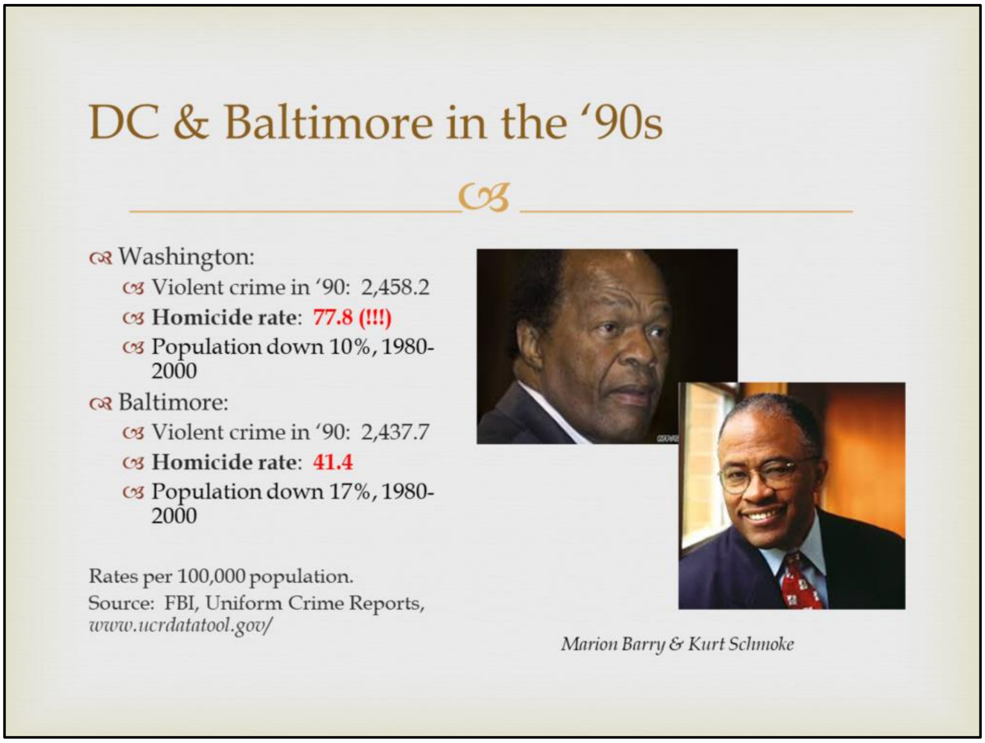
If you love Baltimore, your heart is breaking right now. To avoid unnecessary mental anguish, I will not recite the reasons for this heartbreak. We all feel them deeply. We read about them daily. We see them almost everywhere we go in this once-great, now-suffering city.

Rather, in the next few minutes I will argue that there is reason to be hopeful about Baltimore's future. That there is a way to save it. That it can grow and prosper. That its citizens can flourish and enjoy the fruits of a booming local economy, safer streets, better schools, and much more.

I will not argue that this will be easy. But the solution does not require terrible sacrifices from the citizenry or politically radical choices by any of its elected officials. The main obstacle here, quite simply, is human resistance to changing the way we think. We hate to admit error and so are irrationally committed to policies that have failed catastrophically and will continue to do so. To use a medical analogy, we are single-mindedly treating our symptoms – or, sometimes, just talking about our symptoms – while ignoring the cause of our illness.



To illustrate what I mean and to show that there is a cure for what ails us, let's turn back the clock to the 1990s and journey about 40 miles down the parkway to our nation's capital.

