

c. Growth management in practice

Planners, asked for their best weapon against sprawl, point to growth management. Einsweiler defines this as a way "to integrate all government actions that influence development into a single management system . . . zoning, subdivision regulations, capital improvement programs, tax policy, fees, environmental permits and the like."⁶⁸

Much that passes for growth management is no more than growth limitation, closing off, as R. Leo Penne of the National League of Cities, observes, residential possibilities for minorities and the poor. "To what extent," he asks, "can a community keep the good life to itself?"⁶⁹

Mandelker reports that local growth plans which exclude all but the affluent are under increased legal attack.⁷⁰

Initial court cases upheld slow-growth actions in Petaluma, California, Ramapo, New York, and elsewhere.⁷¹ More recently, courts have taken a tougher look. *Beck v. Town of Raymond* in 1978 concerned an ordinance limiting the number of building permits a landowner could obtain each year in this New Hampshire town.

The state supreme court insisted growth controls must be "reasonable and nondiscriminatory" and "must not be imposed simply to exclude outsiders. . . especially outsiders of any disadvantaged social or economic group."⁷² Courts similarly cracked down in 1979 on growth limitation efforts in Boca Raton, Florida, and in New Jersey (Voorhees Township and Wayne Township).⁷³ Jurists are sending planners and local officials back to their drawing boards with admonitions to avoid economic segregation, excessive restriction and exclusion contrary to the general welfare.

Another side effect of some growth management strategies has been not to contain growth but to push it farther out. Mandelker explains:

Many localities use their growth management programs to achieve very low land use densities that aggravate rather than reduce the urban sprawl problem . . . forcing new development to rural areas, away from established urban centers.⁷⁴

Contrary to growth management theory, which is laudable, much of it, in practice, deals with problems piecemeal. Comprehensive, integrated strategies that are legally sound, technically correct and beneficial to the community at large are still some distance down the pike in most states.

Recommendation 24. State legislatures should prohibit communities from using (a) exclusionary practices such as growth caps that directly bar entry of new residents, and (b) "gold-plated" subdivision standards, large-lot zoning or other devices that price out all but the affluent.

3. SPECULATION AND PROPERTY TAXATION: HOW A MAJOR CAUSE OF SPRAWL CAN BE TURNED AROUND

The spread of urban growth into suburbia and exurbia, consuming open space and farmland, is only one aspect of sprawl. The other side of the story, as described in Chapter I-C, is the large inventory of

⁶⁸ *Ibid.*, p. 74.

⁶⁹ *Ibid.*, p. 237.

⁷⁰ *Ibid.*, p. 231.

⁷¹ *Ibid.*, p. 237.

⁷² *Ibid.*, pp. 237-8.

⁷³ *Ibid.*, pp. 238-9.

⁷⁴ *Ibid.*, p. 227.

vacant in-city land. Private owners are not putting these sites to use because they find it more profitable not to do so. The profits from passively waiting for land values to rise appear higher and more certain than the yields from active production on the sites.

A strong case has been made that the property tax, as it currently operates, is one of the major reasons that land speculation is rampant in cities. Good evidence suggests that proper adjustments in this tax can help suppress speculation, loosening its grip on tightly-held idle lands that now push development outward.

Real estate taxes in most U.S. jurisdictions favor speculative land holders over builders or land users. In Alabama the drastically low property tax (effective rates below 1 percent) contributes to (1) large land holdings, so that only five corporations own over half the undeveloped land in Jefferson County surrounding Birmingham; (2) absentee ownership; and (3) underdevelopment—the nation's largest iron ore reserves are lying fallow and iron workers are laid off.⁷⁶

Economic growth in and around Birmingham is suppressed by Alabama's too-low level of property taxation, former Mayor David Vann says. The state's property taxes, lowest in the nation, make it "very attractive to buy large tracts of land and just hold it. . . . Low tax rates turn parts of Alabama into Central America," meaning a feudal system of landlordism rather than an enterprise system.⁷⁷

Maury Seldin, Professor of Real Estate and Urban Development at American University, summarizes the perverse land use incentives embodied in the property tax as it is currently legislated and administered:

