

Newark's Non-Renaissance and Beyond

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Newark must be a great place, and Newarkers a tough and talented people. A lesser place and a less determined people could not have survived the cynical set of policies that city and state officials have long practiced in the name of "economic development."

Newark is in the center of one of the richest regions of the world's richest country--a country now enjoying the greatest boom in its history. Yet by practically every measure, Newark's economy is deteriorating. The time for excuses has passed. It's time to take a serious look at those policies and try to find some better alternatives.

The Record

Newark's economic development policies have not accomplished what their claimed goal-bringing jobs and people to Newark.

Between 1990 and 1997, the number of private sector jobs in Newark covered by unemployment insurance fell by 8.0%. (This is the only available measure of year-to-year changes in private and nonprofit employment. About 18% of Newark employment in 1997 was in government agencies, but the time series on government employment is quite short.) Between 1982 (the first year data are available in a reasonably consistent fashion) and 1997 covered private employment fell 12.2%.

What about the last two years--maybe the renaissance is a more recent phenomenon (although Mayor James was proclaiming it throughout the time it was demonstrably not

occurring)? Job numbers more current than 1997 aren't available, but the city's payroll tax collections can give us some idea of what has been going on.

Newark payroll tax collections fell 2.0% from 1997 to 1998, but the first three quarters of 1997 were up about 4.7% from 1998; so it looks like 1999 will be about 2.7% above 1997. But the consumer price index went up about 3.9% between the first three quarters of 1997 and the same period in 1999. A few times in the past, covered employment has recorded tiny (less than one percent) rises despite falls in real payroll tax collection, and so it is by no means certain that 1999 covered private employment is below 1997 covered employment, but in a period of rising real wages this is unlikely. If employment rose at all after 1997, the amount is almost certainly minuscule.

This 8.0% drop during a decade of prosperity (when US employment rose 14%) is even worse than it appears because these figures include airport jobs together with the other jobs in Newark. For all practical purposes, the Port Authority, not City Hall, is responsible for development at Newark International Airport. Jobs at the airport went up by 53% between 1990 and 1999, according to the Port Authority. Some of these jobs are in Elizabeth, and some don't qualify as private sector covered employment. If you assume that between half and three-fourths of airport jobs are Newark private sector covered employment and that total employment didn't fall after 1997, then you have to conclude that non-airport private employment fell between 12% and 15% in the 1990s.

This conclusion shouldn't offend a casual observer of the Newark scene. What passes for renaissance today is discussion (not action) about re-filling buildings (Mutual Benefit, 744 Broad, 1180 Raymond) that were reasonably full in the late 1980s.

Even if Newark did a poor job of attracting employment, was it good at attracting population? Since 1970 at least, most employed Newarkers have worked outside the city, and so promoting Newark as a good place from which to commute (like Glen Ridge) might be a plausible strategy. But population fell 2.7% between 1990 and 1998, and 18.7% from 1980 to 1998.

Another place to look for a renaissance is in resident employment. Covered employment counts how many people are working in private and nonprofit sector jobs in Newark, no matter where they live. Resident employment gives the number of Newarkers who have jobs, no matter where they work. Perhaps the city's economic development policies have been successful at getting jobs for Newarkers, even though the total number of jobs in the city has fallen.

Once again, however, the data show otherwise. Intercensal estimates of resident employment are of low quality, but they show the same trends as the other indicators. Between 1990 and 1998, resident employment in Newark fell 6.8%; between 1980 and 1998, the fall is 9.0%.

Non-airport Newark's economic stagnation is also evident in real property data. Every year the county tax board estimates the total value of Newark taxable real property. The method is fairly unsophisticated and not a great deal of weight should be placed on these figures. Between 1990 and 1998, the estimated value of taxable property in Newark fell 17.0%. If you correct for inflation, the decline is 33.4%.

Of course, many Newark properties--almost all new ones--are tax abated, and so concentrating on taxable properties may miss an important part of the story. No one has a reasonable estimate of the value of abated properties. However, a boom in tax abated construction would show up as an increase in the money the city realizes from payments in lieu of

taxes (PILOT). Between 1990 and 1998, the real value of PILOT rose only 1% (between 1993 and 1998 it fell over 20%). This rise is small enough to be attributable mainly to automatic escalators in some of the abatement contracts. Taken together, the two series indicate that the value of real property in Newark almost certainly declined from 1990 to 1998.

