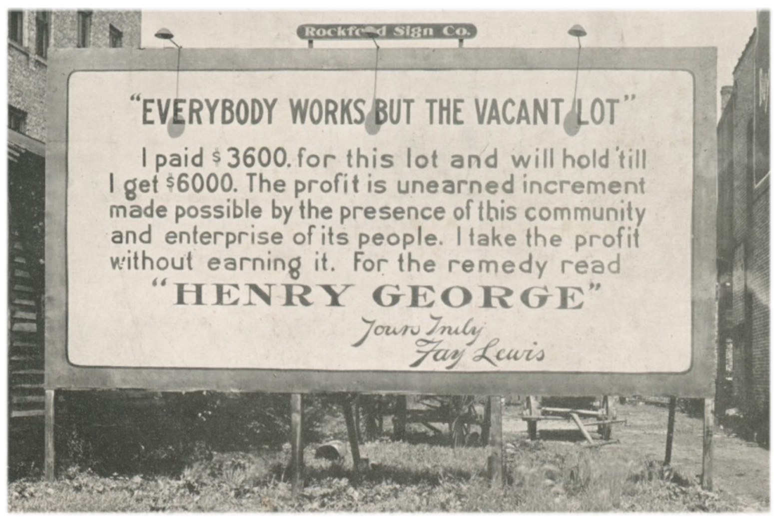
This was written in response to a remark made by Pastor Paul Bains in the opening minutes of a broadcast of the Commonwealth Club. I was sent a link to the broadcast by someone who shares some of my concerns about inequality and was knocked off my seat when Pastor Bains led off with the observation that "they're not making any more land." That observation warrants a deeper examination and I hope to contribute to that below.

With that phrase, he hit on a fundamental truth that has been lost to (or pushed out of — https://www.masongaffney.org/publications/K1Neo-classical_Stratagem.CV.pdf) popular thought for many years. The inequality of access to land and the capture of wealth derived from it underpins the inequality we see everywhere else in society. The value of land is a direct reflection of the scarcity he alludes to but that value is not created by the owners themselves. Rather, the value of land stems from improvements around it. Taxpayer-funded roads, utilities, and construction on adjacent parcels all make a given parcel more valuable to the owner, for no investment or cost beyond their tax obligations. In Seattle, where I live, that tax obligation is 1%, meaning that someone can hold a parcel valued at $1,000,000 for $10,000 a year while they wait for their price.



The Prophet of San Francisco, Henry George — whose book *Progress and Poverty* (1879) outsold everything but the Bible for many years — understood why poverty and prosperity both increased as cities grew:

> In 1871, on the day Henry George experienced the revelation that was later to become systematically formulated in his first book *Progress and Poverty*, he went on an afternoon horseback ride in the San Francisco Bay area. It was on that ride that he had his sudden flash of revelation and realized the solution to his life's most puzzling enigma—and to humanity's most dire misappropriation. He describes it as such:
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> "I asked a passing teamster, for want of something better to say, what land was worth there. He pointed to some cows grazing so far off that they looked like mice, and said, 'I don't know exactly, but there is a man over there who will sell some land for a thousand dollars an acre.' Like a flash it came over me that there was the reason of advancing poverty with advancing wealth. With the growth of population, land grows in value, and the men who work it must pay more for the privilege." — https://www.progress.org/articles/henry-george-the-prophet-of-san-francisco-part-1

The value of land increases with development, and that value created by labor — the foundation of wealth — flows to the rentiers, the landlords, rather than those sweat created that value. Ricardo's Law of Rent (following Adam Smith) — that the rent of a land site is equal to the economic advantage of its most productive use — reminds us that the cost to access land "is not at all proportioned to what the landlord may have laid out upon the improvement of the land, or to what he can afford to take; but to what the farmer can afford to give." In other words, rents rise to meet the ability to pay while wages fall to the minimum, defined by law or the market. We see this in our inequitable cities where housing costs rise to chase high tech wages, forcing lower paid workers to move or, in some cases, to become homeless.

Landlords and land owners grow rich in their sleep, which flies in the face of what we have all been told, that hard work is the key to wealth. But, as we know but fail to acknowledge, the real value of the land in Seattle or Oakland stems from the investment made by the people who live in those cities. Ideally, cities would be landlords, owning the land on behalf of the people and setting rents that keep land productive and returning that money to public use. That is unlikely to happen in a culture that reveres private property ownership and the wealth that is historically associated with that. In the absence of public ownership and land rents, location taxes and a graded land rent might be enough to return that wealth to those who created it and return our cities to a more equitable balance.

Anyone who took a risk in the early development of our prosperous West Coast cities — you know them by the streets named for them — has recouped that many times over. Those rewards now belong to the people of those cities and should be recouped through location fees.

