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EDITORIAL

(The following article was run as a syndicated column, entitled "The Northern Perspective" and appeared in over 300 newspapers last month. It is being excerpted with the permission of the author).

HOW TO RAISE TAXES AND STIMULATE ECONOMIC GROWTH by Michael J. McManus

PITTSBURGH—Pennsylvania cities are proving that there is a way to raise taxes to promote—rather than discourage—economic development. Conventional wisdom holds that the higher property taxes go, the more they discourage development. In the case of Pittsburgh, property taxes on land doubled to offset cuts of federal aid, while taxes on buildings remained constant. The result was that permits for new construction jumped from \$89 million in 1978 to \$108 million in 1979, and in 1980, after Pittsburgh jacked up its tax on land again to a nationally unprecedented level of five times the tax rate, permits soared to over \$297 million!

Somewhere, the spirit of Henry George must be smiling. A century ago, when he ran for mayor of New York, George advocated putting all of the property tax on land, rather than on buildings. He argued that the typical U.S. practice of raising 80% of property taxes on buildings discouraged additional improvements and rewarded deterioration and speculation.

Fans of Henry George, such as Prof. Steven Cord at Indiana Univ. of Pennsylvania, convinced Pittsburgh to experiment. So construction is underway there on three office towers, all over 40 stories, increasing downtown space by 25%.

A higher tax on land helps a smaller, more typical community, as in the case of McKeesport, PA. This city, in a steel-producing valley near Pittsburgh, had lost almost half of its urban population by 1979. In that year, its property tax rate was 2.4 % of assessed value on both land and buildings. In 1980, it lowered its tax rate on buildings to 2% and raised the tax on land to 9%, and \$3.6 million worth of building permits were issued in 1980 over the \$1.9 million in 1979 as a result.

Other cities such as Harrisburg and New Castle, PA are considering the McKeesport approach, not so much for the dramatic results, but to move some burden from small homeowners to the owners of large or more wealthy landowners.