Comparisons

By itself, of course, this sorry record is not enough to establish that something is wrong with Newark's economic development policies. Perhaps larger forces like suburbanization and deindustrialization are working so strongly against Newark that even the wisest policy could not stop shrinkage.

To check in a rough way whether this argument is plausible, I've compared Newark with the next five largest cities in New Jersey (Jersey City, Paterson, Elizabeth, Edison, and Woodbridge), plus two New York City boroughs (the Bronx and Brooklyn), and two other small New Jersey cities that used to be among the largest but have now fallen well down on the list (Camden and Trenton). All of these areas are affected by the same national and international trends as Newark; most are affected by the same regional trends and state policies. None of these places has Newark's transportation advantages; none has Newark's tradition of financial leadership. I wouldn't even say that these other places had exemplary development policies. You would have to be very cynical about Newark and Newarkers to think that if it had reasonably effective development policies Newark would rank toward the bottom of the list. It should rank at the top.

But by measure after measure, Newark ranks near the bottom.

On covered employment, table 1 shows that while Newark is not at the very bottom, it is not far from it.

Table 1: Job Growth, 1982-1997

% change in covered private sector employment, 3rd quarter

	<u>1982-97</u>	<u>1990-97</u>
Edison	+63.0%	+16.2%
Jersey City	+29.6	+13.9
Woodbridge	+10.7	+ 5.3
Bronx*	+10.6	+ 0.8
Brooklyn*	+ 5.9	0
Trenton	-10.1	- 9.3
NEWARK	-12.2	- 8.0
Paterson	-13.2	-11.9
Camden	-13.6	-18.6
Elizabeth	-15.4	- 9.8

*Includes government employment.

Source: New Jersey Department of Labor; New York State Department of Labor

When you correct for the airport, Newark's relative performance is, of course, worse. Realize, too, that the picture in Elizabeth may change considerably with the opening of the Jersey Gardens Mall (this mall draws in a week more visits than Newark's Performing Arts Center draws in a year).

On population, the picture is not all that different, except that Paterson and Elizabeth do

considerably better than Newark.

Table 2: Population Change, 1980-1998

	% change in population	
	<u>1980-98</u>	<u>1990-98</u>
Edison	+18.4%	+7.9%
Paterson	+ 7.4	+5.2
Woodbridge	+ 6.2	+2.8
Elizabeth	+4.2	+0.6
Jersey City	+4.0	+1.7
Bronx	+2.1*	-0.8**
Brooklyn	+1.9*	-1.2**
Camden	-1.6	-4.5
Trenton	-8.3	-4.7
NEWARK	-18.7	-2.7

*1980-96

**1990-96

Source: New Jersey Department of Labor, New York State Department of Labor

Interestingly, some of the cities that lost jobs over this period (Paterson and Elizabeth) seem to have replaced them with population; they are distinctly bedroom communities now. Other places (Jersey City, Woodbridge, Edison, Brooklyn and the Bronx over the longer period) added both jobs and people. Only Newark and the two small cities outside the New York metropolitan area managed to lose both consistently. These figures are tied to the census, and the census has trouble counting minorities and immigrants, but the comparison places have minorities

and immigrants too.

Finally, in resident employment, Newark is all by itself in last place.

Table 3: Change in Resident Employment, 1980-98

	% change in annual average	
	<u>1980-98</u>	<u>1990-98</u>
Edison	+49.7%	+ 8.9%
Woodbridge	+20.1	+ 8.9
Camden	+18.5	+ 0.9
Jersey City	+15.1	- 2.1
Paterson	+15.0	- 1.2
Brooklyn	+ 8.9*	- 3.9**
Bronx	+ 6.9*	- 2.6**
Trenton	+ 4.8	- 1.9
Elizabeth	+4.2	- 2.6
NEWARK	- 9.0	- 6.8

*1980 April to December 1999

**1990 April to December 1999

Source: New Jersey Department of Labor, New York State Department of Labor

More employed people now live in Jersey City than live in Newark.