Some local examples demonstrate how high land values keep valuable parcels out of the productive economy. In the mid 2000s a one city block parcel across from Seattle's City Hall was surplussed and sat vacant, a hole in the ground, for *more than ten years*. The cost to acquire it was too high to allow a developer to put it into productive use and there was no incentive for the owner to release it. This would have been an excellent test case for land rents if the city (the owner of the surplussed parcel) had opted to rent it, rather than sell it. ~~It was finally acquired but may not be developed for a year or two yet.~~ Turns out it was not actually acquired until late 2019. So a full city block of productive land in one of the most dynamic economies in the US has been idled, paradoxically due to its high value. There are many other well-sited parcels that could be rented instead of sold. Another project near downtown Seattle was offered $1M/acre over 99 years ,amounting to something like $1 billion over the term of the lease. The city sold for $125M, leaving 60+ years of annual rents, about half the total, on the table. Selling off public land is eating your seed corn and should be discouraged.

It makes no sense that a parcel of that size in that location would sit idle in the construction crane capital of the US but this is the effect of high land prices and low holding costs. If Washington's 1% tax rate was augmented by a location fee on commercial land in its most vibrant zones that took into account a parcel's value, land owners would have an incentive to return vacant or disused land to productive use. The graded tax could simply following the zoning for that parcel. Pennsylvania has used a split rate/graded tax system in various forms for more than one hundred years.

> 'There is no doubt in my mind that the graded tax law has been a good thing for the city of Pittsburgh. It has discouraged the holding of vacant land for speculation and provides an incentive for building improvements. It produced a more prosperous city.' — 1960, PA Gov David Lawrence

Consider a highway interchange between two distant cities. Almost immediately a gas station and convenience store will be put up. Then another and then a fast food outlet or two. Then maybe a sit-down restaurant as traffic warrants. Then, if nearby population increases, a strip mall, a big box store, maybe an outlet mall, all as a result of the public investment in that interchange. In far too many cases, that land was sold cheaply and often with tax abatements to create jobs or increase development, all of which comes out of the commons. All of that land should be subject to land rents or location fees that return that increased value to the commons. Through judicious use of those levers, along with zoning, cities and counties can also control sprawl and the costs that come with it — increased road and public health costs.

As Pastor Bains reminds us, they aren't making more land but we *are* making more people, all of whom have to make their living on that land. The same observations were made by Thomas Paine in his pamphlet *Agrarian Justice*:

> Whenever a population converges around a certain location, the land, of which there is only a limited supply for each location, becomes more expensive to live on; people have to increasingly pay to live on land, and this in turn affects the entire economy.

So who should get the increased value from it? Henry George understood that the wealth derived from land rightfully belonged to those who created it through their labor and the rents earned from land should flow back to the people, not extracted by speculators or rentiers who add nothing, even unto those generations who inherit that land free and clear.

The optimal price to acquire a parcel of land should approach $0 (notwithstanding any fees for conveyancing, etc.) with rents assessed on the best productive use of that parcel. Well-designed land rents/location fees will push the cost to acquire land down, pushing development costs lower and lowering the market rents of the resulting development. If a developer is forced to pay $1,000,000 for a parcel, that represents money that can't go into the development. That upfront cost makes affordable housing impossible to pencil out. This, along with outdated zoning, forces developer to build high-end units that are out of the reach of working people or become speculative investments. Push the price down and see how many building permits are pulled for previously disused parcels.

If land rents reflected the productive value of land to the commons, surface parking lots in urban areas would have been replaced by commercial or residential development long ago. "Big box" stores, parking lots, and storage warehouses would be exposed for the real estate plays they are and would be replaced by more dense and productive uses of that land, creating jobs and driving tax revenues. Consider the business model of the big box store or storage warehouse: it's not just the retail customers or monthly rents that attract investment in the business as a business. It's locking up of sizable parcels of land near or in cities, land that will appreciate while the retail customers and tenants pay off the purchase. Shopping malls, in their heyday, were much the same. Now we see vacant or declining malls on land that could be repurposed if the investors weren't stuck with the land. Under a land rent model, a lease could be broken and the land put back to productive use without the prior user having to find a buyer for it. Vacant parcels would quickly find uses where windfall prices had kept them idle, often for years. Rather than pay a 1% property tax to hold a parcel, as here in Seattle, let a 5 or 10% land rent or location fee spur development by discouraging the hoarding of vacant land.

The predictable counterargument is that the imposition of a land tax or location fee will force landowners to sell at a loss. But nothing has prevented that landowner from developing that land for some productive purpose — unless the price they have set makes a project impossible to pencil out. Or, as in the image above, their target price has not been met. Part of the problem here is zoning, as Seattle is currently coming to terms with. These two levers of zoning and ground rent need to used together, by lowering the cost to acquire these parcels and adjusting the zoning to make them economically viable.