We send the wrong signals. We want to up-grade the close-in stock of housing, yet we raise the property tax bill when the owner improves the dwelling. We want to get skipped-over land built upon, yet we keep the property taxes low until it actually gets built upon.⁷⁷

In Oregon, McCall says speculators wait to make a killing from higher land prices instead of putting developable land to use because of too-low property tax rates and the failure to coordinate property tax laws with land use laws.⁷⁸

Slums, surface parking lots and blighted commercial buildings are typical vehicles for urban land speculation. Their owners put a bare minimum into improvements while waiting for appreciation of the land value. While they wait, the rents pay the taxes and other costs—which is why such properties are often called "taxpayers" in real estate circles.

In a well-ordered land market, the price of land serves to channel appropriate uses to each parcel. Land speculation interrupts this linkage and distorts the market. Homes and buildings that cannot gain access to close-in sites, because speculators will not release sites at feasible prices, are driven out of cities and out of older suburbs, too.

Local officials and planners are often disappointed when new public facilities—convention centers, subway stops, bridges, for examples—fail to revive decaying neighborhoods as anticipated. Usually they do spur initial development as they increase the productivity of adjacent sites. But investors who capitalize on that new potential find their property taxes increased proportionately to their investment—and not

⁷⁶ *Ibid.*, pp. 195-203.

⁷⁷ *Ibid.*, p. 197.

⁷⁷ *Ibid.*, p. 330.

⁷⁸ *Ibid.*, p. 9.

only for the first year, but indefinitely. Conversely, owners who sit idly on the land enjoy annual increases in value that are taxed relatively lightly. As such effortless gains become apparent, the bulk of owners in the area are infected by speculation fever, and they price land out of reach of would-be producers. The upside down reward system of the property tax takes the starch out of the renewal efforts.

a. *The tax is both too high and too low*

Vann cites a personal example of how property taxes that are too low affect land use:

In Florida, on a piece of land I own, as long as I was paying \$1 an acre, I never saw it. When they raised it and I was all of a sudden paying five or six times that much, and later ten times that much, I not only went down there, but I hired foresters and ended up making a considerable profit on the sale of pine timber, which I never would have made except for the fact that they raised my taxes, and, therefore, induced me to look at the advantage of the land.⁷⁹

A high tax on improvements further encourages holding land out of use because it adds to the risks and costs of shifting to productive use. Gaffney provides evidence that private renewal in Milwaukee is retarded by excessive property taxes on buildings.⁸⁰ Supporting this assertion, Mandelker says St. Louis began to witness extensive renewal once taxes on new buildings were abated.⁸¹ In New Hampshire, excessive land prices, housing costs, farm land losses, and urban distress stem from property taxes that are well above the national average on a per capita basis (see Table 2).

TABLE 2.—STATE-LOCAL USE OF THE PROPERTY TAX, 1976-77

	All State and local property tax revenues per capita	Property taxes as a percentage of all State and local tax revenues
United States.....	\$289	36
Northeast:		
Connecticut.....	413	47
Maine.....	238	36
Massachusetts.....	491	49
New Hampshire.....	382	62
New Jersey.....	468	50
New York.....	488	36
Pennsylvania.....	201	26
Vermont.....	330	41
South:		
Alabama.....	60	11
Arkansas.....	110	33
Delaware.....	134	16
District of Columbia.....	240	22
Florida.....	211	34
Georgia.....	190	31
Kentucky.....	113	19
Louisiana.....	99	16
Maryland.....	265	30
North Carolina.....	140	24
Oklahoma.....	135	22
Mississippi.....	115	22
South Carolina.....	128	21
Tennessee.....	142	21
Texas.....	233	31
Virginia.....	194	21
West Virginia.....	112	18

⁷⁹ *Ibid.*, p. 197.

⁸⁰ *Ibid.*, p. 241.

⁸¹ *Ibid.*, pp. 226-7.

