor are they all bad. Torpid owners are the problem, and they come in many forms. A city wants to be rid of owners who see real estate as a cash cow for their retirement, and to replace them with owners who see it as a vehicle for enterprise and who apply their shadows daily. The shadows follow them to local civic clubs and to enterprising downtown or neighborhood associations for making joint improvements.

The surplus to land attracts outside buyers. Absentees, redundant parties in production, are often top bidders for pure ownership, which is the legal right to receive land rent plus unearned increments that accrue over time. *Georgist taxation cuts directly into rents and unearned increments, which attract absentee owners; it spares the rewards of enterprise.* It thereby effects a market transfer of ownership from absentees to occupants, with the community benefits that follow. In a period of rising concern over alien takers of U.S. real estate, these points merit focused attention.

The Sextupling Effect

Untaxing buildings attracts outside capital to an area, but does not result in new capital formation for the economy. In Keynesian models, however, reducing tax on new capital raises the rate of return after taxes (marginal efficiency of capital) and creates new capital. In supply-side models, increasing saving is more important. Land taxation helps here, too.

Land taxation, if vigorously applied, tends to reduce the investment value of land, through a process called "tax capitalization." With land devalued, those needing wealth acquire substitute assets by saving more, and investing the savings in real new capital rather than land.

The Septupling Effect

Georgist taxation tends to reduce the need for public spending in two obvious ways. One is to increase job opportunity, which in turn reduces welfare spending. More productive job opportunities should reduce pressure for military spending of a boondoggling, make-jobs nature as well. The other is to eliminate urban sprawl and its wasteful cross-subsidies.

Renewal & Housing for the Poor

"Slum clearance" in the 1950s had a negative caste, with a name catered solely for middle class consumption. Reuse of cleared land was often at lower density, inevitably throwing unhoused people on the private market. Federal "urban renewal" in the 1960s, while better named, emphasized clearing, not rebuilding. The inventory of cleared, unrebuilt land under the program grew each year. Cynics' cracks of "bombing out" and "Negro removal" were on the mark, though blacks were not the only evictees. Any talk of demolition and renewal evokes the specters of those cruel, wasteful programs.

But George's program begins with fostering renewal and intensive use. Clearance is involved only to serve renewal, never as a goal in itself. The first land taken would generally be vacant or with boarded-up buildings. New buildings would draw renters and buyers from old ones, releasing more space. The idea and impact are to increase rentable, salable floor space. There would also be more

firms to compete in selling and hiring.

How do we know there would be an aggregate increase in supply? Higher density is one test. Untaxing buildings fosters higher density because density, exemplified by high buildings, substitutes capital for land. Untaxing capital obviously makes it more economical.

Higher quality is the other test. The richer the new tenants or buyers, the more space is released when they move. This is the hardest point for advocates of the poor to accept. There will always be specific cases where the rich bump the poor, leading to contemptuous names like "trickle-down" that dismiss effects on the market. But the aggregate is what should concern us. If tenants mobilize against new construction, a minority with a vested interest harms everyone else, including the poor. Building new homes for the rich, who can afford them, releases usable space for everyone else.

There are three kinds of slums. Only the narrowest kind, the slum on high-value land, causes eviction of the poor to benefit the rich. Owners in these uncommon areas neglect their buildings, expecting to demolish them for expanding commerce or high-rise apartments. The second kind is on bad land which will stay bad. The third, and most common, kind is on good land with old buildings that have filtered down to people who generate bad neighborhood effects. Units go vacant; land value is low. The market renews these slums not in a stroke, but by nibbling at the fringes. Yet as it nibbles incrementally in, it unavoidably creates more space than it consumes, raising aggregate supply.

The poor also must fear gentrification, in which new gentry displace the poor in the same old buildings. This is one result of not renewing; renewal as such is innocent. It seems carping, too, to criticize people for restoring old buildings. The alternative may be seen in ungentrified neighborhoods, where buildings simply go out of use, sheltering no one.

But the ultimate end of Georgist policy is viewed in terms of the nation, pitting cities against each other to attract people. Nothing is better for people than to be competed for. It raises their bargaining

power as tenants, buyers, and workers.

Social Justice

With all that talk of capital and efficiency, remember that we began with a quest for justice in sharing rent surplus. Justice and efficiency are not at odds; we can have both. The trade-off expounded by many economists is to enervate us so we won't do anything. Yet we have shown not just that we can have both, but more; we cannot have either without the other. If we do not share rents in the efficient Georgist manner, social and political pressures will cause inefficient sharing and eventual dissipation.

This is what economic policy can do. The basic impulses, however, the striving for justice and brotherhood, and the sense of personal ethics, come from within, and from family, community, schools, and religion. So does the sense of workmanship, the striving for excellence without which no system works.

There are city councilpersons who can corrupt the best system ever blueprinted. The Georgist program may even help to straighten them out. Lincoln Steffens taught us that the villain in Eden was neither Eve nor the serpent, but the apple! The apples of discord that corrupt city councils are unearned increments to land value, which they create or deny with every decision on extending sewers or changing zoning. Georgist tax dehydrates those apples by attaching higher tax to each unearned increment.

A Summary of Reconciliations

Georgist policy has been shown as a means to revive dying cities, and in the process to reconcile equity and efficiency; to reconcile supply-side economics with taxation; to reconcile capital formation with taxation of the rich. It can be seen as a means of harmonizing collectivism and individualism, in the most constructive ways possible. I know of no other program whose proponents can even make such claims, let alone substantiate them. In a world that has already priced younger people out of the real estate market, we should find George's program worth our intense study and support.