

The One-Percenter

Michael Anft, Urbanite, December, 2008

Down and out: Self-described “tax revolutionary” Stephen Walters and his collaborators have caught heat from City Hall for questioning the city’s time-tested economic development strategy, which they say has lavished resources on downtown while ignoring the rest of the city. “We wanted to make the point that there are two Baltimores: the tax-break Baltimore and the tax-broken Baltimore,” he says.

For Stephen Walters, the fireworks started on the day after the Fourth of July. He and a longtime academic partner, Johns Hopkins economics professor Steve H. Hanke, had just published a piece in the *Wall Street Journal*’s right-leaning opinion pages that castigated Baltimore’s high property tax rate and the politicians who uphold it. “Blame Taxes for Baltimore’s Rot,” the story was headlined. The authors claimed that Baltimore largely lives down to the image portrayed in TV dramas such as *The Wire*—that of a bombed-out, crime-ridden wasteland. The word they chose to describe the city: “hellhole.”

City officials and development leaders swiftly fired off letters of rebuttal to the *Journal*. Leaders of the Greater Baltimore Committee wrote that Baltimore was undergoing an economic renaissance, and that the place Walters and Hanke described isn’t the real Baltimore, but “a Gotham city that wouldn’t just need a tax cut, but caped crusaders” to save it. Mayor Sheila Dixon, practically shaking with anger, told reporters that the story was “misleading and distorted.” Walters and Hanke might as well have kicked the municipal dog.

Months later, city leaders still bristle. “It’s in no one’s interest to mischaracterize Baltimore,” says Andrew Frank, deputy mayor for neighborhood and economic development.

All of this commotion strikes Walters, a professor of economics at Loyola College in Maryland, as missing the point. A well-published academic with a certain German-intellectual bearing (tall, thin, goateed, wire-rimmed specs), Walters doesn’t consider himself an ideological warrior, and the article’s many references to Baltimore’s woes—crime, vacant housing, and the steady migration to the suburbs—were not intended to drag the city further into the abyss. He just wanted to point the way out. “People don’t want to hear negative things about Baltimore,” Walters says. “Our job, as we see it, is to contribute to the well-being of the whole city.”

And what, they wondered, is so bad about paying less—much less—in taxes? Why *shouldn’t* property taxes be lowered enough to encourage investors to pump ducats into a decaying inner city?

“We wanted to make the point that there are two Baltimores: the tax-break Baltimore and the tax-broken Baltimore,” Walters says. “Despite the millions of dollars poured into the waterfront with the help of tax breaks, most of the [economic] indicators are way down. And that’s scary.”

Walters’ apostasy, in other words, is questioning the foundation of Baltimore’s revitalization strategy, the technique pioneered decades ago to build Charles Center and the Inner Harbor, and

honed since by the Baltimore Development Corporation: Lure deep-pocketed developers with tax breaks and cushy eminent domain deals on property.

Walters isn't the first to say it, but while downtown has prospered, much of the rest of the city—the part that hasn't gotten any break in taxes—has crumbled. In a report called *Baltimore's Flawed Renaissance* that was published in June by the Institute for Justice, a libertarian public interest law firm, he and co-author Louis Miserendino noted darkly, "If Baltimore is a revitalization success story, one really does not want to see a failure."

But behind the white-hot rhetoric Walters sometimes uses (hello, hellhole), there lies a potentially transformative idea: By mimicking massive tax-cut plans that succeeded decades ago in Boston and San Francisco, Walters argues, Baltimore could reap massive infusions of new cash and create a vibrant cityscape that improves everyone's standard of living.

Given the city's inability to turn itself around, isn't it time to try *something*? And is anybody who matters listening to this guy?

For such a troublemaker, Walters seems likable enough. Sitting in his office high up in Loyola's Sellinger Hall, he lays out arguments that are well-considered and reasoned. He realizes that it's not his career he's putting on the line. "I don't make my living running for public office," he says. "I understand City Hall's reluctance." Walters has also steered clear of radio smackdowns since the *Wall Street Journal* piece, favoring instead to make his points in the relative cool of City Council committee meetings and in print. "I'm a libertarian, not a right-wing ideologue," he says.

Still, critics point to a lack of comparative data for other cities and their tax rates in Walters' work as a sign of ideologically directed scholarship. Walters regularly cites *The Wire* for its true-life depiction of down-at-the-heels Baltimore, but he doesn't blame manufacturers for leaving the city for places with lower-paid workers, as *Wire* creator David Simon does. Likewise, the usual suspects credited with hastening "white flight" decades ago—desegregation, riots, the allure of new homes in the suburbs—don't factor into his public analysis either. For Walters, it's all about taxes.

