

	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 . . .**

A town with tax incentive

ings from 2.45% to 2%.

● New construction was given a three-year tax exemption (but not the underlying land assessment).

The net effect was to increase the total property tax revenues by almost 50%. The city government was then in a financial bind. One would think that the increased property tax burden would have reduced new construction and rehabilitation, but the reverse occurred.

New construction and rehabilitation for the three-year period averaged 38% more than in the previous three year period, 38%!

We should not be surprised that when land is taxed more, an incentive

Tax land and we create incentive to use it

will be created for the owners to put their sites to a fuller use (limited by zoning); and that when buildings are taxed less, it would be easier for the landowners to improve their sites.

Report by
Steven B. Cord

Tax land and we create the incentive for it to be used intensively, and economic growth results.

This cannot be said about any other tax, since they are levied on labor or labor-produced commodities; the more they are taxed, the more disincentive we create. This seems to be borne out by the facts in McKeesport.

McKeesport's 38% gain is for taxable building permits issued. Tax-exempt construction was excluded because it is not affected by tax considerations.

OF COURSE, the question should immediately arise – could other factors have been responsible for McKeesport's 38% gain? You can never know for sure, but none seems to be present.

In order to further rule out other factors, we can compare McKeesport (pop. 31,017) with its neighbors, Clairton (pop. 12,073) and Duquesne

(pop. 10,099). The latter is right across the Monongahela River and the other is downstream about two miles. Each has one U.S. Steel mill as well as steel-related industries, and consequently they all have much higher-than-average unemployment. There are no other nearby comparable cities.

These three cities are truly triplets, the only visible relevant difference being that McKeesport up-taxed land and down-taxed building in 1980, while the other two cities did not.

When we compare the record of building permits issued in Clairton and Duquesne to that of McKeesport, we see that the latter did considerably better than its neighbors.

In fact, it did much better – Clairton's

McKeesport up-taxed land and down-taxed building

new construction and rehabilitation fell off 28% in 1980-82 as compared with 1977-79, while Duquesne's fall-off was 20% (see Table 3).

Considering the hair-raising depression in construction that occurred during 1980-82, the record of Clairton and Duquesne is better than might be expected, but clearly McKeesport did much better.

● *Fortune* magazine sent two researchers around Pennsylvania to gather material for their August 8, 1983 article on land value taxation, and they came up with near-identical figures on building permits issued in McKeesport-Clairton-Duquesne, and reached the same conclusions.

Taxable Building Permits Issued			
	1977-79 Annual average (\$)	1980-82 Annual average (\$)	% change
McKeesport	1,716,000	2,370,191	+38%
Clairton	746,710	539,564	-28%
Duquesne	1,053,315	839,731	-20%

Source: Building permit records in the three city halls.

McKeesport, Duquesne & Clairton

LET'S IMAGINE that a corporation wishes to erect a new factory that would cost \$900,000 to build.

Three sites, each equally advantageous and worth \$100,000, are available in the three adjoining cities of McKeesport, Duquesne and Clairton, which share the same economy and ethnic makeup.

The only important relevant difference between these three cities is the fact that McKeesport taxes land at 9% and buildings at 2% whereas both Duquesne and Clairton tax land and buildings at the same rate.

In addition, McKeesport offers a three-year tax exemption on all new

improvements (not land).

In the first three years, a \$900,000 building on a \$100,000 site would pay the following annual taxes:

McKeesport	\$2,250
Duquesne	\$8,000
Clairton	\$10,675

The ratio of market-to-assessment values in the county in which these cities are situated (Allegheny) is 25%.

You be the judge – would not the annual property tax savings in McKeesport be a significant factor in determining where this corporation would choose to locate its factory?

After the first three years, the factory building goes on to the tax

roles in McKeesport; its exemption will end. The property tax in that city for this property would now rise to \$6,750, reflecting the lower tax rate on buildings there. Note that the property tax payment in McKeesport would still be significantly lower than in the neighboring towns.

Of course, McKeesport could increase its attractiveness to new industries and employers by shifting even more property tax on buildings to land.

Its neighboring cities might want to do likewise.