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How Property Taxes and the 'Curley Effect' Are Killing Baltimore

As affluent residents leave town, the political playing field tips further and further in favor of pro-tax Democrats.

By STEVE H. HANKE AND STEPHEN J.K. WALTERS

This coming Labor Day weekend, traffic in downtown Baltimore will move at more than 100 miles per hour—or not at all: The city's main streets will be closed so that IndyCar racers can compete in the inaugural Baltimore Grand Prix. Much more than prize money is at stake.

Nine days later, on Sept. 13, voters will pick a mayor, and incumbent Stephanie Rawlings-Blake is betting that the auto race will draw thousands of free-spending tourists and stimulate the local economy, thereby demonstrating her vision and competence. In fact, it will be an economic dud, a money-loser even for its promoters, and a logistical nightmare for residents.

The race exemplifies the city's development strategy: Subsidize big downtown projects with other people's money—in this case, over $6 million in federal stimulus funds for the two-mile race course—and proclaim an urban renaissance.

Away from the waterfront, this strategy's failure is apparent. The city has lost 30,000 residents and 53,000 jobs since 2000, marking the sixth consecutive decade of population and employment exodus. About 47,000 abandoned houses crumble while residents suffer a homicide rate higher than any large city except Detroit. The poverty rate is 50% above the national average.

Much of this decline is a result of the city's exorbitant property-tax rates, which are twice as high as any other jurisdiction in Maryland and Washington, D.C. The encouraging news is that all four major mayoral candidates are promising property-tax relief.

Ms. Rawlings-Blake promises an inconsequential cut to 2.068% from 2.268%, spread over nine years. It would be "paid for," she says, with revenue from a casino that doesn't exist. Her reluctance to consider stronger medicine reflects not only poor economics but something more sinister.

To attract what little investment Baltimore has in recent decades, public officials awarded subsidies to big developers to offset the difference between the city's confiscatory tax rate and that of nearby counties. But developers have to "pay to play," which assures a reliable flow of campaign contributions to sitting officials—and invites corruption. Indeed, Ms. Rawlings-Blake took office only 18 months ago, after the previous mayor resigned as part of a plea bargain to resolve a scandal involving her allegedly accepting gifts from a developer seeking subsidies.

Now Ms. Rawlings-Blake's challengers are asking: If tax breaks for the connected are d[illegible] y[illegible]ive them to

Associated Press/Baltimore Sun

Mayor Stephanie Rawlings-Blake announces the Baltimore Grand Prix event.

everyone? State Sen. Catherine Pugh promises to halve the city's tax rate in her first term or not run for a second. Otis Rolley, a former director of city planning, offers a similar 50% cut for the first $200,000 of assessed value and higher rates for more expensive properties (or vacant ones). And Jody Landers, a former city councilman, promises a cut of 30% to 35% phased in over four to six years.

But tax revolts are hard to win at the local level. The problem is what Harvard economists Edward Glaeser and Andrei Shleifer have called the "Curley effect." In Boston during the first half of the 20th century, Mayor James Michael Curley built a political machine by strategically shaping the electorate—taxing well-heeled "Brahmins" heavily and redistributing the proceeds to poor Irish immigrants. This not only bought Irish votes but chased the old Yankees out to the suburbs, further tilting the political playing field in Curley's favor.

In modern Baltimore, the machine has exploited class divisions, not ethnic ones. Officials raised property taxes 21 times between 1950 and 1985, channeling the proceeds to favored voting blocs and causing many homeowners and entrepreneurs—disproportionately Republicans—to flee. It was brilliant politics, as Democrats now enjoy an eight-to-one voter registration advantage and no Republican has been elected mayor in 48 years.

But Baltimore's high property taxes have repelled investment in physical capital for decades. As that capital decayed and became scarce, labor became less productive and less prosperous. In 1950, the city's median family income was 7% above the national average. Today it is 22% below it. And it won't be easy to undo this damage as long as City Hall remains in the hands of politicos who are committed to a fatally flawed business plan.

Other noteworthy victims of the "Curley effect" have been rescued via statewide referenda. Boston, for example, was in worse shape than Baltimore back in 1980: Its population had fallen more in the preceding three decades (30% as opposed to 17%), its per capita income was 2% lower, and its crime rate was 42% higher. Then, in 1980, Massachusetts voters adopted Proposition 2½, forcing Boston to cut property taxes by an estimated 75% within two years and capping future annual increases at 2.5%.

It was the kind of reform Boston needed but wouldn't have chosen itself (akin to California's earlier Prop 13, which revived cities like San Francisco and Oakland). Businesses and residents flocked back to Beantown. Its population rose 10% between 1980 and today, while its per capita income is now 43% higher and its crime rate 25% lower than Baltimore's.

The spillover benefits of capital-friendliness—enhanced public safety, school quality, and economic and social mobility—are much-ignored but crucial elements of tax reform. As the renowned urbanologist Jane Jacobs once said, "cities don't [just] lure the middle class. They create it."

Baltimore stopped creating its own middle class decades ago, but it has a chance now to reverse decades of disinvestment, depopulation and decay. All voters have to do is invite capitalists back to town for more than just a weekend car race.

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