

★★★ PENNSYLVANIA

Land tax – or blight?

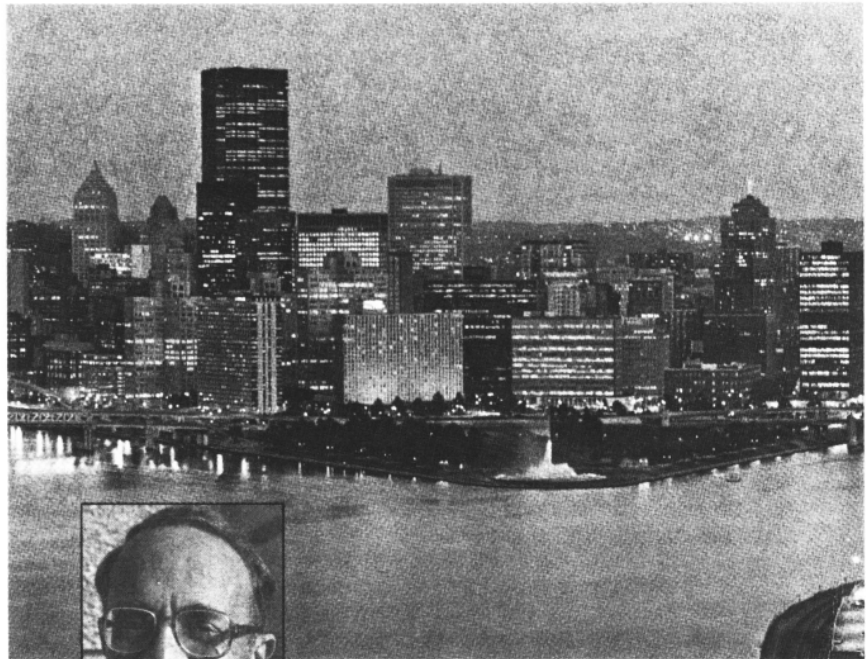
FOR DECADES, fiscal reformers have urged that all taxes should be shifted off wages and productive capital and on to land values, but they had no test cases to support their advocacy in the United States. They could only appeal to logic.

To be sure, the logic was impressive: by untaxing wages, take-home pay would be increased; by untaxing buildings, operating costs would be lower and new construction would be encouraged.

If, on the other hand, land values were to be taxed more, inefficient land use would be discouraged because it would become too expensive. Landowners would be encouraged to put sites to their most appropriate use, but they would not be taxed on their wages or the profits from capital investments.

A tax on labor, or the products of labor, results in fewer of those desirable things. But a high tax on land values does *not* reduce the supply of land: in fact, it would increase the available supply, since it would discourage land speculation and underuse.

A tax on land values would key the use of land to demand; a failure to tax it results in sprawl, blight, and unemployment. There is also an ethical dimension to the logical argument: the locational value of land is produced by society. Hence society



By Steven B. Cord
in Pittsburgh

should collect through land-value taxation what it has created, rather than tax individually-produced labor and capital.

IN 1913, the Pennsylvania Legislature passed a law requiring Pittsburgh and Scranton to increase

their property-tax rates on land and decrease their rates on buildings in five steps so that, by 1925 and thereafter, their tax rates on land would be double their tax rates on buildings.

In 1977, both of these cities received home rule charters, which meant they could fix their own

Something . . . for nothing!

ABOUT twelve years ago, in Allentown, Pennsylvania, a land speculator bought an 83-acre tract of vacant land on the edge of town for \$120,000. It is still vacant.

Some years ago he got a "Clean and Green" agricultural-use assessment so that he paid practically no taxes at all to the local taxing bodies, writes Steve Cord.

Recently, Allentown passed an ordinance granting tax abatement on new commercial and industrial improvements, and the speculator jumped his asking price considerably.

The adjacent Western Electric plant expanded and had some excavated dirt to dispose of. They arranged to dump it in a sunken part of our speculator's acreage,

whereupon he upped his asking price to a still-higher figure.

Several times the city tried to buy the acreage, first at \$12,000 an acre, then at \$14,000 and most recently at \$27,000 an acre for about half the acreage. Our land speculator refused those offers.

● Conclusion: he bought the 83 acres at \$1,445 an acre. It is assessed for tax purposes at less than \$300 an acre. It has been independently appraised at forty times that amount.

His fellow citizens have enriched him by providing roads, schools, hospitals, nearness to jobs and shopping, etc., while he has provided nothing in return – no jobs, no factories, nothing – just expense.

