

The Graded Tax

THE HISTORY of the Commonwealth of Pennsylvania is not unpregnant with land value tax possibilities. The colony was founded by that pre-Georgist Englishman, William Penn, in 1682. He asserted that no man's title to his land was morally defensible unless everyone had the opportunity to own enough land to make a decent living. A very Lockean view, this was, but it made rough good sense in a frontier community; very rough, but better than the devil take the hindmost.

The next Pennsylvanian step in Georgist progress was the birth of Henry George himself in 1839 in Philadelphia in a little house still standing at 413 S. 10th Street and currently housing the Henry George School in that city.

But it was in Pittsburgh, on the western side of the state, that something legislative was finally accomplished for land value taxation. In 1913, real estate was so classified for tax purposes that land was taxed in proportion to its under-use: the lesser the use, the lower the rate of taxation. The result was that there were farms and vast estates within the city limits while the crowded homes of workers were taxed at a higher rate (or millage, which is so many dollars of tax per thousand dollars of assessed value).

The situation was so obviously abnormal as to cry out for reform. In 1913 Georgists obtained a law allowing for the gradual reduction in the tax rate on improvements so that by 1925 the tax rate on buildings was half that on land. The same law applied, for legal reasons, to Scranton, the third largest city in the state. Today, the tax rate on land in Pittsburgh is 49.5 mills (i.e., \$49.50 per thousand dollars of assessed value, which in turn is about one-third of real market value) and 22.75 mills on improvements. In Scranton, the respective millages are 52 and 26.

The Impact

The impact of such a slight differential in tax rates is very difficult to measure, especially when the county and school property tax rates are levied equally on land and buildings, but the Pittsburgh-Scranton experience does show that the land value tax can easily be introduced; certainly, once adopted it has been defended by both parties and newspapers, and there is the distinct possibility that now that Pittsburgh has recently been granted additional home-rule powers, it will expand the land-building tax rate ratio from 2:1 to 3:1 or 4:1. Discussion of that possibility is now under way in the city council.

The other result of the Pittsburgh-Scranton experience is that it has created a somewhat higher level of

◆In 1914 Pittsburgh, Pennsylvania, graded its property tax: reducing the rate on buildings, increasing it on land. In 1938 the city's chief assessor, Percy R. Williams, concluded that the graded tax law had stimulated construction. While the assessed value of buildings had increased 93% in 24 years, the assessed value of land had increased 15%.

◆The graded tax serves as a model to other cities: it shows how the tax can be transferred from land-plus-buildings to land only. It has taken millions of dollars in taxes off buildings: the amount can be calculated exactly. Home-owners have benefitted enormously.

◆A computer-based study of the impact of the graded tax on property-owners in Allentown, Pa., showed that planning would be more effective. "City planning at present is a negative power.... in a free economy it cannot compel [land-owners] to do what they ought to do, put land to its best use and upgrade deteriorating areas." The graded tax would provide such incentives.

BY STEVEN CORD

general public interest in land value taxation in Pennsylvania than elsewhere. Pittsburgh had an outspoken single tax mayor in the 1930's (unfortunately, he was highly erratic and ran afoul of the politicians of his party on patronage matters; he was followed by two other single tax mayors, but they were less outspoken and eventually the issue slid off the front pages of the local newspapers). But even today it is easier to generate interest in land value taxation in Pennsylvania than elsewhere because it's on the law books of the Commonwealth.

In 1951, a Pittsburgh single taxer of ancient vintage who had become a state senator and who still had enough of the old spirit left in him, sponsored a bill that enabled forty-eight smaller cities of Pennsylvania to adopt a lower tax rate on buildings than on land if their city councils so chose to do so. The bill sailed through the state legislature with near unanimity—"If Barney McGinnis wants the bill, let's give it to him as a favor; besides it's only local option." But this gave Pennsylvania Georgists, organized in the Henry George Foundation of America with headquarters in Pittsburgh, the chance to spread the land value tax idea throughout the state; but note that counties, schools, boroughs and townships still do not have the local option to adopt a higher land tax rate. Bills to grant them that local option are currently stalled in the state legislature, waiting for a sponsoring legislator genuinely committed to the bill to really push those bills through. The prime obstacle now is not opposition but apathy.

Heaven knows that Pennsylvania localities could really use land value

taxation. Farmland prices are appreciating about 15% per year in the state, but most of that reflects government subsidies and urban encroachments. Real farmers are squeezed by such price appreciation—buying or renting new land becomes prohibitively expensive—and the urban sprawl causes them to give up farming in favour of lucrative land speculation. But the farmers fear land value taxation; they think that their tax bills will jump, and city dwellers have misplaced sympathy for them. So the farmers are a real obstacle to the expansion of land value taxation, despite the fact that they are only 1% of the total population (which is typical for the U.S. at large—the usual figure given is 4%, but most of them are only part-time farmers who own farmland but make most of their income in other occupations).

Pennsylvania Georgists have been facing another counter-tide: there is a property tax revolt going on in the state. Even though other taxes have been appreciating much faster than the property tax, there is considerable feeling against the property tax, both on land and on buildings. But like in California with its Proposition 13 bogus reform reducing the property tax drastically, this will only mean an increase in other taxes, and in land prices also.

But Pennsylvania Georgists, emanating from the Pittsburgh-based Henry George Foundation of America, have been active politically. We run a booth at the annual Pa. League of Cities convention at which we meet many of Pennsylvania's city legislators. The governor (in the declining months of his term of office) has come out for us, and the state government helps us when it can. But the decision to adopt the Graded Tax rests with local officials, and we have visited them, many of them, and many cities are currently actively considering adopting Graded Tax rates (heavier on land than on buildings).

Economic Merit

Harrisburg, the state capital, adopted such rates in 1974. Since then, as a result of our pressure, the city widened the rates (now 2.9% on land assessments, 1.6% on buildings), and is currently considering a further widening.

Our numbers are few in Pennsylvania. It is hard to attract new converts since the moral argument has lost its power in a world gone mad with moral relativism (after all, if morality is what you say it is, then how can we appeal to natural law or to objective moral proof?). But we have a political impact because our idea has obvious economic merit to those politicians whose ear we can get. The odds are at least even that another Pennsylvania city will join the three that already have the Graded Tax.