Newark is the only one of the ten places that loses in every category over both time periods. In the 54 possible two-way comparisons (6 measures with 9 other places), Newark comes out better only 7 times. The Bronx, Brooklyn, Jersey City, Woodbridge, and Edison do better than Newark on all measures; Paterson and Elizabeth on most.

The message of the data is unmistakable. There is no renaissance.

Why?

How could this debacle occur, when the papers are full every day of new and exciting development plans, and some even come to fruition?

Newark's development policy reminds me of a story I heard about a homeowner who hooked up a sump pump with an outlet to his backyard, which was elevated above his house. When Hurricane Floyd struck, the sump pump kicked in and worked beautifully--except that all the water it pumped out ran right back in again. He ended up with this great sump pump working hard amid knee-deep water that wasn't getting any shallower. He would have been better off without the pump--all it really did was waste electricity.

Newark's development policy is like this sump pump: if you look only at the pump, it's impressive, but when you consider the whole system you see it's less than worthless. The quiet, unheralded actions of a multitude of little water molecules count for more, in the final analysis, than all the pump's noisy, expensive energy. The policy itself causes many of the problems it purports to solve.

The policy itself is fairly easy to describe. The city reduces taxes on virtually all new construction and most major renovations (these are called tax abatements), and often throws in additional subsidies as well--major funding for a garage in the proposed IDT deal, for instance, or reduced taxes on an old building that Blue Cross owned when the new Blue Cross building was built in 1990. Generally a standard deal will reduce property taxes for 15 or 20 years by 50% or 60%, but many deals are not standard.

One distinctive feature of this policy is that everything is discretionary. The mayor and the

city council approve every tax abatement individually, and no one has to give a reason for rejection or approval (although none that reach the formal council stage are ever rejected). The statutory limits on how generous development deals are fairly easy to evade (through dummy corporations and separate subsidies, for instance), and no one has to explain why one deal is more generous than another.

The other outstanding feature of this policy is that the subject of discretion is something quite valuable to a particular property owner. The right to develop a property at abated taxes is valuable, but Newark gives it away for free. (This idea of providing a large free benefit to a particular landowner carries over to the current entertainment enterprise fad. A sports arena, baseball stadium, or performing arts center is almost certainly valuable to a few immediately adjacent neighbors, although there is no evidence that the benefits spread more than a few blocks, and so all the intrigue about these places is about their location and who is next to them.)

Together, these two features render development a process of distributing a few large gifts through political discretion. What's wrong with this?

In theory, a discretionary system like this could work very well if city officials could discern very accurately how sensitive each particular investment was to the level of taxation, and set higher tax rates on less sensitive investments and lower tax rates on more sensitive investments. The city would collect the greatest amount of taxes consistent with any aggregate level of pain for taxpayers, and spur the greatest amount of worthwhile development consistent with any given level of aggregate tax collection.

The theory, though, works only if city officials possess extremely well developed powers of observation, if they have incentives to act only on the basis of investment sensitivities, and if

everybody believes that the first two conditions are met. In reality, none of these conditions is met in Newark--or anywhere else on this planet.

Consider the first condition--perspicacity. It's almost impossible to tell how sensitive a business is to taxes. Businesses themselves aren't going to tell you. There are some polar cases--a gold mine has to locate where the gold ore is, and a credit card telephone bureau can locate practically anywhere--but most businesses fall somewhere in between. Even with businesses whose location is fixed the question remains of how sensitive the size of their investment is. Economists have done a few statistical studies, but the results are not strong and are at a level of aggregation that would not help a city policymaker. To carry out the type of policy the theory demands, you have to know about an idiosyncratic deal on an idiosyncratic piece of property, and so you are never going to be able to find a very helpful sample. I have thought quite a bit about how I would estimate sensitivities if I were giving tax abatements, and I don't have a clue.

Not surprisingly, the people who give out Newark's tax abatements don't seem to have a clue, either. Fast food restaurants on major thoroughfares get abatements, as do hotels next to the airport and major New Jersey corporations like PSE&G and Blue Cross. Without an abatement, they would not move to Thailand. Newark has never described how it determines the tax sensitivity of various investments, nor even described the data set, if any, it uses. If sensitivity arises at all in a debate over a tax abatement, the only responses the administration ever makes are yelling, moaning, and dire predictions that are never supported by data. There is no reason to believe that Newark officials have enough information to pinpoint abatements the way the theory requires.

