BOOK REVIEW

SPECTACULAR PITTSBURGH FINDINGS EMERGE FROM LAND TAX STUDY

The Impact of Urban Land Taxation: The Pittsburgh Experience,
Wallace Oates and Robert Schwab.
Lincoln Institute of Land Policy, Cambridge, Mass. 1993.

by Walt Rybeck

OATES and Schwab of the University of Maryland have unearthed impressive evidence that Pittsburgh, after significantly increasing its land value tax, far surpassed 14 other comparable industrial cities in economic growth.

All but two of the cities studied (see table) saw the value of annual building permits decline sharply in the 1980s compared with the two prior decades. Columbus, Ohio, realised a 15% increase. This was dwarfed by Pittsburgh's showing:

"The real value of building permits on an annual basis rose by some 70% in the 1980s relative to the twenty-year period preceding the tax reform!"

These comparisons are based on statistics from Dun and Bradstreet, a firm that tracks business performance. Oates and Schwab also checked U.S. Census Bureau records that, while covering shorter time spans (1974-78 and 1980-89), had richer details with breakdowns of central city and suburban construction and building activity of different types. Results: "Pittsburgh again stands out with a dramatic increase of more than 250%" a year, while new building investment in most other cities fell after 1979.

Surprisingly, these striking facts elicit no ringing endorsement of the land tax. Note the cautious opening and closing statements, respectively:

"The analysis of these data, in the context of some other key economic variables, suggests to us that the Pittsburgh tax reform, properly understood, has probably played a significant supportive role in the economic resurgence of the city."

"We cannot conclude, from the Pittsburgh experience at least, that such fiscal incentives are in themselves capable of generating major urban renewal efforts. But in the general Pittsburgh context, it is our sense that they have played a supporting role for new urban construction. Our findings thus do not support some of the more extravagant claims that land-tax proponents have made for the effect of the tax in stimulating economic activity. But urban land taxes, while they may not provide much direct stimulus to development activities, can substitute for other taxes that penalize such undertakings."

WHY DO the authors deflate the import of their solid findings? Some clues surface. They give credence to unnamed "development experts" who say Pittsburgh's revival would have occurred anyway. Land speculators and other land tax foes warned City Council in 1978 that its big land tax increase would dry up construction. The opposite occurred. Now they insist the reform was of no consequence.

The authors credit favorable underlying economic conditions. In the late '70s and early '80s, the steel industry, the foundation of the region's economy collapsed. A nationwide housing crisis hit Pittsburgh's metropolitan area. Thus the city's growth was even more noteworthy.

Pittsburgh's Golden Triangle renewal in the '40s is treated as if the graded tax did not yet exist. David Lawrence, then mayor, called it a critical factor in the success of that pioneering effort.

The authors show that tax rates for city property owners, nominally at a 5.6-to-1 ratio (land-to-building), are only 2.33-to-1 when combined with Allegheny County and school district rates. Observers may question whether dramatic results stem from this modest differential. However, with similar findings in too many other land tax cities to be mere coincidence, a more plausible conclusion is that this reform must be potent indeed if such little doses can achieve so much.

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15 midwest cities,
before and after Pittsburgh's major land tax increase
Average annual value of building permits: Constant 1982 dollars: millions

	1960-79	1980-89	% change
PITTSBURGH	181.7	309.7	70.4
Akron	134.0	87.9	-34.4
Allentown	48.1	28.8	-40.4
Buffalo	93.7	82.9	-11.5
Canton	40.2	24.2	-39.7
Cincinnati	318.2	231.5	-27.2
Cleveland	329.5	224.5	-31.8
Columus	456.5	527.0	15.4
Dayton	107.7	92.2	-14.4
Detroit	368.8	227.7	-24.7
Erie	48.3	22.7	-52.9
Rochester	118.7	82.4	-30.5
Syracuse	94.5	53.6	-43.2
Toledo	138.3	93.4	-32.4
Youngstown	33.6	11.1	-66.9
15-city average	167.5	143.3	-14.4

SOURCE: Gates and Schwab, Table 3

MONOPOLY: THE RULES OF THE GAME

THE GUARDIAN (London) invites its readers to pose questions to which others can then offer answers. Richard Bramhall, press officer of the Welsh Green Party, asked a question about the game of Monopoly. His question:

In the Board Game Monopoly, as in real life, the players as "landowners" are free to exploit the other players as "tenants." The wealth gap widens rapidly and the losers starve. How should the rules of Monopoly be revised to reflect landowners' responsibilities to the community?