TABLE 2.—STATE-LOCAL USE OF THE PROPERTY TAX, 1976-77—Continued

	All State and local property tax revenues per capita	Property taxes as a percentage of all State and local tax revenues
North Central:		
Illinois.....	\$243	37
Indiana.....	318	37
Iowa.....	291	39
Kansas.....	299	41
Michigan.....	332	38
Minnesota.....	271	30
Missouri.....	193	31
Nebraska.....	357	46
North Dakota.....	224	33
Ohio.....	249	39
South Dakota.....	307	49
Wisconsin.....	299	34
West:		
Alaska.....	1,318	57
Arizona.....	317	38
California.....	458	42
Colorado.....	314	39
Hawaii.....	167	17
Idaho.....	205	32
Montana.....	362	47
Nevada.....	286	32
New Mexico.....	113	18
Oregon.....	353	45
Utah.....	191	29
Washington.....	255	31
Wyoming.....	402	41

SOURCE.—Computed from *Governmental Finances in 1976-77*, "Per Capita Amounts of Financial Items for State and Local Governments, by State," Governments Division, Bureau of the Census, cited in Compact Cities hearings, p. 206.

Gaffney describes the process of shifting from existing low-intensity to high-intensity land usage as an on-going economic battle. He defines the *renewal gap* as the difference between the value of the land and buildings in their present use (defender value) and the value of the land and future improvements as its potential use (challenger value.) Renewal takes place when the renewal gap is eliminated; that is, when the challenger value of the parcel exceeds its defender value.⁸² The property tax widens the renewal gap, slowing down or even halting the revitalization of urban centers.

How can the property tax be both too low and too high? It is because the property tax is really two taxes combined as one, and the two taxes have strong but contradictory effects. First, the property tax is a levy on land. Second, it is a levy on man-made improvements on the land—homes, office buildings, factories shops, barns, and such. The land tax is too low, the building tax, too high.

Because the improvement tax rises with the value of a building, land owners are inclined to build less or not at all. The magnitude of this discouragement effect is obscured because the tax is paid over the life of a building rather than in a lump sum after construction. Sales taxes are paid on an item only once, not year after year like property taxes. Income taxes are paid only on net earnings or profits, while the property tax is levied against the full worth. The higher the tax on buildings, the greater the disincentive to construction and maintenance. Deteriorated buildings receive tax advantages over well-maintained neighbors.

The land tax, on the other hand, tends to stimulate more appropriate investment on land as the tax increases. Since the tax does not change the productivity of the site or the quantity of available land,

⁸² Ibid., p. 241.

the owner usually cannot shift the land tax to tenants or customers. If the land tax is too low, as in Alabama, owners have little pressure to make the best possible use of their sites.⁸³

It is now clear that the property tax is more appropriately viewed (with apologies to Dickens) as the best of taxes and the worst of taxes. The tax on land values is constructive and equitable, but its other half, the tax on improvements, is ammunition for killing the goose that lays the golden eggs. Most localities have the worst of both worlds—relatively low land taxes combined with high improvement taxes.

To get optimum social results from the property tax while retaining its essential revenue-producing function requires application of combinations of the following options: (1) Putting assessments in order, (2) providing temporary abatements to encourage rehabilitation or new construction, (3) taxing buildings less and land more, and (4) adopting tax base sharing.

b. Putting assessments in order

In most states, land and improvements are both supposed to be assessed on the same basis (full market value or some specific percentage thereof), then added together, and finally taxed at the same rate. Few laws or constitutional requirements are more frequently violated. Study after study shows that it is commonplace to assess vacant land and deteriorated property at less than their true market value.⁸⁴ This is an invitation to poor land use.

The pervasiveness of tax discrimination against intensive land use is evident in Table 3. Throughout the United States, commercial and industrial properties (land and improvements together) are assessed at rates 32 percent higher than vacant, platted lots. Therefore, a business person who puts a building on his vacant urban lot will be taxed not only on the new investment; he will also experience a tax rate increase of 32 percent, on average. In Alabama, commercial and industrial property are assessed 135 percent higher than vacant lots; in Pennsylvania, 84 percent higher; in West Virginia, 79 percent higher; and in Iowa, 212 percent higher. In California and Vermont, however, commercial properties are assessed only 4 percent and 19 percent higher than vacant lots, respectively.