There is even less reason to believe that Newark's voting public has this kind of

information. That's why the second condition also fails. Voters have no direct way of telling whether the right businesses are getting the right abatements, and so even if city officials could figure out which were the right businesses and the right abatements, they would have no incentive to give them. Political money and lobbying seem to count for a lot more in the Newark tax abatement process than calculations of investment sensitivity. The man who negotiates all tax abatements, the Deputy Mayor for Development, is also the Mayor's chief political fundraiser, and the largest and most innovative abatements seem to cluster around extremely savvy corporations like Blue Cross, PSE&G, and IDT (headed by former Congressman and GOP senatorial candidate Jim Courter).

Since the first two conditions fail, the third fails as well. Nobody expects city officials to make decisions based on investment sensitivity. This means that even if they wanted to, city officials could never accumulate the relevant experience to learn sensitivity.

Why? Suppose you own some land in Newark and have an idea for developing it and ask for an abatement. If you are turned down, will you go ahead anyway? Of course not--you will either change your plans to make them more attractive in the newspaper, or make some campaign contributions, or sell your land to someone better connected politically, or hunker down and hope your side wins the next election so you can get an abatement.

When you build, you lose the option of getting an abatement. Since getting an abatement is valuable, you will almost never build without one of the most generous abatements available. Newark's abatement and development system has created a world where it's impossible to gather the information you would need to run a good abatement system.

Consequences

What has been the result of Newark's discretionary, essentially random tax abatement system? Some enterprises have done better than they would have done without this abatement policy, but the vast majority--the businesses that didn't get abatements--have done worse. The subsidies the winners in this game get have to come from somewhere--either reduced services or higher regular taxes from everyone else--and wherever they come from, residents and businesses without abatements are worse off as a result. Since these other enterprises are sensitive to taxes too (many nonrecipients are no doubt more sensitive to taxes than recipients), they expand less rapidly because of Newark's abatement policy, and some of them go out of business or leave Newark. Others never start up because they don't have the right connections and have no idea how to get them. The fiscal effects of abatement alone, then, are bad enough to explain a portion of Newark's poor economic development record.

But the discretionary policy has other consequences as well. One is to slow development down; the other is to force a continual upward spiral of subsidies. If your tax status is known and unchanging, it provides no reason for you to delay development. But in Newark's discretionary world, there's always a chance that a break could come your way--especially if what you could get now is not the most generous package going--and so there's always more of an incentive to wait and see what will happen. This reasoning means that if city officials want to see any development at all during their terms of office, they can never reduce the generosity of the "discretionary" terms they offer, and every time anyone gets a new break, everyone in the future gets it too. This one-way dynamic, in turn, exacerbates the fiscal problems that abatements cause and gives landowners even more reason to wait.

Considerable evidence supports these theoretical arguments. Most telling, of course, is Newark's historical record.

Econometric evidence outside Newark also supports this interpretation. Studies that look at how general business taxes and general property taxes affect the intra-metropolitan location of jobs find that they matter a lot; taxes matter considerably less for inter-metropolitan location but they still matter (Wasylenko, 1997; Bartik, 1991, 1994; Phillips and Goss, 1995). But when economists look at programs like Newark's, they generally find no effect. On urban enterprise zones, for instance, Papke (1993, 1994) found only small positive impacts from Indiana's program; Alm and Hart (1998) found mixed results in Colorado; and Engberg and Greenbaum (1997) found a small impact in moderately distressed cities nationwide. On the other hand, more studies have found no positive impact whatsoever: Boarnet and Bogart (1996) for New Jersey, Dowall (1996) for California, Engberg and Greenbaum (1997) for severely distressed cities nationally and (2000) for six states (including New Jersey), and Bondonio (1998). (Rubin (1990) found positive results for the New Jersey program but did not use modern methods.) Wassmer and Anderson (2000) found little or no positive effect in recent years from tax increment financing authorities and downtown development district authorities in Michigan.

How can we reconcile the finding that taxes matter with the finding that development programs fail? Engberg and Greenbaum (2000), I think, provides the key. They found that enterprise zones made businesses new to the zone start up or enter and grow faster, but depressed the growth of existing businesses; the result was a wash. This is the same picture I am trying to paint of Newark's policies. Taxes matter--and not just to the firms lucky enough to get abatements or subsidies.