The argument is appealingly simple: Progressively higher city taxes led to the disinvestment that helped chase away factories in Baltimore and other grime-and-soot towns, he says. The examples of Boston and San Francisco, now-thriving cities where state laws forced a rollback of property tax rates in 1979 and 1982, respectively, are exhibits A and B in what he and Hanke call "the 1 Percent Solution." He wants the city to cut property taxes by more than 50 percent, slashing rates from the current 2.27 percent per \$100 of assessed value to 1 percent, which is about the average current rate in surrounding counties. The whopping imbalance currently makes it difficult for Baltimore City to compete for large unsubsidized developments.

It's a plan that could backfire disastrously if investors fail to buy into a reduced-tax city, as Walters envisions. That would force big cuts to city services and invite the wrath of a public that would blame City Hall for betting the ranch on his plan. But Walters and co-author Miserendino say they have a way to overcome a temporary shortfall in tax dollars that the city would face.

“I’m trying to be a tax revolutionary here,” he says. “I’m not just trying to lay out the problem and then walk away.”

The revolutionary was born not long after growing up in working-class Salem, Massachusetts, toiling in a restaurant at 14, then grunting through factory jobs to save for college. While at the University of Pennsylvania, he took an econ course—“Someone said it’d be good for pre-law,” he says—and decided to make the dismal science his major. He also began a political metamorphosis. “I was your basic long-haired leftist in college. I started to move away from that when I’d go to anti-Vietnam-War demonstrations and see that my fellow travelers were chiefly interested in keeping themselves out of harm’s way,” he says. “They didn’t catch the contradiction that ‘evil government’ had served up that war, and yet government was generally the solution to all other social problems.”

Grad school at UCLA firmed up his antipathy toward governments—particularly Democratic-led ones. Only when they were reined in from their tax-reaping, free-spending ways could they be useful. Proposition 13, the late-1970s California tax revolt led by bulldog-faced activist Howard Jarvis, inspired him further. Although many Californians say that Prop 13 has been a disaster for public education in the state, Walters credits it with reviving a great American city. Ditto that for “Prop 2½,” the Massachusetts law that forced Boston to live on a 2.5 percent property tax rate.

“People now think of Boston and San Francisco as superstar cities,” he says. “They don’t remember they were all disaster and decay and crime. They were worse than Baltimore in the 1970s.”

After grad school, Walters moved to Baltimore to teach at Loyola, living in Federal Hill and Ednor Gardens with his wife, a Baltimore County elementary school teacher, and two sons (both are now in college). He saw the city’s problems firsthand during his years here in the ’80s and ’90s. He moved the family to Lutherville after crime, including a murder, hit too close to home.

Although he fled the city, he says these fears are part of what drives him to help fix Baltimore. “I love cities, and I especially want to see Baltimore thrive, prosper, and grow,” he says, without a tinge of cynicism. “I’ve always loved cities, and I want them to get better. It’s why I went off to college in a struggling city [Philadelphia] and, frankly, it’s why I teach in Baltimore instead of California.”

Now 54, Walters does more than rile up city leaders. He teaches urban economics at Loyola, where he serves as an advisor to the student-run Adam Smith Club. His collaborators say he’s a dedicated researcher. “When you work with him, you know something good is going to come from it,” says Hanke. “He’s not the type to waste your time or his.” Walters has also made a name for himself nationally as a sports economist, developing a system of metrics for evaluating athletes’ performance. An article he co-wrote in the *Journal of Sports Economics* in 2003 created waves in its field, and Walters has consulted with several pro teams, including the Boston Red Sox.

“I was the guy who helped persuade Dan Duquette [then the Red Sox general manager] to sign Johnny Damon [in 2001],” he says proudly of the star centerfielder, now a Yankee. Walters also

served as a consultant to former Orioles General Manager Syd Thrift in 2002, advising him to make a play for outfielder Hideki Matsui. In the end, the Yankees outbid the O's, but not before digging a little deeper into their pockets. "I've always been satisfied with the fact that I cost the Yankees more money," Walters says.

In September, Walters testified before a committee appointed by City Council President Stephanie Rawlings-Blake in July to devise ways to reduce the property tax rate. Long a sore thumb in the city's portfolio, the rate had already been the subject of study for a "blue ribbon panel" appointed by Mayor Sheila Dixon late last year. In the spring, that group offered a heaping handful of suggestions—everything from casino gambling to increasing the city's take from the state piggyback income tax to taxing owners of vacant houses. The aim was to keep reducing the tax rate by two cents each year—as had been done since 2006, leading to a total of \$32 million in tax relief—until the tax rate approached an even 2 percent. That would still be twice the number Walters is pushing for. But the inflated 2008 city budget, made up in anticipation of declining tax revenue and state aid, stopped that hopeful trend.

