

# Pennsylvania's Smart Tax Sharpens our Teeth

**Joshua Vincent champions the 2-rate tax**

**T**HE LOCAL or partial application of Henry George's ideas is controversial to some, a betrayal of principle to others. Yet, as a tactic and as an educational tool for Georgists, the land tax campaigns in the US have been invaluable as resources on how politics work and how a drifting movement can sharpen its teeth and its message.

First, some terms. What is the two-rate? It's a catchall phrase that's come to mean the restructuring of existing tax systems at any level of government in order to incur the collection of taxes – rent – from land. In a typical case in the US, the property tax is altered, with the taxes on buildings cut but with the same revenue collected by increasing the tax on land. In some of the more "advanced" two-rate cities, other taxes have been frozen or rolled into the land portion of the property tax (see table for all the LVT jurisdictions).

Politically, the two-rate is a feasible way to create conditions that can be studied by economists and policy people to confirm that the conscious taxation of land can have beneficial results. Implementation is easy, using the local assessment rolls or cadastres. An impact study of a land tax can be done for sometimes as little as \$500US. The Center for the Study of Economics (CSE) has done studies for towns as small as 2,500 people, up to the entire residential roll of New York City, all on an office PC.

CSE manages about two dozen studies in a year, some complex, some not. With some training, anyone can do it. Learning to speak to wonks and officials is a simple matter of tone and polish. Like the housewife who led the fight against Love Canal in Buffalo, New York that resulted in the Superfund that cleans up toxic waste nation-wide, so too may the hometown Georgist set into motion a backyard revolution.

**W**HENEVER A TOWN has enacted land value taxation, those who live there have seen change: taxes are reduced on productive people, more construction occurs (if LVT is properly marketed), and those who always had more than their fair share of "say" have been stuck with a higher tax bill. It's economic and social justice writ small, but writ nonetheless.

As the distinguished attorney-environmentalist Michael Schuman says in Greenprint:

Bad taxes make bad neighbours. They scare off businesses and residents, and drain a community of its assets. The good news for poverty-stricken communities, however, is this: Smart taxes can reverse these trends. And one of the smartest tax reforms, conceived more than a century ago by economist Henry George, is remarkably easy to do: Refocus existing property taxes on land rather than on the buildings and businesses and – voila! – the owners have a new incentive to 'improve' their land.

The world of the two-rate tax is politics at its most vital and raw. As anyone with a knowledge of the Allentown, Pennsylvania struggle from 1994 to 1997 knows, the fight there was personal, vicious, expensive and inclusive of the body politic. The land tax had to withstand the vote of the electorate twice.

On both occasions the land tax won. People entered political life, some out of retirement, some for the first time, to "save the land tax." The political and economic order of the past 80 years felt threatened by the supposed small potatoes of the local tax system. Politicians were challenged, not just for their betrayal of the people's vote, but for their racism, their secrecy and their adherence to a regime that no longer worked for the people. The land tax was the tannoy for these long-held grievances. Two-raters provided the

"tipping point" in Allentown. That so many Georgist hearts were broken and made whole again in a city of 105,000, should stand as a warning that we had better get our act together at this level before we try anything more far-reaching.<sup>1</sup> What would the status of the many Australian and New Zealand land taxes be if there were those on the ground that were willing to fight for them? Most likely, they'd still be strong and alive. Action gets respect.

The value of demonstrations such as Allentown should not be underestimated. It should come as no surprise to advocates of the Single Tax that governments have – strangely enough – not leapt at the chance to tax land and untax all else. For more than a century, the theory of land taxation hasn't had the chance that it deserves.

That's changed in the past 25 years. One facet of Georgism that's changed is the local activism. Just listen to one of the most respected tax policy analysts in the US:

What will propel land value taxation to the forefront of tax policy debate, however, is interest on the part of local political leaders. And, there is growing evidence that land value taxation is catching the attention of policymakers around the country. Land value taxation has been the subject of dis-

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**The Pennsylvania Property Tax Shift: %**

City	Land Tax	Building Tax	% of Revenue from Land Values	Land Tax since
Alliuppa School District	16.3	1.1	85.5	1993
Alliuppa City	7.9	0.7	75.9	1988
Allentown	3.2	0.9	44.0	1997
Clairton	10.0	2.1	53.0	1989
Coatesville	5.1	2.5	33.9	1991
Connellsville	11.3	1.7	50.1	1992
Bubois	5.1	1.3	43.9	1991
Duquesne	8.0	3.8	34.0	1985
Ebensburg	3.0	1.2	40.0	2000
Harrisburg	4.8	0.9	46.0	1975
Lock Haven	5.2	1.3	61.8	1991
McKeesport	10.0	1.9	59.0	1980
New Castle	8.7	2.2	46.5	1982
Oil City	8.5	2.6	42.4	1989
Pittsburgh	18.4	3.2	57.4	1913
Pittsburgh Improvement Dist.	1.1	na	100.0	1997
Scranton	6.6	1.2	65.9	1913
Steelton	1.7	0.7	35.0	2000
Titusville	6.1	1.5	31.0	1990
Washington	19.1	1.1	74.3	1985

# Local Gradualism: Georgism for the New Century

The Single Tax is a worthwhile goal:

(1) If each person owns the fruits of his own labour, then labour is the *sole* ethical justification of the ownership of property – in which case only things which can be produced by human labour are justifiably ownable. That excludes land. God got there first, before humankind.

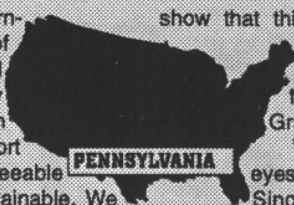
The entire product is produced by labour and capital, in which case landowners are not entitled to share in the product. Tax land rent, not labour or capital.