In short, Newark's policies don't combat blight; they create it.

Defenders of these policies will of course say that these are merely theoretical objections that they, as practical people, have no time for. The homeowner who flooded his basement thought of himself as a practical guy too.

Jobs

The intellectual underpinnings of Newark's development policy are actually even weaker. One of the major premises--that increasing the number of jobs in Newark helps Newarkers a lot--is also probably wrong. More jobs located in Newark probably would not have helped Newark residents much.

To see this, consider the effects on Newark residents of a true new net job created somehow by development policy--not a job that would have been in Newark otherwise, not a job that displaces a job somewhere else in Newark. This is something that the policy has never achieved, but let's suppose that it did.

Most likely this would be a job that would have been located elsewhere in the metropolitan area; so consider that case first. Moving this job might help Newark residents if it makes that job easier to get to. But Newark is a small city, and putting a job in downtown Newark doesn't always make it more accessible to Newarkers. Even by bus, commuting to St. Barnabas Hospital or Irvington is easier for most Vailsburgers than commuting downtown, and Hillside is more accessible for people from Weequahic. Only about a tenth of employed Newarkers worked downtown in 1980, the last year for which such data are published--fewer than worked in Essex County outside of Newark.

Suppose, though, that this new job improves accessibility for some Newarkers. Almost all

working-age Newarkers are now employed and so unless the move spurs them to change jobs it won't affect them. The people who leave their old jobs and go to the new job will be better off as a result, and so we have one avenue through which a successful development policy could help a Newark resident. But the gain to these Newarkers is only the difference between the value of the new job and the value of the old job, and clearly the number of such people is going to be small.

Another possibility is that someone who would not otherwise be working will find the job. The benefit to this person is the reduction in search time--almost every unemployed person gets a job eventually. And since this job would not otherwise have been in the metropolitan area, it's not inconceivable that he or she would have found it pretty soon anyway. In this case, though, the reduction in commuting time is also a benefit for this person.

Notice that both of these benefit stories start with vacant jobs. If a company like IDT is merely relocating already existing jobs within the metropolitan area, there's nothing to start even these fragile chains.

What about jobs that would not otherwise locate in the metropolitan area? The likelihood of positive benefits to Newarkers from these jobs is greater, but it still is not huge. People from outside Newark are likely to get these jobs (as they are with all jobs in Newark, since Newark is only a small part of the metropolitan area), and people will move from outside the region or stay in the region longer than they would otherwise. Bartik, one of the strongest academic proponents of active local economic development policies, concludes (1993) that in the long-run 60% to 90% of jobs created by employment programs go to in-migrants or unintended beneficiaries. Blanchard and Katz (1992) suggest that in the long-run new in-migrants take all of the newly-created jobs. Attracting new jobs from outside the metropolitan area, moreover, is

much more costly than moving jobs inside the metropolitan area.

There are other chains by which Newarkers could benefit--perhaps jobs taken by suburbanites in Newark open up jobs in New York for Newarkers, or competition from downtown induces suburban employers to raise the wages of Newark residents. The only way to assess the effect of job accessibility on the well-being of Newark residents is to do a serious econometric study.

A number of such studies have been done for other cities, and the results are inconclusive. Ellwood (1986) and Jencks and Mayer (1990), for instance, concluded that job accessibility has little impact on the employment of minority teenagers (most of these studies concentrate on teenagers because adults can move closer to their jobs and so confound cause and effect). Other economists have found larger effects for job accessibility. Ihlanfeldt (1992) is probably the best known study that comes to this conclusion. For black teenagers, he finds that a 3-4 minute decrease in the average time it takes low-skilled adults in their neighborhood to commute to work increases their probability of having a job about 5%.

