

Compact Cities: Tax Policy Is Critical

I read with great interest Molly O'Meara's assessment of Portland, Oregon as one city whose political leadership decided to give preference to people over automobiles ("How Mid-Sized Cities Can Avoid Strangulation," September/October). Just a few weeks ago, I attended a conference in downtown Portland that examined in great detail the public policy measures taken and feelings people had about the city's successes and failures. The conference examined many proposals, the most important of which is the restructuring of Portland's real estate tax into a tax on land values alone. All agreed there is still much work to be done to make Portland a place where people can safely and profitably live, work, and play into the foreseeable future.

One statement by Ms. O'Meara deserves repeating, if only because it reflects conventional wisdom rather than fact. She writes (on page 11): "Central cities have been left with a disproportionate share of the poor, without the tax base to provide needed services." The first part of this statement is, indeed, quite true. It is the second part which is misleading. Cities have not lost their most logical and appropriate tax base, which is location values; they have historically not been able to capture these values because of intense pressure not to do so from those who control underdeveloped and vacant land in the cities.

One of the reasons why developers cannot profitably develop housing in cities is the high cost of land (where people are willing to live). So, for 40 years they have leapfrogged over land held by speculators to build new subdivisions on land that requires the creation of entirely new infrastructures. The connection is amazingly direct:

failure to tax land at a high enough rate results in high land prices. Penalizing people for building by heavy taxation results in outmigration to suburbs, which results in sprawl, resulting in all the problems associated with a population required to always be on the move.

After listening to several days of presentations by planners, economists, and public officials, I came away with a sense that tax policy remains an unresolved but extremely important variable in the future of this great city. A good first step would be to begin removing taxes from buildings and shifting to a land-based tax.

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