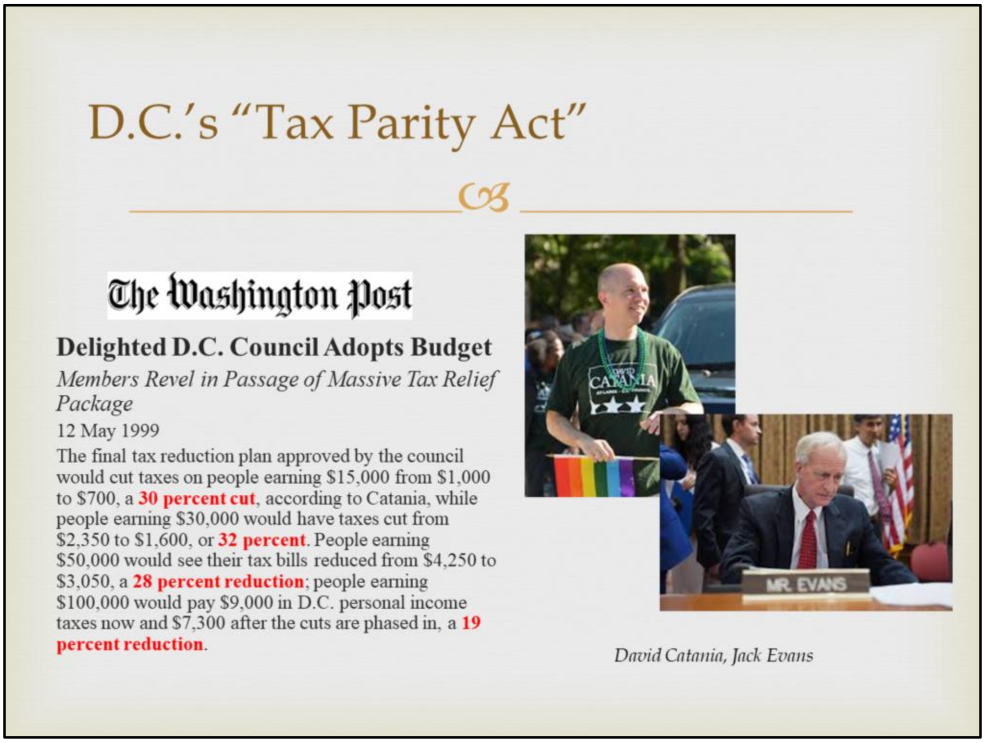
At the time, things were, admittedly, not great here. But Baltimoreans might have taken a little solace from the fact that at least we were doing better than Washington. It's true that 22.5% of our population fled between 1950 and 1990. But the District's 24.3% loss was worse. Its homicide rate in 1990 was 88% higher than Baltimore's was then – and even about one-third higher than ours is today.

In 1995, District voters actually gave Marion Barry – not long out of federal prison – his fourth term as mayor. Barry's slogan was "he may not be perfect, but he's perfect for D.C." Here in Baltimore, our incumbent mayor won a third term on the slogan "Mayor Schmoke makes us proud."

On Barry's watch, D.C. descended into financial chaos. Its budgets were in chronic deficit and its bonds were rated "junk." Ultimately, a Republican Congress and a Democratic President stripped Barry of his authority and created a Financial Control Board to do some triage on the District's budget.

That certainly helped. But the root cause of the District's decline – of its disinvestment crisis and the resulting economic and social problems – still needed treatment.

That came with legislation that won council and U.S. Senate approval in 1999. It was titled the Tax Parity Act, and it came about because two council members – one from each party – finally understood that the District's losses of taxpayers, investment, and jobs had a great deal to do with the fact that ***its tax rates were simply not competitive with neighboring jurisdictions***.

