

PUBLIC FINANCE ALTERNATIVES: BLIGHTTOWN SCRUTINISES LVT

THE BOON to cities that reform the property tax came under close scrutiny at a Forum in Philadelphia, which spotlighted the impact of a shift to land value taxation - the trend in sixteen Pennsylvania cities.

This policy was compared to alternative proposals such as homestead exemptions, enterprise zones, and local income or sales taxes. Given the well-documented positive effects of the land value tax reform policy, organizers sensed the time was right to push for its adoption by Philadelphia, a major world city that was recently dubbed "Blighttown, USA" by *Philadelphia Weekly* journalist Eils Lotozo

The city was chosen as the Forum venue in light of the sobering statistics: more than 700 vacant commercial buildings, 15,800 vacant lots, 27,000 empty houses, and 1500 acres of vacant land and brownfields. North Philadelphia is one of the most distressed areas in the US. Millions of dollars of local, state and federal monies have been pouring into the City of Brotherly Love in desperate efforts to stimulate economic revitalization.

Among the 80 people who attended were officials from the City of Philadelphia, the City of Lancaster, the Borough of Yeadon, the Pennsylvania Legislature, the Pennsylvania Economy League, the HUD Empowerment Zone, the Pennsylvania 21st Century Environmental Commission of the Department of Environmental Protection, the American Association of Retired Persons, the Pennsylvania School Reform Network, the Pearl S. Buck Foundation, the Education Summit, the Green Party of Pennsylvania, the Democratic Freedom

Caucus, School of Living, Health Alternatives International, and the United Nations NGO Representative for the Society of Friends.

The Philadelphia Inquirer story was headlined "Forum examines tax on land itself, not on buildings - the split-rate tax would reduce idle sites". Richard S. Rybeck, an administrator with the Department of Public Works in Washington, D.C., was quoted as declaring: "In order to protect and preserve the countryside, we must have viable and vibrant cities. And one of the threats to the countryside is the fact that our cities are not healthy and development and related activities are spilling out, almost like refugees fleeing from the cities. With the tax on land value, people don't have an economic incentive to prematurely convert land that's being appropriately used for agriculture or conservation."

Mayor Anthony Sposey from the City of Washington, Pennsylvania, near Pittsburgh, called himself "a firm believer" in this tax policy approach. He described the many benefits it has brought to his city. "This was a way for some meaningful tax reform that we could establish without having to wait for some mandate from an upper level of government!"

The Times Herald featured two

major front-page stories. One, headlined "Group says two-tiered taxing saves money" highlighted the Forum, and the other entitled "Could change boost Norristown's economy?" interviewed numerous Norristown public officials about their views. All said they would be willing to examine the merits of the two-tiered tax system.

The Times Herald story paid particular attention to the statements of Mayor Sposey: "The areas inhabited by the low income and elderly, those who could less afford to pay, would benefit greatly - to the tune of about 70% (tax reduction) - with the change from a single-rate to a two-rate system ... More than \$3 million in renovations has transformed Washington from a city that had many rundown buildings to one in which large office buildings are being constructed, and existing structures are being refurbished and added to." *Washington taxes land at six times the rate of buildings.*

The same story picked on the revelation by Napoleon A. Saunders, Business Administrator for the City of Harrisburg, who said: "In Harrisburg, which was considered one of the country's most distressed cities at one time, the two-rate tax system has worked wonders." By the early 1980s, downtown Harrisburg had only one

Public Finance Alternatives - A Philadelphia Regional Forum was held at the Arch Street Friends Meeting House Conference Center in Philadelphia. Featuring six speakers and co-sponsored by 30 governmental and non-profit organizations, the Forum was organized by the Pennsylvania Fair Tax Coalition with assistance from Joshua Vincent of the Center for the Study of Economics. Press coverage was substantial with reporters from the Philadelphia Inquirer, Philadelphia Weekly, Philadelphia Daily News, and The Times Herald of Norristown.

department store and many deteriorating properties. In 1982, 4,200 buildings were vacant. But with the implementation of split-rate tax, and the city's later decision to tax land at four times the rate of buildings, trends were reversed. In 1997 Harrisburg had fewer than 400 vacant buildings, with a large project ongoing that may bring that number to below 200, Saunders reported.