No landowner as landowner per se ever does anything for the community (in his capacity as farmer or builder he does something, to be sure); here is a striking example of this important truth.

It is also a striking example of the obtuseness of our taxpayers in allowing our governments to under-assess and under-tax our land. They provide costly government services to landowners, the value of which is reflected in escalated land prices; yet the tax bill for these services goes to the workers and businessmen who made these services possible in the first place.

Someday they will see the light, probably sooner in Allentown than elsewhere.

	1978	1979	1980	1981	1982
Land Tax Rate	4.95%	9.75%	12.55%	12.55%	13.3%
Building Tax Rate	2.475	2.475	2.475	2.475	3.2

property-tax rates.

Thereupon Pittsburgh raised its property-tax rates as shown in Table 1.

In addition, in 1980, the city granted liberal property-tax exemptions to all new construction (but not to the site). The exemption, 100 percent for three years on all new construction (exclusive of the value of the land), further differentiates the land and building tax rates from each other.

Now let us see what happened to the issuance of building permits. Immediately after Pittsburgh's first land-tax increase in 1979, new construction increased 14 percent as compared to the 1977-78 annual average, and then 312 percent for 1980 (the year the land tax rate was further increased and the new-construction exemption went into effect).

New construction in 1981 exceeded the 1977-78 annual average by an astounding 590 percent. The nationwide figures for new office building starts increased only 37 percent, 41 percent and 84 percent for the respective years.

The figures in Table 2 represent both taxable and non-taxable new construction, but the former far exceeded the latter. The non-taxable construction was distributed fairly evenly throughout the years, except that the start of a city-owned convention center in 1977 augmented considerably the dollar value of the building permits issued in that year.

THE QUESTION, of course, remains: Would this burst of new construction have happened anyway, even if the uptaxing of land and the untaxing of new improvements had not occurred?

Perhaps the time was ripe for an office building boom; such construction often occurs in sporadic spurts.

The mayor has claimed that his close relations with the business community brought on this new renaissance. Perhaps that is true.

In fact, not much attention has been given to why the renaissance occurred. Most disturbing for the "uptax land, untax new construction" explanation is that it has received so little attention, even though many of the big new downtown office buildings have received tax reductions in excess of \$1 million a year because of the property-tax reforms.

The figures are compelling, almost as compelling as the logic. But we must be careful not to conclude too much or too strongly. In order to assert with confidence that there is adequate empirical proof for the contention that in the United States a building-to-land tax shift spurs new construction, we would need at least a dozen cases similar to this one.

Nevertheless, it is reassuring to note that the experience of Pittsburgh, as well as that of other Pennsylvania cities which tax land at higher rates than buildings (Scranton, McKeesport, New Castle and Harrisburg), are fully corroborated by over 1,000 localities in Victoria, Australia and over 300 cities in the Republic of South Africa.

Surely no politician need be considered rash if he proceeded to replace the property tax on buildings with one on land values? He could base his actions on the existing logic of the case and the relevant facts.

Unemployment pervades United States cities. Perhaps it is because less-than-fully-employed land leads to less-than-fully employed people. Perhaps if city governments were to tax the land values — created by their roads, schools, hospitals, and the like — they would not have to tax the private initiative that produces wages and buildings.

Quite possibly the economy would be much better off for doing so.

Year	Number	Dollar Value
1976	3,179	55,794,694
1977	3,819	101,458,569
1978	3,622	89,264,159
1979	4,420	108,398,188
1980	4,804	297,484,884
1981	4,335	563,072,735

McKeesport

AT FIRST GLANCE, the city of McKeesport, Pennsylvania, seems to have little going for it.

It depends heavily on the steel industry, and everyone knows how badly off that industry is. As a result, unemployment is far above the national average.

Downtown retailing is suffering; vacancy signs can be seen on the main street, and Cox, the town's only department store, has been forced to close down.

Many people are pessimistic about McKeesport's economic future.

But there's a lot of life in the old town yet. The streets buzz with

**New construction has
been increasing
steadily since 1980**

people and cars, there's considerable office employment downtown, city government and private civic organizations are mounting strong efforts to combat the economic malaise.

And wonderful to relate — new construction and rehabilitation have been increasing steadily, year after year since 1980. It's the best statistic the town can offer to show that it is still economically alive.

A key year is 1980, when the city introduced the two-rate tax:

- It increased the tax rate on land from 2.45% to 9%.
- It decreased the tax rate on build-

**Profits of
a graded
tax — how
it would
work . . .**