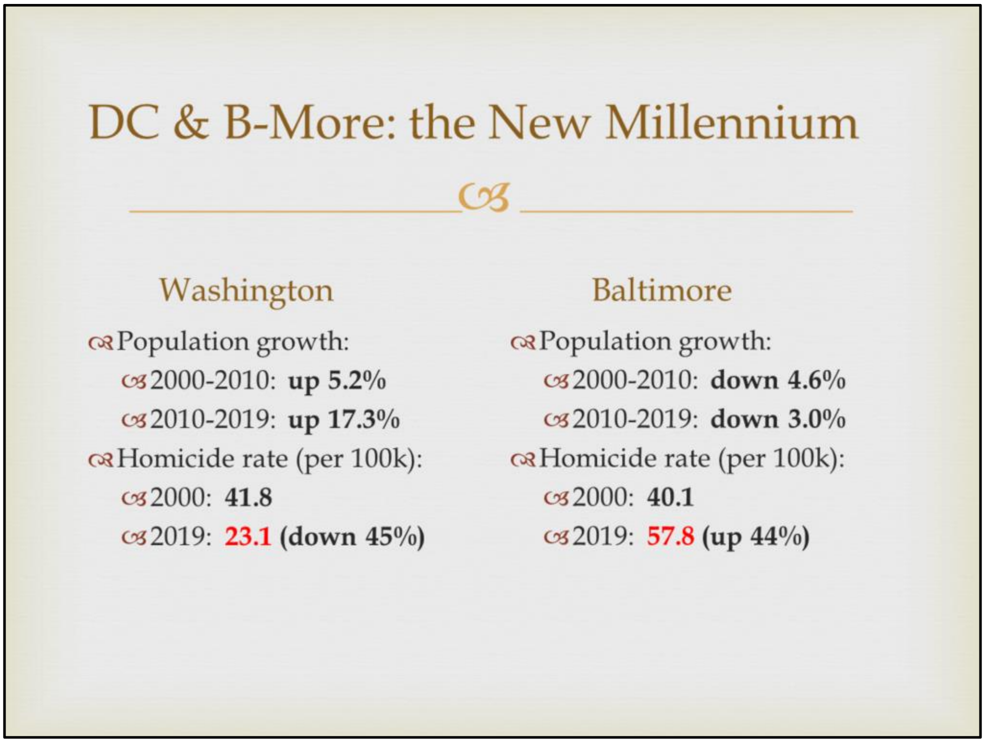


This is relevant to Baltimore today, and bears repeating. The District was not competitive: it charged far more than surrounding areas for inferior public services. So taxpayers fled, investors did not invest, jobs disappeared, and poverty spread. And all of the consequences of those things accelerated population flight and urban decline still further. Our nation's capital was in a death spiral not much different – and in some ways even worse – than what Baltimore is suffering through today.

Then the Tax Parity Act delivered the largest tax cut in the District's history. Over a five-year phase-in period, it reduced D.C. taxes by over $450 million (in inflation-adjusted terms). Specifically, it cut the District's tax rate on business income by 15% and its top rate on personal income by 11%, while adjusting income tax brackets so working-class residents got an even bigger break. Since D.C.'s property tax rate on owner-occupied housing was judged to be reasonably competitive with surrounding areas, that rate was left alone, but the rate on commercial property was cut 15%. And thanks to companion legislation, buying a home in the District for the first time (even if you'd previously owned elsewhere) earned you a $5,000 tax credit (equivalent to almost $8,000 in today's dollars).

This Tax Parity Act was deemed foolhardy by the mainstream media and many politicians – especially while D.C. crime seemed out of control. When the Act came up for Senate approval, Dick Durbin (D., Illinois) attacked it, proclaiming it "naïve" to believe that tax cuts would attract new residents. "I'm startled at the suggestion of a tax cut for the District of Columbia," Durbin said. "Is it safe to live in this town? Are schools worth attending? Are rats running all over the streets? …This is about creating a good mood. You're saying, `Don't worry, be happy. We can do it all.' I don't buy it."

Fortunately, though, wiser and more experienced voices prevailed. Senator Kay Bailey Hutchison (R., Texas) argued "If they don't do something about income tax rates, they are never going to attract people back here. I think the mayor and the council should be commended for saying, `We are going to make our city attractive." And Representative Jim Moran (D., Virginia) noted that "it was too easy for [me] to attract businesses from the District to Northern Virginia when [I] was Alexandria's mayor, because of Virginia's relatively low tax rates."