TABLE 3.—ASSESSED VALUE AS A PERCENTAGE OF SALES PRICE BY TYPE OF PROPERTY IN SELECTED STATES, 1976

	All types	All residential	Single-family residential	Multi-family residential	Acreage	Vacant platted lots	Commercial and industrial
United States ¹	31.0	30.8	30.7	32.2	22.3	27.0	35.7
Alabama ¹	10.8	10.7	10.6	12.2	5.3	7.1	16.7
California ¹	17.2	17.7	17.7	17.6	13.1	16.4	17.1
Iowa ¹	70.0	71.8	71.8	77.5	46.5	26.4	82.4
New York ¹	27.2	25.7	23.7	32.3	29.9	27.4	35.2
New Hampshire ¹	58.9	61.4	61.1	65.4	42.4	42.0	58.2
Pennsylvania ¹	17.9	17.2	16.8	23.4	12.2	15.1	27.8
Vermont ¹	31.8	31.9	32.2	29.2	30.6	25.3	31.3
West Virginia ¹	25.4	25.4	24.4	33.5	15.7	21.9	39.3
Wisconsin ¹	49.3	50.4	44.5	62.1	41.3	33.4	64.1
South Carolina ^{1,2}	3.3	3.2	3.2	4.5	1.9	3.4	4.8

¹ Statewide, size-weighted average.

² Manufacturing properties assessed by the State, rather than the locality.

Source: 1977 Census of Government, Vol. 2, Taxable Property Values and Assessment/Sales Price Ratios, U.S. Department of Commerce, Bureau of the Census.

⁸³ Ibid., p. 197.

⁸⁴ Advisory Commission on Intergovernmental Relations, *The Role of the States in Strengthening the Property Tax*, Washington, D.C., 1963; CED (Committee for Economic Development), *Modernizing Local Government*, Washington, D.C., 1966; National Commission on Urban Problems, *Building the American City*, Washington, D.C., 1969.

In 1976 only Alabama, of the 10 states shown in Table 2, legally permitted these differential assessments. Nationally, only eight states had legislated assessment differentials by class of property. Arbitrary assessment administration accounts for the discriminatory tax rates in the rest of the states.

Laws or constitutions in most states require uniform assessments based on market value. Hence the general remedy for the widespread practice of underassessing land and overassessing structures is simple: obey the law.

Southfield started obeying Michigan's assessment law in 1963. This promptly stimulated compact growth, with more new housing and building construction than in all of Detroit, 30 times larger than Southfield from which it was separated by a street and by outmoded assessment practices.⁵⁵

Washington, D.C. upgraded its assessments in the 1960's and found that, in the aggregate, land accounts for about 45 percent of the value of all taxable properties.⁵⁶ This suggests how far off the mark are assessors whose tax rolls show land in their cities as low as 5 to 10 percent of total property values.

The federal government has a direct interest in assessments, beyond land use impacts, because they affect depreciation deductions from income taxes. Depreciation is the way owners recoup their investments in income-producing buildings. The IRS does not allow depreciation of land costs, but—this is where the trouble comes in—it lets owners rely on local assessments to figure their basis for depreciating buildings.

Consider a \$100,000 tenement property. The assessor allocates \$80,000 to the building when, not untypically for junky structure s, 90 percent of the value is in the site. The owner then deducts \$70,000 (\$80,000 assessed value less \$10,000 true value) in "depreciating" assets which, in reality, are appreciating land values. This loophole, according to Gaffney, costs the Treasury billions annually, a strong reason for federally mandated assessment reform.⁵⁷

To their discredit, some state legislatures deal with illegal assessments and related irregularities, not by correcting them but by legalizing them. Powerful landed interests in Alabama frustrated court-ordered assessment improvements throughout the 1970's, ex-Mayor Vann asserts, by creating "a jumble of computation that no one can yet untangle."⁵⁸

An aroused citizenry can make a difference. Local government pushed through assessment reform in Salem, New Hampshire in the 1950's when townspeople saw property tax rates "headed for the roof." Selectman Bill Brown says at that time ranch land and many buildings had "never been taxed." