Who Will Pay for Our Urban Future?

Humans have had a love-hate relationship with urbanization for hundreds of years. In the mid-18th century, at the dawn of the Industrial Revolution, common fields and pastures were enclosed to force peasants into wage labor and life in the slums of the industrial cities of Europe. These involuntary urbanites lived in abysmal conditions, crowded into substandard dwellings and choked by fumes belched from coal-fired factories. Wealthy families retreated to the countryside in summers to avoid inevitable outbreaks of pestilence, cholera, and other diseases. Fortunately, at the same time, many of the negative attributes of urbanization were being addressed by a new invention—the public sector or local government. Public Works were created to build roads and sewers, to find and deliver potable water, and to segregate land uses so that residences were separated from dirty industries.

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This progress ushered in an epoch, in the mid-19th century, during which the cities of the world grew with voluntary inhabitants who were drawn to the amenities and excitement of urban life. Public Works delivered water and power directly to residences. New transport systems moved food and materials from farms and mines, and moved workers from their homes to jobs. Cities flourished and became the economic powerhouses of national economies, but this new urban model was undermined by two basic contradictions. As we reorganized our space to feed and fuel cities, we put increasing pressure on natural systems. And, as countries urbanized, we reduced abject poverty but increased inequality. We also found new ways to insulate the wealthy from negative aspects of urban life in exclusive urban neighborhoods or suburbs.

During the first round of urbanization, we innovated to address the disease and pestilence that resulted from crowding people into poorly managed space. During the next round, we turned our cities into shiny places that attracted new residents, but we stressed out natural systems. We reduced poverty but we increased inequality and the social distance between people inhabiting the same space. Perhaps, in the 21st century, we can be clever enough to usher in a third round of urbanization, where cities provide the answers to global environmental stress, and countries continue to see declining poverty but also reductions in inequality. To do this, however, we'll need to recalibrate our understanding of the important role we as individuals play in paying for this evolution—reaffirming the social contract through which we pay our taxes to local government, and it rewards us with the public goods and services that define an exceptional quality of life.

It was a testament to the outsized reputation of the Lincoln Institute and a personal honor to be asked to lead, with the World Bank, one of the ten policy units tasked with drafting a New Urban Agenda, to be announced this fall at Habitat III, the Third United Nations Conference on Human Settlements. With the assistance of more than a dozen global policy experts nominated by their member states, we wrote the Policy Paper for Municipal Finance and Local Fiscal Systems, which recommends how the world will pay for the New Urban Agenda.

If you have not heard of the UN Habitat meetings, it is not surprising. They rarely occur. The convenings happen every 20 years and seek to advise national policies that lead to safer, healthier, and more livable cities. In 1976, the first United Nations Conference on Human Settlements, held in Vancouver, involved such illustrious global thinkers as Margaret Mead, Buckminster Fuller, and Mother Teresa. The Vancouver Action plan generated at the conference provided 64 policy recommendations for national governments "to adopt bold, meaningful, and effective human settlement policies and spatial planning strategies" that would facilitate high-quality urban development.

In 1996, Habitat II, held in Istanbul, followed on the heels of the 1992 United Nations Conference on Environment and Development (Earth Summit). Habitat II focused on connecting the urbanization agenda with global efforts to promote sustainable development. At the time, urbanists were disappointed that Agenda 21, the policy action plan from the Earth Summit, barely mentioned cities. And where it did, cities were considered part of the problem, not a solution, for global sustainability. The Habitat Agenda that emerged from the 1996 conference proposed a policy framework to guide national efforts for the next two decades to promote sustainable urban settlements. An important advancement of Habitat II was the creation of a reporting framework to hold national governments accountable for achieving the goals set forth in the Habitat Agenda, something missing from the Vancouver Action Plan.

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As important as previous Habitat conferences were, they did not generate the impact or the cultural currency to which they aspired. This year, there are several reasons to believe that Habitat III, to be convened in October in Quito, Ecuador, will be different. First, the planet is predominantly urban now. We passed the halfway point for global urbanization around 2007, and current trends suggest that the planet will be 70 percent urbanized by 2050. All global population growth in the next three decades will occur in cities, which will add some 2.5 billion people. And, unless we choose a new approach, we will double the estimated 850 million to one billion people living in slums, favelas, and other informal settlements in cities around the world.

Second, international policy makers are beginning to take urbanization seriously. This shift is best illustrated in recently penned Sustainable Development Goals (SDGs) drafted by UN member states to update the Millennial Development Goals (MDGs) adopted in 2000 to govern global economic development policy through 2015. The SDGs will establish a global framework to promote more effective and responsible development through 2030. Unlike

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the MDGs, the SDGs include specific goals and indicators that reference urbanization.

Third, and most importantly, because member nations will be required to report annually on their progress toward the SDGs, they will be taking the process of urbanization seriously. Built into this arrangement is a tacit admission that getting urbanization right is critical to achieving a sustainable human future on the planet. Getting urbanization right will require a commitment to deliver basic services to all residents, new and old, to use natural resources more efficiently, and to reduce our carbon footprint. And, last but not least, getting urbanization right means finding ways to pay for it. As stated in the Policy Paper: *The fiscal health of cities is a necessary condition for managing our global urban future. Fiscal health enables local governments to invest in the social and economic infrastructure that supports a higher quality of life, sustains economic growth, and helps localities prepare for and mitigate the effects of natural and financial crises.*

To accomplish this, we will need to grow existing sources of revenue and find new ones. And the biggest old and new source of local revenue to finance urbanization can be found in land.

When we invest in urban infrastructure, we make dense urban settlement possible and we increase the value of that land by many multiples. The tax base that is built from this more valuable land, and the improvements built on it, is the biggest old source of local revenue for cities, through the property tax. But a mostly untapped new source of revenue is the reclamation of land value increments that public infrastructure generates for private landowners, known as value capture. As we've seen in Latin America, the increase in land value through public investment is almost always a multiple of the investment itself. Capturing a share of land value increments can help us fund the infrastructure we'll need to welcome another 2.5 billion residents to our cities by mid-century.

Ironically, we resist land-based taxes more than other inferior revenue sources. While the property tax is the most stable local revenue source, it still accounts for a relatively small share of local government budgets, and, because it is usually the biggest direct tax paid by property owners, it is constantly under attack. Voters enlist the support of state, provincial, and national governments to constrain the ability of localities to collect property tax revenues by imposing rate limitations, or monkeying around with land value assessments, or both. And when they succeed, they undermine the advancement that is arguably the most important for separating us from our barbarian past—local government.

The municipal finance challenge can be summarized in one simple question: Who will pay for our future cities and towns? And the answer is quite simple. We will—just as we always have. We might borrow trillions of dollars to invest in new infrastructure, engineer new public-private partnerships, enhance intergovernmental transfers, or leverage funding from the land, as I think we should. But, in the end, whatever expenditures we make will be covered by revenues we collect from ourselves in one form or another. Presumably, we'll be happy with the quality of the urban life that we purchase. But that will require our collective commitment to pay what it costs for the services we want and need—and that will start by reminding ourselves of the essential role that local government plays in delivering these benefits.