

TESTIMONY BEFORE
(and Philadelphia)
PENNSYLVANIA TAX COMMISSION

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PRESENTED BY

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Testimony by George L. Collins, Director of the Henry George School of Social Science, Philadelphia, Pa. before the Pennsylvania Tax Commission, Harrisburg, Pa., on Wednesday, January 9, 1980.

The trend during the decade of the 1970s away from the property tax in favor of wage, business and sundry "nuisance taxes" has apparently passed with the decade. Evidence of the shift, not back to the property tax as it is, but to what it ought to be in order to provide ease in its administration, equity in its impact and an adequate revenue yield, is demonstrated in the December, 1979 adoption of higher millage in the land tax portion of the property tax rate over that on buildings, to fund budgeted increases in Pittsburgh, Scranton, Harrisburg and McKeesport, Pa.

Despite some obvious flaws, there was very good reason for the tax on what we call real estate to have been the major source of support for local government throughout the history of our nation. A component of that "real estate" is immovable land. Not surprisingly, the first measure adopted by William Penn in January, 1863 to raise revenue for the support of public needs in Philadelphia was a tax on land values.* And there is even better reason today for the land levy to continue in that favored role.

Notwithstanding California's ill advised limitation measure, Proposition 13, the rulings against property tax revenue as an equitable source for funding public education and the general ill repute in which it has been held, the property tax has long been adjudged by many experts and is now being better understood by increasing numbers of public officials as the only local government tool capable of recovering for the community the only uniquely local revenue - the revenue from land values.

Two indisputable economic facts regarding taxation must be initially recognized to properly appreciate the arguments for a land value tax. There are only two sources of public revenue: 1) labor created wealth or improvement values and 2) community created/land values. And to quote Noah D. Alper

* Single Tax Yearbook, Single Tax Review Publishing Co., 1917 Pg. 314 from "Certain Conditions and Concessions agreed upon by William Penn and Adventurers and Purchasers."

of the Public Revenue Education Council, "Taxes are simply like pumps which draw revenue from one source or the other." The report of a conference on the financial crisis of our cities, sponsored by the National League of Cities, U. S. Conference of Mayors, the National Commission on Urban Problems and others clearly outlined the importance of that distinction in the following words:

"Too few tax leviers seem to understand that the property tax is not just one tax; on the contrary, it combines and confuses two completely opposite and conflicting taxes, and it would be hard to imagine two taxes whose consequences for urban renewal and urban development would be more different.

"One of the two conflicting taxes fused and confused in the property tax is the tax on the improvement-the tax on what past, present, and future owners of the property have spent or will spend to improve it. And it must be obvious to anyone that heavy taxes on improvements are bound to discourage, inhibit, and often prevent improvements.

"The other levy confused in the property tax is the land tax - the tax on the location value of the site, the tax on what the property would be worth if the owners had never done anything or spent anything to improve it, the tax on the value that derives most from an enormous investment of other peoples' money and other taxpayers' money to create the community around it and make the location accessible, livable, and richly saleable. And it must be obvious to anyone that heavy taxes on the location cannot discourage or inhibit improvements; on the contrary, heavy taxes on location could put effective pressure on the owners to put their sites to better use so as to bring in enough income to earn a good profit after paying the heavier tax."

The degree to which local government taxes land or labor will determine the degree in which jobs flow in or out, people move in or out, homes and apartments are built or abandoned, revenue is adequate or inadequate and, beyond and above all whether its citizens are treated justly or unjustly.

I have heard questions raised about the necessity or even the advisability of considering such "niceties" as justice and equity when adopting tax policies. Might it not be better to follow a pragmatic approach? Injustice, which must mean allowing advantages to some at the expense of others, wreaks its own terrible consequences on our social fabric. The present method of taxing land and buildings does produce such inequities. And no one needs to labor in deep thought to determine who in this or any

community "gets it in the neck" because justice is denied. Certainly it is the poor and their interests cannot be disregarded.

In spite of William Penn's appropriate precedent setting land levy, today land values provide less than ten per cent of the locally raised revenue in Philadelphia from a tax rate of \$6.175 per \$100 of assessed valuation on land and improvements. Building values supply another twenty-nine per cent and the balance of its revenue is extracted by a bewildering array of 13 other categories of taxes all, except the land value tax of course, ultimately paid by labor, or the consumers, as economists would prefer to say. They masquerade under such names as earnings tax, net profits tax, mercantile license tax, amusement tax, general business tax, non-business income tax, personal property tax, etc. And everyone who lives and/or works in Philadelphia is obliged to pay a flat 4-5/16% tax on gross wages - the highest wage tax levied anywhere in the nation.

The drop in population of 250,000 people in 20 years and the disappearance of 140,000 jobs over the last 10 years must be due in no small part to those dis-incentives. The lopsided weight of the property tax discouraging improvements and fostering land speculation is clearly evidenced by the failure of both private investment and government programs to build and maintain an adequate amount of minimally livable housing for this greatly depleted population. The best estimates indicate that there are approximately 30,000 vacated and/or abandoned properties in the city, and at least 500 acres of cleared vacant land held by the Redevelopment Authority. There are in addition the countless numbers of buildings occupied primarily by renters which are barely kept up to building code standards, are costly to maintain and are crying out for rehabilitation.

One would expect, given those conditions, that the inward trickle of middle and upper income homeseekers back to the city, would be universally welcome. But once again the upside down property tax is distorting the good results that renovation and restoration of old houses should be producing.

Instead, it is causing displacement of the poor who are forced out of traditional neighborhoods where property values have soared. With no better housing available, other weak areas are being further crowded. Why has this occurred? In all of Philadelphia with its approximately 50 neighborhoods, the intense activity is centered in about ten conveniently located neighborhoods ringing center city. Anticipating the demand, speculators have pushed the prices of these old shells to the limits of the demand. Those properties are expressing speculative land values.

Land value taxation with its heavier weight on land would discourage such speculation bringing the cost of land down. The correspondingly lower tax on buildings would make it feasible for improvements to be made in every section of the city without fear of added penalty. The dispersal of renovation throughout the city would make better alternative housing available to people who have already been displaced and lessen the fear that others now have of suffering the same fate.

The revitalization of housing and commerce throughout the neighborhoods of the city are essential if it, and this holds true for every other city, is to survive fiscally, physically and socially. Unless the tax structure stops rewarding unproductive land speculation and makes it practical instead for producers to build affordable housing and facilities for the communities as they exist, all efforts toward those ends will be fruitless. The land value tax meets that need perfectly.

Philadelphia has not yet returned to a land value tax, but it will undoubtedly follow the moves of Pittsburgh, Scranton, Harrisburgh and McKeesport. If the District of Columbia, not unlike Philadelphia, is to salvage itself from a disasterous history of population decline, gentrification, unbridled speculation, inequitable assessments and insufficient revenue, then you too must adopt a land value tax.