Saunders was quoted as stating that "the split-rate tax should not be seen as a panacea in and of itself. It should be implemented in combination with enterprise zones and other measures designed to lure businesses to blighted, urban downtowns."

Joshua Vincent of the Center for the Study of Economics was quoted by the Inquirer as saying that "with a split-rate tax, most Philadelphia homeowners would realize immediate savings". He provided details of his preliminary study of the impact of the two-rate tax in Philadelphia and also described the substantial research on the beneficial effects of the two-rate tax in other cities where significantly more buildings

permits, increased employment, lowered crime rates and other indicators of economic revitalization have been realized.

John E. Gardner, Jr., from the Pennsylvania State Association of Boroughs, said: "We don't view this as tax reform, we look at it more as a tool for community and economic development. Instead of eating up green space, we need to redirect our development to urban centers." Gardner described legislative efforts currently underway which would give the two-rate tax option to the boroughs, school districts, and townships of the state.

Joanne R. Denworth, president of the Pennsylvania Environmental Council and convenor of 10,000 Friends of Pennsylvania composed of 95 member organizations, described a tax recommendation that could be complementary to land value taxation. She presented results of a study commissioned by her organization that recommended regional revenue sharing between Philadelphia and its neighbours. In the question and answer period the comment was made that

surrounding municipalities would be more likely to agree to share the tax base if Philadelphia were to become once again a functional and sound metropolis.

Interest generated from the Forum is continuing. The Vice Mayor of the City of Scranton says that proposals from the Pennsylvania Economy League (local wage and sales taxes), which had been implemented, were not working very well. He asked for consultations on how Scranton, currently a two-rate tax city, could move more strongly towards land value taxation. Lancaster officials are now studying the impact of two-rate tax for that city. The president of the County Commissioners of Cumberland County asked for a packet of information.

- A professionally produced videotape of *Public Finance Alternatives - A Philadelphia Regional Forum* may be ordered from Joshua Vincent, Center for the Study of Economics, 2000 Century Plaza, Suite 238, Columbia, MD 21044, USA. Telephone: 410-740-1177. E-mail: <hgeorge@smart.net>

Do Gordon Brown's numbers add up?

BRITAIN'S Chancellor of the Exchequer claims that his order to local governments to sell surplus land is "prudent", writes *Ian Baron*.

The instruction came in a speech in the House of Commons on June 11. Gordon Brown believes that property sales could notch up £2.75 billion a year. He justified the plan - condemned by some Labour MPs as a Thatcherite policy - by claiming in a TV interview: "Any sensible Chancellor would get rid of assets that were of no use to him".

But the economics of public sector land sales was challenged at a conference organised by North Lincolnshire Council the following day. The findings of a report on "Industrial Ground Lease Investments" disclosed how much income would have been lost if one of the council's industrial sites had been sold in 1961. In fact, the site was leased on a 99-year ground lease at £550 per annum. If it had been sold freehold, the council would have

accumulated £25,000 by 1998, including interest on the sale price. But:

- A ground lease, granted in 1961 with 21-year rent reviews, would have produced income of over £100,000 by 1998, including interest if all income had been reinvested.
- With rent reviews every five years, however (as would be expected on a modern ground lease), the community coffers would have been enriched to the tune of £225,000.

It was this leasehold policy - but with rent reviews every three years - that Land Policy Council chairman Ron Banks urged the council to pursue in future. Addressing the theme of managing public assets, Mr Banks condemned the outright sale of land from the public sector when the heightened flow of rental income could be used to defray public expenses - and enable governments to reduce the tax burden on people's wages and savings.

The need to transform the local property tax base was emphasised by LPC's Fred Harrison, who identified the regressive impact of the Council Tax. He said: "The 34,000 low-income families in North Lincolnshire who occupy Band A houses [valued at under £40,000] are subsidising the 20 high-income families who occupy houses in Band H (+£320,000). Is that fair? It is certainly not efficient. How does this come about, and what ought we to do about it? High-income families locate themselves on high-value land. The ratio of land value to building value is greater at the top end of the housing market than at the lower end. If we reformed local government finance, to treat the rental value of land as the tax base, we would shift to a progressive form of raising public revenue, one that was based on ability to pay. By sticking to the composite value of land-plus-buildings, we shift the tax burden down to families who are least able to pay, those

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