



Hear the Liberty Bell

The citizens of Philadelphia, where the Declaration of Independence was first heard, are being invited to back a controversial rescue plan to save the city from urban decay

CRITICS OF Western democracy and the free market model of economics claim liberty will not ultimately be realised until the tax system is drastically reformed.

Now Philadelphia, the city where the Liberty Bell heralded the first public reading of the Declaration of Independence on 8 July 1776, is the scene of a political struggle that could lay the foundations for America to achieve financial emancipation.

Conventional taxes, although intended to help the needy, are abusive in their arbitrary nature, deterring productive activity by confiscating earned incomes. But an alternative, championed by Philadelphian Henry George, exists. George merged economic theory with the harsh experience of living in the Wild West to rediscover the wisdom of paying for public services out of the rent of land and natural resources.

Today, Jonathan Saidel, Philadelphia's controller, has hoisted that flag with a 93-page analysis that proposes an overhaul of the city's tax structure.

Knowing the plan will meet political resistance, Saidel has challenged the city's mayor, John F Street, to either adopt his proposals or propose an alternative. Aware

that Street's staff had briefed the media in advance, Saidel went on the offensive with a two-pronged attack on political opposition, proposing to:

- cut wage and business taxes, which have contributed to the flight of population out of the city; and
- slash the tax rate on buildings, which has contributed to the blight across the city.

The new plan would raise revenue by increasing the tax rate on the assessed value of land, offsetting the loss of revenue from taxes that damage the city's economy.

In the past 20 years, senior Philadelphian politicians have expressed strong support for this Georgist tax shift but they have never been able to build the coalition to turn the idea into a reality. Saidel has learned those lessons. When he published his plan he did it in the presence of Charles Pizzi, President of the Greater Philadelphia Chamber of Commerce. Also behind him were five city council members, including an ally of the mayor, Jannie Blackwell, chair of the council's finance committee, and Richard Mariano, a union electrician and close associate of building union leaders.

If Philadelphians do nothing, then we go out of business. We didn't get where we are now overnight and we won't get back to where we should be overnight.

Business and labour chiefs realise the city needs a recipe for generating activity. Saidel is confident that, if the council gives his plan a fair hearing, "a tax package can be delivered to the mayor".

But city hall politics dictate deft negotiation, and Saidel's trump card is his challenge to the mayor to come up with an alternative. Under the Saidel plan, the wage tax would be reduced from 4.54 per cent to 4 per cent for city residents. By 2007, this would be cut to between 3.5 per cent and 3.3 per cent for non-residents. For businesses, the net income portion of the business privilege tax would drop from 6.5 per cent to 4 per cent next July, and the gross receipts tax would fall to 0.2 per cent.

Land would face steeper charges, which Saidel's staff forecast would result in tax cuts for most homeowners, but tax increases for those businesses that own heavily

Fact file

- 1682** Philadelphia founded by William Penn as a Quaker colony
- 1751** Pennsylvania Assembly ordered the Liberty Bell in 1751 to commemorate the 50th anniversary of William Penn's 1701 Charter of Privileges
- 1752** Liberty Bell made, weighing 2,080 lbs with a circumference around the lip of 12 ft, cast in London's Whitechapel Foundry and inscribed with the words from Leviticus 25, verse 10: "Proclaim liberty throughout all the land, unto all the inhabitants thereof"
- 1753** Liberty Bell hung in Philadelphia
- 1775** Two Philadelphians, Benjamin Franklin and Robert Morris, finance the revolution that leads to the founding of the United States of America.
- 1776** The Continental Congress sit in Independence Hall, where the Declaration of Independence is signed, and the Liberty Bell is rung on 8 July 1776 to summon Philadelphians to hear the Declaration read out by Colonel John Nixon
- 1839** Henry George born in Philadelphia 2 September 1839
- 1846** There is widespread disagreement about when the first crack appeared on the Bell. However, it is agreed that the final expansion of the crack that rendered it unringable occurred on George Washington's birthday in 1846

underused sites. Saidel proposes to tax land at 3.44 times the rate imposed on buildings.