Legal property might sanction the private ownership of land, as it once sanctioned property in people (slaves), but ethical property can sanction only that which is produced by labour. That eliminates private property in land-rent and slaves.

(2) If we tax labour and capital, we'll have less of those things. If we tax land-rent instead, we tax land into fuller use, thereby creating economic growth. In the United States, *all* 17 empirical studies show that when the taxes are shifted to land-rent, there occurs a spurt in new construction and renovation within three years, and towns which undertake such a shift out-construct and out-reno-vate comparable neighbours (building-permits issued, on file in each city hall, are the measure of the new construction and renovation). There are many corroborating studies, particular from other countries which have had similar results.

So we can conclude that the Single Tax (which collects land-

rent for the government instead of taxes on labour and capital) is a very desirable long-term goal. But in the short term, in the foreseeable future, it is not obtainable. We have tried for 121 years to get it enacted somewhere, anywhere, with no success at all. This continued failure has depleted the ranks of 100% Single Taxers. The morale of those who are left is low. But small though our numbers may be, we have had signal success in getting land value taxation implemented at the local level. To get to the Single Tax, we must first con-



show that this LVT has good results. This approach can be termed Local Gradualism.

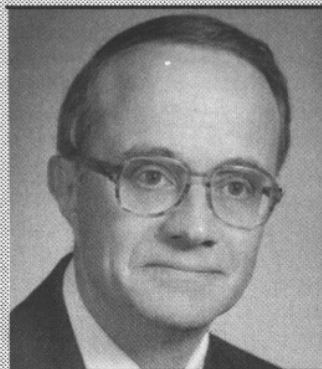
We must take our eyes off the horizon. Single Taxers must concentrate on what can be accomplished (what has been accomplished) in the foreseeable future. It may be easy to announce to the world the arguments for the Single Tax – but almost no one is listening. We have to do the hard work of building the empirical case for the Single Tax – city by city. There is great joy in success, in seeing localities blossom under

be implemented). As for local politics, Single Taxers must realize that it is there, in local city halls and likesuch, that LVT rates for the next year are determined. Land speculators naturally congregate there – shouldn't Single Taxers? LVT rates are never determined in academic conferences or public meetings. If Single Taxers aim at the wrong target, they won't hit the right one.

In the foreseeable future, Single Taxers must abjure the voters (there are too many of them and they are likely to oppose LVT in their ignorance) and assessors (they are naysayers). School board and city council members, school superintendents and mayors, also budget directors – they are our natural prospects.

Some Single Tax dreamers say that the Local Gradualist approach is failing. In Australia, New Zealand and South Africa, many LVT localities are abandoning their LVT. But Single Taxers there criticize Local Gradualism (they want to do it all at once; so do I, if it can be done) and fail to alert government planners, through newsletters and advertisements, about the many empirical studies supporting LVT. Anyway, after 121 years these are the only Single Tax victories. The battle for them is never-ending (good news: in America, local LVT – Local Gradualism – is spreading).

Most people abandon a failed approach after a few years, let alone 121. If Single Taxers continue to fail, poverty will engulf the Free World.



## by Steve Cord

**Dr. Cord is the author of *Henry George: Dreamer or Realist?* He was president of the Henry George Foundation of America for 22 years. He has persuaded 18 jurisdictions to shift some of their local property tax off buildings and onto land assessments.**

vince people with empirical economic arguments that the land value tax works; we must get it adopted in city after city until the Single Tax becomes a viable possibility. That could take fifty years. There are no short cuts. We cannot convince by rational argument alone; our prospects can be reached only with empirical evidence. But that requires that we get localities to adopt some land value taxation (LVT), and then we have to

the aegis of land value taxation; there is nothing but frustration in the unavoidable failure to get the Single Tax adopted now. Abjure the unobtainable.

The principal obstacles for Single Taxers are: implementation and local politics. We must make sure that our local prospects understand exactly how they are to tax land values. Such knowledge is by no means obvious (even most Single Taxers don't know how LVT can

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cussion or study by policymakers in New York, Iowa, Washington, Maryland, Connecticut, Maine, and Nebraska.<sup>2</sup>

This spread of the land tax idea came strictly from the two-rate application.

**G**OVERNMENTS will be unlikely to loosen their grip on the socialization of incomes and production unless there's compelling evidence that the third way of economics – land – works. Would the prestigious (and absolutely Establishment!) Brookings Institution have recommended the two-rate out of the blue? Not likely. And yet:

Local personal taxes commonly take three

forms: sales taxes, wage or income taxes, and property taxes, the latter being the most common. A residential property tax has two components—a land tax and a tax on the value of the structure. The land component of the residential property tax should be assessed on an equal basis with the business land tax, again providing incentives to develop in neighbourhoods with low land values, as well as preventing speculative land banking.<sup>3</sup>

From Greenpeace to the Sierra Club to Medecins sans Frontieres, human beings have discovered that "Think globally, act locally" is an effective strategy for marginalized ideas and people. Let's not lose sight of Henry George's call for a world where everyone is

respected and the earth belongs to all. But in reaching for the vision, we mustn't lose the toehold established by local activism.

### REFERENCES

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- 2 Brunori, David, "Metropolitan Taxation in the 21st Century," *National Tax Journal*, Sept. 1998.
- 3 Edward W. Hill and Jeremy Nowak, "Nothing left to Lose Only Radical Strategies Can Help America's Most Distressed Cities," *The Brookings Review*, Summer 2000, Vol. 18(3), pp. 22-26.

✍️ Joshua Vincent has been President of the Centre for the Study of Economics since 1997.