What would Ihlanfeldt's results imply in the Newark context? Here's a rough estimate. Suppose somehow that a thousand new jobs were created in Newark and that 400 of them went to Newarkers (that's somewhat more than the proportion of Newark jobs that Newarkers now hold) and that all of these Newarkers were low-skilled (this is a wild overestimate designed to generate the largest possible impact). Suppose these Newarkers cut their average commute time by 15 minutes as a result of the new jobs (this is again a generous estimate, since the average commute in the Newark metropolitan area in 1990 was 26 minutes). Since there are about 100,000 employed Newarkers, this reduces the average commute in Newark by 0.06 minutes (3.6

seconds). From Ihlanfeldt's formula, that would increase the employment rate among black teenagers by about 0.1%. There is considerable evidence that no other demographic group is as sensitive to job accessibility as black teenagers. However, to be generous, assume everyone else is this responsive. Then employment of Newark residents would go up by 100--one net new employed Newark resident for every ten net new jobs created.

This estimate, however, is extremely optimistic. It starts with one of the highest estimates of responsiveness, it applies this estimate mainly to demographic groups for which it is too high, it assumes that all the jobs Newarkers get are low-skilled, and it uses a large reduction in commuting time. One net new job for Newarkers out of ten net jobs created is thus a very generous estimate; one for twenty seems much more plausible; and many respected scholars would argue one for a hundred. And it's clearly not going to be the case that 40% of IDT employees will be newly hired Newarkers.

Thus the fact that Newark's economic development policy has failed to generate jobs is probably not a major problem for unemployed and underemployed people in Newark--they probably would not have been much better off if the policies had been successful. Probably the bigger problem is that all the attention on showering subsidies on selected parts of the real estate market has kept Newark's leaders from concentrating on working and lobbying for policies that would in fact increase Newarkers' job accessibility at much less cost.

For instance, instead of lobbying for federal subsidies to build a light rail system that fails standard cost-benefit tests and will carry very few Newark residents, Newark elected officials should be looking for additional subsidies for local bus service and more frequent service to major employment centers. The #13 bus line alone carried about 16,800 daily riders in 1993 (New

Jersey Transit, 1993). To achieve a reduction in aggregate commuting time equivalent to the thousand new jobs in my extremely optimistic example (and so to achieve an equivalent increase in employment of Newark residents), you would only have to reduce average headways on this bus by two or three minutes.

Similarly, Newark's leaders should be lobbying to replace the current lump-sum auto insurance system with pay-at-the-pump. If you pay for car insurance when you pay for gas, people who don't drive much--whose cars are just a way to get to jobs and who don't do much discretionary driving--won't have to insure driving they don't do. Newark should also reexamine parking ticket policy as something other than a cash cow, since for many Newarkers parking tickets are a major hindrance to job accessibility.

Why haven't these simple, cheap steps been taken? Because they don't create major windfalls for identifiable property owners. From tax abatements to entertainment centers to light rail construction, the question that drives development in Newark is not what it will do for the public, but whom it will make rich.

In this sense the rhetoric about the importance of jobs is probably hurting the employment prospects of Newark residents. Arguments about the benefits of job creation are often used to justify the large subsidies Newark development policy now gives, but we have seen that it is these subsidies that are driving jobs out of Newark and slowing development. Ironically, a policy that acknowledged that the employment benefits of development policy were modest and offered less generous subsidies as a result would probably produce more jobs for Newarkers.

How to Fix It

Since Newark's development policy is so bad, it's easy to improve it, and not just in the

realm of transportation policy. And since the policy is so easy to improve and since so little progress has been made in the last decade, it is very easy to imagine great progress in Newark in the near future--if the will is there to seek such real progress.

The obvious first step is to take the \$75 million the state is thinking about plowing into the Nets' arena and use it instead to reduce the payroll tax. \$75 million invested reasonably securely could reduce the payroll tax by 10-15% forever. Many studies have shown that reducing business taxes generates jobs; almost all studies have shown that building sports facilities does not. (For instance, even the most successful baseball stadium project, Camden Yards in Baltimore, has been a net loser for taxpayers and for economic development (Noll and Zimbalist, 1997). In most cases cities with downtown facilities lost population faster than cities without, and gained no jobs relatively.) If the state spends \$75 million to spur economic development in Newark, it should spend it on a policy that has been shown to work, not on a policy that has been shown repeatedly not to do so.