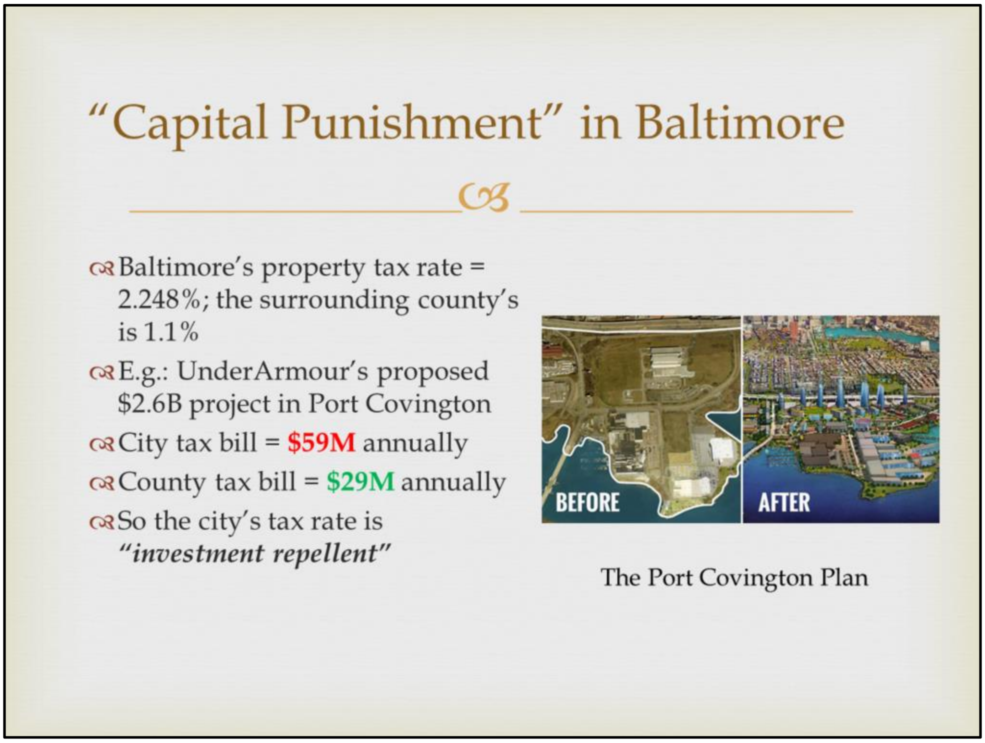
What happened? Washington became a boom town. Its population began to rise immediately, from 572,000 in the 2000 census to 706,000 today, a 23.4% increase. Over the same period, Baltimore's population has fallen 7.5%, to its lowest level in over 100 years.

And as the District attracted residents and jobs and its economy flourished, every social indicator of urban vitality (poverty down, income growth up) has improved, while the reverse has been true here in Baltimore.

Clearly, tax competitiveness does not explain *all* of this performance. It is a "multivariate world." But neither does tax parity explain *none* of this growth, repopulation, and recapitalization. Everyone in business understands that if you are not competitive on price and value, you will not flourish. Competitiveness is a *necessary condition* for urban vitality (though, of course, not a sufficient one).

Skeptics will argue that D.C.'s health is a simple by-product of the economic engine that is the federal government. But the federal government has been growing consistently for decades – and D.C.'s economy and population nevertheless shrank while it was non-competitive.

Nay-sayers discount Baltimore's prospects for a renaissance and argue that "structural racism" explains all our troubles. But that problem did not simply evaporate 40 miles away at the dawn of the New Millennium and remain here. It did not miraculously disappear in 1980 in places like San Francisco and Boston, which were losing population even faster than we were over the decades from 1950 to 1980, but then began to grow at exactly the moment statewide referenda capped property taxes and made these cities competitive in the pursuit of investment.



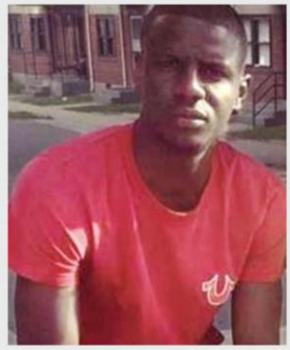
We Baltimoreans have to admit we've made a huge mistake – or, rather, 19 mistakes in the 25 years from 1950 to 1975. That's how often we raised property tax rates in order to pay for appealing new government programs that all were sold as ways to help the city do good – to pursue *progressive* ends – but which have done the opposite.