Walters took advantage of his moment before the city's key players, laying out his case with bar graphs and charts showing rising and falling lines of property taxes and populations in Baltimore and San Francisco. The latter city's population loss changed direction around 1980, when tax reduction, Walters claims, brought people back. Baltimore's population line continued to trend downward, the result of what Walters calls "a half century of 'capital punishment.'"

"When you treat capital badly"—taxing it, in other words—"it leaves."

Some of Walters' listeners, including 11th District Councilman Bill Cole and Council President Rawlings-Blake, expressed genuine interest, Walters says, but he now seems to have limited expectations for his odds at getting the city to sign on to his vision. "The city and its development agency [the BDC] have a very strong reason to maintain the status quo," he says. "They are vested with incredible power to decide who gets tax breaks and who doesn't. Why would they give up all the prestige and power they've accumulated in favor of cutting taxes?"

Ryan O'Doherty, director of policy for Rawlings-Blake, offers another take. When capital is fleeing, the economy is tanking, and the real estate market is toast—like, for example, right now—it's very difficult to slash taxes. "We believe this is a problem that needs to be fixed, but the timing isn't exactly optimal," O'Doherty says.

Not so, says Walters. "Now is exactly the right time to do this," he says. "If there's any time to spur investment by cutting taxes, this would be it."

Others say timing isn't the issue; distance is. "The problem is that his plan is just such a huge leap," adds Jody Landers, the former city councilman and current executive vice president of the Greater Baltimore Board of Realtors who headed the blue ribbon panel on property taxes. "The real question isn't whether it's desirable to do this, but how do you get there?"

One first step endorsed by City Hall is tapping into the coming flood of slots revenue to knock 12 cents off the city property tax rate. "The mayor understands the issue, and she's already cited

slots revenue as one way to help with this,” says Cole, the 11th District councilman and chair of the special committee for property tax reduction. “But the bottom line is we’d still have to cut.”

In order for the Walters plan to have a chance, the city charter would need to be amended and the mayor’s office would have to buy into the plan. Then, the city would need to announce several years in advance that taxes would soon be slashed. The announcement itself, Walters and Miserendino say, will spur development, and recordation and real-estate transfer tax revenues would go up accordingly. The city would put these funds in a lockbox to gather interest until the property tax cut takes effect. Eventually, those funds could pay for services when property tax revenues plummet, until more and more property owners make up the difference. (In the case of San Francisco, that took about eight years.)

Frank, the deputy mayor, describes another, less happy scenario. If Walters’ plan were put into action before it had saved enough to cover shortfalls, the city would lose about 60 percent of what it receives in taxes on real estate—about \$380 million out of a total budget that, including all sources, adds up to \$1.4 billion. For the sake of comparison, the city spends \$230 million each year on police and \$200 million on schools. “If he’s wrong and the base doesn’t grow, we’d have to lay off police, firefighters, sanitation workers, and teachers,” Frank says. “There’s no doubt that lowering property taxes would spur investment. But it’s very difficult to get to the point where we’re competitive with the surrounding counties. Absent that level playing field, we have to be more strategic in seeking out these private/public partnerships”—translation: tax breaks.

Frank shoots more holes in Walters’ argument: “We’re already below Boston’s 2.5 percent, so that’s not a fair comparison. And San Francisco received a good bit of state money [about \$90 million] to help it transition through Prop 13. If something appears to be too good to be true, it usually is.”

But Frank says he’s willing to hear Walters out. He was impressed with “how cordial and conversational” the professor was at the September committee meeting. “I was surprised he was the same guy who called Baltimore a hellhole.”

As for Walters, he’ll continue to push for change, here and elsewhere. He’s in the midst of putting together a book on the decline of the American central city. (You can bet Baltimore will get another star turn there.) And he remains a determined guy with a Big Idea, waiting for a municipality that wants to roll the dice. “It’s a mission. But it’s not my only one, and it’s not restricted to Baltimore,” he says. “If the pols here won’t listen, there are plenty of other places with similar problems that deserve similar medicine.”

And he’ll continue his search for a politician willing to administer it. “Whatever leader has the courage to do this, I would submit, vaults to national prominence. If anyone could engineer a turnaround like San Francisco or Boston has,” he says, with a twinkle in his eye, “they’d automatically become a hero.”