Second, Newark can reduce its reliance on real property taxes and substitute taxes that punish innocent behavior less and more accurately reflect the costs that people impose on each other. Land taxes--as opposed to the current system that taxes both land and structure--make owners pay for the advantages they receive from others, but do not penalize them for the development they do on their own property. Oates and Schwab (1997) and Bourassa (1990) document in a sophisticated way that several Pennsylvania cities that increased their tax rates on land and reduced their tax rates on structure prospered as a result.

Frontage taxes should also be implemented. The greater your frontage, the greater the distance fire trucks, sewers, water mains, telephone wires, police cars, and mail carriers must

travel in order to reach other homes and businesses. An owner should be held responsible for at least some of these costs, and dissuaded from using frontage as if it were free. When Vickrey first argued for frontage taxes as a substitute for property taxes in 1963, the case was a fairly strong one. The emergence of a series of new expensive technologies--cable television, internet, and whatever happens between the two--makes the case even stronger. Newark is going to have to be well wired if it is to prosper, and land uses that make wiring more expensive need to be discouraged.

In general, however, the scope for such improved taxes is probably fairly limited. Wholesale introduction would cause chaos and large windfall gains and losses. The clearest immediate case for land taxes arises in connection with tax abatements. Tax abated properties pay essentially no land tax. This is a pure gift to lucky landowners; the value of their land has nothing to do with their efforts. Full land taxes on abated properties should be reinstated. The amount is small but the principle is important.

The most important reform is to change how tax abatement works. The incentive effects of Newark's high property taxes are really severe, and measures that improve incentives are surely a good idea. But tax abatement improves incentives only by providing windfall gains to lucky property owners, and inflicting windfall losses on everybody else. These are the windfalls that slow development and dominate politics.

People talk as if you can't separate the windfalls from the incentives. But you can. In economics, this is called the distinction between marginal and average tax rates. The two can operate separately. There are many ways to do this. I will discuss one way--though probably not the best one--just to show that it can be done.

The idea is to prohibit the origination of abatements on privately owned land; this is a simple return to the way the Legislature originally designed tax abatement in 1961. A property where a tax-sensitive investment is being contemplated would be sold to the city, the taxes stripped from it by the city, and then sold again to the ultimate developer. In the original sale the city would pay the value of the existing property with regular taxes (and so possibly no development; in the second sale the city would receive the value of the existing property with an abatement on whatever would be built there.

It is this difference between the value of a property with regular taxes and the value of the same physical property with an option to build abated that is the heart of the current tax abatement windfall. The current system gives all of this to the original property owner; my system gives it to the public. This procedure spreads the incentive benefits of low tax rates--since the gain from resale allows the city to reduce taxes generally--and reduces the incentive to wait and play politics.

Notice that under this system the ultimate developer pays no more than he does now (and might end up paying somewhat less because the city probably would not bargain as sharply as a private owner). He just pays it to a different party.

I haven't dotted every 'i' and crossed every 't' yet. Getting the right prices on both transactions would be difficult. Probably you could rely on an appraisal for the first sale and an auction for the second, but neither mechanism is perfect. Maybe it would be good to give the original property owners some fraction of the difference in prices so that they have some reason to seek out tax abatements when they will in fact make a difference. Perhaps the city should be restricted in its use of the difference to certain long term projects like retiring debt; that way the

difference, which represents a long run gain from lower taxes, would not be immediately swallowed up in plugging short term budget gaps. But I am not dogmatic on any of these points.

Any reform like this means that giving a tax abatement will no longer be a big favor to any particular property owner. People in City Hall will have much less power to make a few lucky individuals rich, but they will have much more power to help the vast majority of Newark citizens and property owners. It will be interesting to see which sort of power attracts them more.

Conclusion

In the final analysis, the main thing wrong with Newark's current development policies is that they are cynical. Newark land, its leaders say, would never be developed unless we cut a deal for it (that's how they can take credit for anything that's built and lavish subsidies on the politically well-connected). Newark people, they say, would never get jobs unless we created them (that's how they can count every new job as their accomplishment). We might as well try policies that have consistently failed elsewhere, they say, because maybe they'll work and we can't think of anything else.

None of these statements is true, except to the extent that misconceived policies make them so. Inherently, cities are dynamic, extraordinarily productive places, and the largest city in continental America's richest state, a city located at the hub of the world's greatest transportation confluence, is no exception. Newark ought to be doing a lot better.

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