In Baltimore, unfortunately, you are never more than a few miles away from a property tax rate that is less than half what you will pay in the city. This explains, for example, why the city had to use generous "Tax Increment Financing" to win Under Armour's Port Covington investment: without such a subsidy, the extra $30 million a year in city property taxes might well have pushed the project to the county. That is the city's "investment repellent," and it has been at work for decades.

But let me stress one crucial point: these sorts of calculations make the owners of residences or businesses grumble and/or flee, but the real worry is what this does to the overall city economy and to those of its residents trying to get a toehold on the economic and social ladder.

Opportunity Needed

- ***Employment: In Freddie Gray's lifetime (1990-2015), Baltimore lost 111,000 jobs (from 445k to 334k)***
- *Poverty Rate: 24%, vs. about 10% for metro area*
- *Crime: 300+ homicides 5 straight years*
  - *Baltimore's 2019 homicide rate of 58 per 100,000 residents was actually 77 for Blacks, 7 for whites ➔ "disparate impact")*



Consider: When Freddie Gray was born in 1990, the city had 445,000 jobs within its borders. By the time of Mr. Gray's tragic death, it had just 334,000 – a loss of 111,000 jobs. We've properly devoted a lot of attention to addressing the police conduct that contributed to his death, but relatively little to the adverse economic conditions that greatly affected the opportunities he had in life.

That has to change. To pull itself out of its current death spiral and begin to grow and prosper, Baltimore simply must become economically competitive. We have no choice about this. The evidence is clear: cities that do not offer competitive conditions to those who invest in residential or business property shrink and die, while cities that correct this problem – like Washington in 1999 – turn around and flourish.

How does Baltimore do this? More specifically, how does Baltimore slash its property tax rate by half without doing terrible violence to its short-term budget?

We at the Maryland Public Policy Institute have been working on this for a long time; we have a plan for that! In a nutshell, we would amend the city's charter a.s.a.p., capping the city's property tax rate at a competitive level of 1.1% of assessed value – *but that rate would take effect in exactly six years, after two re-assessment cycles*.

In the meantime, investors would see an opportunity to "get in on the ground floor," and would begin upgrading existing property and putting plans for new investments on the board. Property values would start to rise. Taxpayers would stop fleeing and begin to return to the city.

Accordingly, the city's tax base (from real property, piggy-back income taxes, and other sources) would begin to grow. Added tax receipts would be put in an escrow fund (a "lock box"), and with some spending discipline – but without severe budget cuts – that fund would be used to pay for the reduction in property tax receipts once the rate cut is delivered.

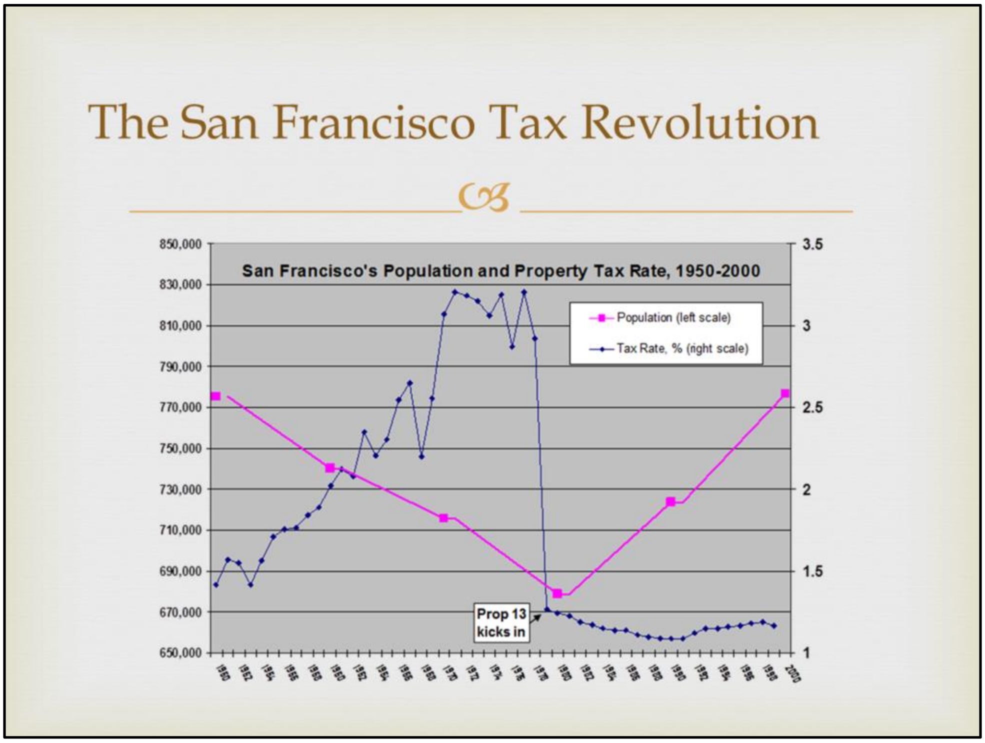
As this graphic shows, spending can be maintained throughout, while reserves are built up so the city has "cash on delivery" of the rate cut.

