

NEW YORK STATE CONFERENCE DEBATES INCENTIVE TAXATION

by Al Hartheimer

Albany, NY - January 12, 1993. Incentive Taxation was explored in depth here today by experts from New York State and around the country, at a unique conference sponsored by the Government Law Center of the Albany Law School of Union University. This organization, under the direction of Patricia Salkin, is looked to by legislators and legislative staff for sound, well-rounded expositions of topics of current interest. In attendance were mayors, assessors, school board members, planners, architects, legislators, economists, and land conservationists. And although there were some Georgists there, most of the eighty conferees had only the vaguest acquaintance with the topic.

In 1986, a New York Temporary State Commission on Real Property did not recommend Incentive Taxation for New York at that time. In his presentation to this conference, Albert Hartheimer generally introduced the subject of incentive taxation and pointed out some of the fallacies of the 1986 report. He noted that in 1986 there were seven Pennsylvania cities using Incentive Taxation; now there are seventeen, *prima facie* evidence of its growing acceptance. Larry Farbstein, 1986 Director of the State Commission, followed; he defended the report, but endorsed the taxation of land values under the present system.

The positive Pennsylvania experience with the incentive taxation principle was detailed for the conference by Joe Bendel, member of the City Council of McKeesport, PA, and Prof. Steven Cord. Both cited overwhelming evidence for the economic benefits of collecting more public revenue from land and less from improvements. Dr. Cord also gave an international perspective based on his experience in Estonia and Russia. (*For reports on the prospects for Georgist land reform in the former Soviet bloc, see our Newsletters of July-Aug. and Sept-Oct. '91. - L. D.*)

Dr. James F. Dunne, Director of Real Property Tax Research, New York State Division of Equalization and Assessment, told of his experience of the last two years, working on the development of a land use plan for the watershed of Lake Baikal in southern Siberia. Dr. Dunne, who worked with a team of Russian and American scientists, underscored the vital importance of this largest freshwater lake in the world, and its grave ecological damage: a crucial test for new Russian land policies. He indicated that the Russians are interested in (*continued on page 3*)

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private ownership of land, but they want to avoid land speculation; therefore, they are considering the use of a land tax. He thought it unlikely, however, that they would attempt to collect the entire economic rent of land.

The Mayor of Amsterdam, New York, Mario Villa, said that he thinks that lowering the taxes on buildings and increasing taxes on land would start Amsterdam on the road toward financial and economic recovery. He listed Amsterdam's all-too-familiar list of economic woes: industry has fled; the population has decreased from 30,000 to 20,000 over the last fifty years; the proportion of retired citizens, who contribute less in taxes but use more services, is increasing. In addition, the city provides the surrounding county with 35% of its revenue, but gets very little in return; the city is, in effect, subsidizing its own demise. The money allows adjacent small towns to have well-provided police and fire departments with little or no town tax. This, in turn, lures people out of the city, which further erodes the city's tax base. Mayor Villa is looking to Incentive Taxation to help turn this around.

A dissenting view was offered by Bill Block, Esq., former New York City Deputy Commissioner of Finance for Real Property Assessments. Mr. Block said that the idea of lower taxes on buildings and higher taxes on land over an entire city is an idea "whose time should NOT come." The changes that this move would create in incentives, Block argued, would be chaotic; willy-nilly new development would swamp the city-planning apparatus.

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Instead, he favors targeted incentives for certain needy areas in the city, citing as examples various tax-abatement initiatives in New York City.

Professor Mason Gaffney of the University of California at Riverside countered that incentive taxation is an excellent idea for the self-renewal of a city. Land

values, and therefore tax revenues, are highest in the highest-traffic areas which need the most public services; incentive taxation is therefore a self-regulating source of public funds. Furthermore, if speculative pressures on land use were eased, existing zoning laws would be easier to enforce.

Gaffney cited Johannesburg, South Africa - which he recently visited - as a prime example. South Africa has been infa-

mous for its backward racial policies; its enlightened property tax systems have received little notice. Johannesburg, which has had no tax on buildings since 1909, "defies most laws of urban economics...it has no harbor, no water transportation, no sunburst of rail lines. It should have died when its gold mines played out; instead it remains the economic capital of its nation...." He attributes the growth and dynamism of Johannesburg to incentive taxation: a high rate of property taxation on site value alone.

The conference was sponsored by the Robert Schalkenbach Foundation, the Henry George School, Senator Owen Johnson of Long Island, the New York State Assessors' Association, The New York State Association of Towns, The Lincoln Institute of Land Policy, and the American Institute of Economic Research.

What Is Incentive Taxation?

Incentive Taxation is the title of a newsletter published by the Center for the Study of Economics in Columbia, Maryland. **Incentive taxation** - which seems to be an oxymoron; don't taxes **destroy** incentives? - is also the aptly chosen moniker for the reform strategy that is achieving such impressive success in Pennsylvania and elsewhere. As an acclaimed 1989 article in *Fortune* magazine made clear, there is only one tax which, when increased, actually increases economic activity: the tax on land values. Students of Henry George know this - but most local officials do not. Prof. Steven Cord and his intrepid corps of tax reformers have chosen a name sure to make people think beyond the conventional wisdom. - L.D.