These were the published answers:

• Monopoly beautifully illustrates the inability of the free market to sustain itself. Inequalities soon emerge and are rapidly amplified by chance and skill through the market mechanism - until the game eventually comes to a stop when all the money and most of the assets end up in the hands of one player. It is only the "social" - ie., non-market, income received by each player on passing "GO" - that keeps the game going long enough to be worth playing.

The free market is no better than any other perpetual motion contraption. It requires an external source of demand to drive it. If you want to model the welfare state, you could impose a progressive tax on rents to go into the Community Chest and you could increase the "social income" received by players. In short, "Tax and Spend", the ultimate anathema of the free market believers. But you would then face the possibility of an endless game. - Ralph Herdan, Stockport, Cheshire.

• The game of Monopoly is based on an older game, the Landlord's Game, devised in the United States in the 1890s and intended by its inventor, Elizabeth Webb, as propaganda against slum landlordism.

In the 1970s a small US manufacturer produced a game called Antimonopoly in which the aim was to break up, rather than create, large capitalist enterprises - but was promptly sued for breach of copyright by Parker Brothers, the US manufacturers of Monopoly. A new edition of this game has appeared recently, so the dispute seems to have been resolved. - Roger Sandell, Richmond, Surrey.

• When any player amasses more than £100,000 in cash, he should give half to the Conservative Party and go directly to Cyprus. His remaining property should be sold and a pension fund should be established for the other players after 10% has been deducted for the Royal Train. - Rev.Dr. Bernard E. Jones, Fulwood, Lancashire.

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Much of Pittsburgh's success is attributed to its urban renewal program without noting that almost every American city attempted the same thing. Lacking systems to reward enterprise and thwart land speculation, few matched Pittsburgh's results. The 1960-85 era is replete with urban renewal horror stories: excessive demolitions, uprooted minorities, acres of vacant business districts, abused subsidies, etc. The authors properly assign some credit to Pittsburgh's generous tax abatements for new construction. Unasked question: since many comparison cities used such abatements why were the same results not achieved?

A cub reporter, sent to cover the Johnstown flood, started dictating: "From the mountaintop overlooking Johnstown, God surveys a scene of utter devastation..." His editor screams into the phone: "Stop! Forget the flood! Interview God!" That classic journalism story comes to mind because this study offers data and opens debates bearing directly on the urgent urban issues of central city decay and sprawl - yet leaves them unaddressed, on the mountaintop, so to speak.

Oates and Schwab worry that higher taxes on land values, by hastening land use, may lead to "socially excessive levels of current development." They cite no Pittsburgh examples, nor do they confront the corollary: low land taxes and delayed development of in-city sites are promoting blight and costly suburban sprawl.

Pittsburgh's skyscrapers plus residential buildings increased substantially in the 1980s. Census data show that in its suburbs, which lack the two-rate tax, commercial industrial construction rose only 4.5% and home construction was down -35%.

• In contrast, in most comparison areas, commercial building declined in cities but their suburbs experienced major growth (percentages are for suburbs): Akron, 39%; Allentown, 70%; Cincinnati, 54%; Columbus, 106%; Detroit, 37%; Rochester, 40%; Youngstown, 65%. Central cities, of course, were desperate for a bigger piece of this action.

If the authors have not grasped the theory linking tax policy with growth patterns, they at least should alert all those who are wrestling with urban problems that Pittsburgh is doing something to counteract sprawl and keep the core city healthy.

"What the Pittsburgh experience suggests to us," write Oastes and Schwab, "is that the movement to a graded tax system can, in the right setting, provide some stimulus to local building activity. The primary role of the land tax in all this is to provide the additional source of revenues that allows a reduction in the rate on improvements."

This must jar anyone familiar with land tax literature which always stresses taxing buildings less as well as taxing land values more. One welcomes the rediscovery of what Henry George wrote 112 years ago, that abolishing taxes on production is like "removing an immense weight from a powerful spring." But it is disheartening to see this integral part of the land tax mentioned as a kind of accidental side effect. Despite all this, the paper makes a positive contribution. The findings are monumental and the analysis should stimulate further research by economists who have paid too little attention to the implications of property tax modernization.