Skeptics will argue that this is a "risky plan." In reality, the real risk is *not becoming competitive*, for then the city will continue to shrink, and its fixed costs of operations (for infrastructure and pensions, for example) will become ever more painful and crowd out other spending and erode city services. *Being non-competitive is simply not a viable path*, and the longer we delude ourselves on this score the greater the risk that Baltimore's problems will worsen.

Skeptics will also argue that this is not the time to be talking about favoring rich property owners with a tax cut, that crime and poor schools should be our focus, and that once those problems are solved we might be able to sell the idea of tax relief.

That has things exactly backward: Without treating this root cause of the city's stagnant economy and shrinking tax base, we will never have the resources to commit to safer streets and better schools. Further, it is the *not*-so-well-to-do – renters and owners of modest homes – who often pay the highest effective property tax rates in Baltimore, while connected developers negotiate TIFs and PILOTs that make their large-scale projects economically viable. The pictured hotel gets special credits that lower its effective tax rate to 0.11%, while the pictured rowhouses on Fulton Avenue in Sandtown pay a full rate about 20 times higher.

That is, it seems to me, profoundly inequitable… *regressive*. In sum, a competitive tax rate for everyone in the city is both economically and ethically necessary.



But will tax competitiveness save Baltimore? History says yes. History says that getting this crucial fundamental right always leads to new investment and growth; getting it wrong invariably leads to disinvestment, flight, and stagnation.

Cities like Washington – and San Francisco, and Boston, and Seattle, and Portland, *all of which benefit from property tax caps* like the one under discussion here – have learned that solving all other urban problems gets easier in a growing city. All reversed their declines at exactly the same time they became tax competitive and secured the property rights of investors with tax caps embedded in state constitutions. None needed to solve all their other problems – crime, poor schools, deindustrialization, and much else – before creating a favorable investment climate that rejuvenated their economies and enabled their citizens to flourish.

San Francisco's reversal of fortune was especially dramatic – and occurred despite a nationwide "stagflation." Baltimore can enjoy a similar revival.

Toward a Baltimore that Works

"[A] metropolitan economy, if it is working well, is constantly transforming many poor people into middle-class people, many illiterates into skilled (or even educated) people, many greenhorns into competent citizens. …Cities do not lure the middle class – they create it."

Jane Jacobs

What can people of good will do?

First, don't be disheartened by short-run phenomena. Over its seven decades of steady decline, Baltimore has seen crime rise and fall and national problems come and go (though not, perhaps, on the scale of Covid). But its losses of population and investment have been consistent and relentless, and treating those problems by becoming tax competitive should be a top priority for everyone, across the ideological spectrum.

The good news, though, is that there is a way out of this box; we can become competitive and economically vital again without short-run budgetary trauma. Baltimore is not a lost cause. Washington's experience shows the awesome power of a competitive tax system. If we exercise similar wisdom and courage, we can transform our city. Baltimore can once again be the region's economic engine and give all its citizens an opportunity to flourish and prosper. Let's start with this election; let's ask all the candidates where they stand on this issue – and if they don't "get it," let's educate them.