

# The land value tax could be a win-win for the city, but getting it passed won't be easy

by senior writer Eils Lotozo  
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To its proponents, it's a magic bullet for struggling towns and cities—a simple shift in tax policy that could lower property taxes for middle-class homeowners and turn inner city neighborhoods into natural empowerment zones. It could motivate center city developers to convert vacant office buildings into residential units and build more parking garages. It could limit the profitability of destructive real estate speculation (a la blightmeister Sam Rappaport) and slow the growth of suburban sprawl.

It's called the land value tax, and eight Nobel Prize-winning economists have endorsed it. In Pennsylvania, 16 cities have already adopted it and across the nation and the world, 700 locales, including two eastern European nations and the Big Island of Hawaii, have turned to it. Councilman Jimmy Tayoun tried to get it passed here in 1982, and Mayor Wilson Goode made a stab at it in 1988. But now the land value tax is getting another hearing in Philadelphia, largely because of a group called the Pennsylvania Fair Tax Coalition.

The concept has been kicking around since the nineteenth century, when economic theorist Henry George first declared land speculation one of society's greatest evils. Today, the Georgists (as his followers are known) say the way to deal with that evil is to place the burden of taxes on the value of land, not property.

In Philadelphia, that message hasn't been heeded. Property taxes are 8.263 percent of the assessed value of land and buildings. This kind of system, say the Georgists, rewards speculators like Rappaport, who either allow buildings to deteriorate and then ask for their property assessment to be lowered, or knock buildings down and bank the land, waiting for some future jackpot deal. Meanwhile, the city gets more blight and little in tax revenue.

Shifting the bulk of taxes to land—whose value, proponents point out, is created by its urban location and publicly funded infrastructure, would be fundamentally fair and make speculation a lot less profitable. (In turn, it would force more urban land onto the market, which would bring down prices and make it cheaper to build.)

Since the higher the value of the building, the higher the taxes, most homeowners (especially row house dwellers, who own little land) are penalized by the current system. So are responsible apartment and office building owners who keep their structures in good condition.

"Why should we penalize people for making improvements to their properties?" says Mike Curtis, extension director of Philadelphia's Henry George School of Social Science. "Don't we want more housing? Why should we punish people for building?"

At a recent forum sponsored by the Pennsylvania Fair Tax Coalition, one speaker after another sang the praises of the land value tax.

Mayor Anthony Sposey of Washington, Pa., a city of 15,000 southwest of Pittsburgh, told how his administration had brought in what's known as a two-tiered tax, which shifted a much larger percentage of property taxes onto land values. Nearly 80 percent of residents in the town's less affluent neighborhoods saw their taxes go down. The owners of a large office building watched its tax bill drop so much they were motivated to construct a large addition.

An official from Harrisburg described the land value tax as a crucial tool in that city's renaissance. Considered the nation's second most distressed city 15 years ago, Harrisburg, which also relies on a two-tier tax that falls more heavily on land, has more than 12,500 building permits that were issued from 1982 to 1988, and the value of taxable real estate has shot from \$212 million to \$883 million during that same period. Once plagued by more than 4,200 vacant structures,

Harrisburg now has fewer than 500. "The land tax won't work in a vacuum," cautioned Harrisburg business administrator Napoleon Saunders. "You have to have someone in a leadership position who understands it and you have to have other economic development programs in place."

Another who offered a glimpse of just how challenging a task shifting to a land tax in Philadelphia could be was Joshua Vincent, director of the Center for the Study of Economics. Vincent recounted the fierce recall battle that ensued in Allentown after citizens voted in a city Home Rule Charter that included a change in property taxes to a two-tier system that would, gradually over five years, shift the burden to land values.

According to Vincent, the effort to put the land tax back on the ballot and defeat it was driven largely by used-car dealers with large lots and shareholders of the Allentown Fair Grounds, an immensely valuable 42-acre site in the middle of the city that had always enjoyed a sweetheart property tax deal. With the help of money from statewide car dealer associations, the opponents bought TV and radio time and used billboards and ads to paint Henry George as a "socialist" and warned (erroneously) that churches would have to pay the land tax. But the pro-land tax forces, led by a former city councilman who had been pushing for it for 20 years, mounted an intense grassroots education effort—and the tax passed again by a comfortable margin.

If the battle over the land tax was fierce in Allentown—where 96 percent of that city's row house owners will save on property taxes with the new system—it's likely to be an all-out war here. For starters, Philadelphia's Finance Director Ben Hayllar is a vociferous critic of the concept.

A former Pittsburgh city official (a town which taxes land six times more than buildings although the school district and the county levy a flat property tax), Hayllar insists the land tax isn't

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all its proponents make it out to be. He instead credits Harrisburg's success to an outstanding mayor and a strong economy, and cites the case of McKeesport, Pennsylvania, which changed its tax structure a dozen years ago and is still plagued by abandonment.

Pittsburgh land-tax backers point out that McKeesport is reeling from the shutdown of its major employer, a massive steel plant, and they say a study Hayllar conducted that seemed to show that poor Pittsburgh neighborhoods would pay more with a bigger shift to the land tax was flawed. "In most of the wards where he said homeowners would pay more, they would pay less," says Dan Sullivan, the director of Productive Taxpayers, who did his own counter study.

Despite Hayllar's disdain for the land tax, Philadelphia is already embracing one of its basic principles

— though in a highly selective way. Under a new program, anyone who converts one of Center City's many vacant office buildings into residential units is eligible for a 10-year tax abatement on the value of improvements to the building. In other words, they won't be taxed on what they produce, just like the Georgists recommend. One developer who is rehabbing a long vacant office tower in the 1500 block of Chestnut Street said recently of the abatement, "Without it we could not do the deal."

Still, if a serious proposal to spread that kind of development incentive around more equitably should actually pick up steam here, expect a chorus of objections and a well-funded derailment effort from those who would be likely to pay more—owners of abandoned industrial sites, surface parking lot owners, owners of big box stores with acres of parking lots, owners of mothballed center city office buildings,

big time speculators clinging to dreams of riverboat gambling and sitting on prime riverfront property and small-time speculators holding abandoned houses and lots in the city's neighborhoods.

"We're talking about redistributing the wealth," acknowledges Vincent. "And that's a really dangerous thing. We're saying, some people who are tying up a valuable piece of land for their own gain, make them pay their share."

Yet Vincent, who has consulted in numerous cities creating land-based tax systems, is upbeat about its possibilities here. "It's perfect politically for Philadelphia, because enough people would save on their property taxes. And I believe it could be a pathway for getting rid of the wage tax. That's as bad as toxic waste dumps. Philadelphia is one of eight American cities that have higher wage and sales tax than property taxes—and all of them are in bad shape."

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