There was the recent example of a speculator buying the street in the Presidio that was has been home to Sen. Dianne Feinstein, House Democratic leader Nancy Pelosi, and the late Mayor Joseph Alioto. The property taxes on the privately owned street were *$14 a year* and hadn't been paid in 30 years. It could have been $1,000 a year and no one there would have blinked. How many other similarly undervalued parcels are there in the Bay Area? A lot of parcels in Mountain View, home to Google, remain unimproved because of the low property taxes (lack of incentive to sell) and rising values. Investors can buy and hold if taxes don't reflect the value of those parcels. If the land were taxed based on its location, not its former use as agricultural land, the Bay Area housing market might see some relief, from lower housing costs and increased tax revenue to pay for needed city services. There were once farms on Manhattan: would we expect that land to have the same value as those parcels do today? We see how the value of that land drove new uses but what if those increments had gone back to the city, instead of being pocketed by speculators?

Parking lots, low-rise shopping, houses in high-rent areas converted to offices — all that needs to be swept away. Land rents on commercial property will bring down the price to acquire land and housing costs by pushing vacant or underused land into development and creating incentives that will force density, as zoning allows. Where now we see houses turned into offices in the midst of high-rise development — as the owner waits for the price for his land — we could force their hand by assessing a location fee that reflects the current productive value of that land. Some will claim that they are being forced to sell at below market price but if they held the land for any amount of time, in recent years, they have seen it appreciate. I think we can ignore that claim. One Seattle business — in the same family and location since 1929 — sits on land valued at $3,000,000 while the building is assessed at $1,000. The owners have publicly complained about their property taxes ($30,000, at 1%) but it's hard to sympathize with a family that has run a multi-generational business while sitting on land that is now a $3,000,000 asset. With a land rent/location fee, they might have been induced to sell or redevelop that land years ago without any drama. The goal of a land rent or location fee is to encourage land into its most productive use.

Land rents will also redirect the flow of rents from out-of-town/int'l investors back to those who have actually invested in the land — the workers and taxpayers. Seattle — and every other city — belongs to those who live and work there, not a minority of landowners, many of whom don't live in Seattle.

Seattle has hundreds, perhaps thousands, of single-family homes that have been turned into rentals, either by the homeowners or corporate owners, turning the local economy into an ATM for the wealthy. These owners take their rents as withdrawals in New York or Bora Bora, spending locally-earned wages elsewhere and keeping scarce housing stock priced out of the reach of working people who still live here. As with business consolidations of all kinds, our cities are being stripmined, as labor wages are siphoned off on the first of each month.

A land rent/location fee would also serve as a wealth tax or at least a disincentive to use land as a wealth store. Taxing unearned income is another piece of chipping away at inequality. We know from newspaper reports that a lot of high-end properties are used by money-launderers and we should look at anything that discourages speculation in something as fundamental as housing.

Seattle attempted a tax on local business, with a "head tax" that targeted businesses based on revenue, but it was overturned after a successful lobbying effort by local plutocrats and their apologists. I'm not sure it was the right option, after all is said and done. Income taxes or taxes on trade might not be the best tool, when land taxes have yet to be tried. Land taxation doesn't discourage innovation or investment, as an income or sales/revenue-based tax might. Deadweight taxes are often the first tool people reach for but it's not always the correct one. Why wouldn't a city like Seattle or Oakland or New York want to recover the value of their land? Some will argue that it will discourage investment, but the only investors who will be deterred are free riders who want to get the use of that land for nothing. We don't need them.

And to be clear, a simple land tax doesn't touch the improvements or development and as a result encourages development and more dense/remunerative use. By not taxing improvements, developers will be able to make better use of that land without worrying about being taxed for it. Low (1%) property taxes allow hoarding: raising that, even by an additional 1%, will force some to sell or develop vacant or underused land. If the land use/location fee was raised to 5% along desirable corridors, land owners would be encouraged to make that land work, especially if they see neighboring parcels put to use.

Won't that mean higher rents for tenants? Not if every similarly located parcel pays the same rate, just as that all pay 1% now, just as raising the minimum wage falls equally. Seattle's business climate has accelerated with the recent $15 wage. Those who claim it was going to kill the local economy have been reading the wrong textbooks or never took a class after Econ 101.

Since Washington limits property taxes at 1% (more or less, notwithstanding a lot of complex calculations for levies and such) and California has its Prop 13 limits, this might be a hard political battle. After all, a 1% location tax essentially doubles the tax rate, in simplest terms. But if we are serious about dealing with inequality and the expanding wealth gap, this seems like a battle worth fighting. A tax that falls on every piece of commercial property equally can't be unfair. And graded tax is no different than zoning, in terms of adjusting the value of a parcel. A parcel zoned for a low-rise development has a different value than one zoned for single-story or a high-rise development. With that, we're back to the proposition that the value of a parcel stems from everything around it. An acre in Seattle is worth more than an acre in Spokane: the value of that was created by the location, the city around it, and the city should capture that the value and re-invest it to drive the creation of more value. In Washington state, I would be keeping an eye on using land rents to get rid of the hated B&O tax. That and lower residential property tax rates as a byproduct of land rents, since only the land would be taxed, might make this an easier sell.

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