Property taxes would drop for 78 per cent of home owners, but increase for half of the city's commercial and industrial properties. Parking lots, car dealerships and space-wasting activities would face higher property taxes.

Assessments of property values are not realistically related to market values. According to Saidel's report, land contributes 22 per cent of the total property tax revenue while buildings contribute 77 per cent of the total. To achieve an even split in total revenue, Saidel proposes to split the single tax rate of 0.08264 per \$1,000 of assessed value, to produce a rate of 0.1833 for land and 0.0533 for buildings.

The hope is that through this restructuring the property tax would deliver some of the classic benefits stressed by George. Saidel's report states: "By taxing the value of land more than the value of [buildings] that exist on it, this split-rate taxation discourages speculation and encourages development and

neighbourhood revitalisation."

The mayor's office has fought back claiming the city cannot change its complicated tax structure at a time when the nation is sliding into recession.

Budget director Rob Dubow claims the tax cuts would deplete revenue by \$900 million over the next five years. "It's not a question of whether this is debatable, it's just not affordable," he claims.

Furthermore, Dubow says, the land tax is a good idea but would be expensive to administer. According to the Board of Revision of Taxes, up to \$7 million a year more would have to be spent to assess the value of land and buildings.

Philadelphia has a budget of \$2.9 billion. Saidel has had to try and balance this by identifying efficiencies of between \$27 million and \$95 million a year. But he insists drastic surgery is necessary to stop the economic haemorrhage. Philadelphia lost more than 4 per cent of its population in the 1990s. Jobs were reduced by 6 per cent. Taxes were among the highest in the US. But Saidel's plan "will expand the tax base

and increase tax revenues in the long term".

In Saidel's view, although the tax shift does involve risk, the worst case scenario could be handled. Supporting him is Joseph Vignola, head of the state agency that monitors the city's budget. He supports the call for a cut in business privilege taxes, and believes that renewing schools is crucial to Philadelphia's future.

Robert P Inman, a Wharton professor and an economic advisor to the mayor, has entered the fray. Inman was a co-editor of a 1977 tome on economics containing an essay (*The City as a Firm*) by William Vickrey, who was awarded the Nobel prize for economics in 1996. Vickrey showed that efficient decision-making would enable a city to generate enough rental income to pay for public services. Inman believes a well-administered land tax could be valuable if land was assessed for its "highest and best use", but he warns the Saidel plan "will open up a can of worms and I'm sceptical that it can be pulled off".

Saidel's package of measures has been structured so the LVT can stand alone and he is warning Philadelphians: "If we do nothing, then we go out of business." Backing him is the Greater Philadelphia Association of Realtors, whose president, Ann Rubin, says the land tax would fit the mayor's plan to eliminate blight by applying pressure on speculators to develop their sites. Securing the support from the real estate lobby is important. In other Pennsylvania cities it has fought to oppose proposals to restructure the property tax in favour of a heavier burden on land.

For the past two decades, Pennsylvania's land reformers have successfully persuaded a string of towns to adopt the two-rate tax, but this success suffered a serious defeat last year when Pittsburgh abandoned the two-rate tax it first adopted in 1913.

The Henry George Foundation of America recently re-located to Philadelphia in order to lend its weight to the push, but *Philadelphia Inquirer* journalist Andrew Cassel warns: "Putting a land value tax into practice in Philadelphia would be far from easy, particularly given the degree to which city politics and the real estate industry are often joined at the hip here. In particular, a land value tax could threaten the system of special favour abatements and tax-free zones that some local politicians rely on to make themselves indispensable."

Saidel wants to use Philadelphia as a test-bed for Georgist theory. He points to the enigma of a city blighted by boarded up buildings. These testify to the disincentives of taxes that penalise people who wish to invest their savings in their communities.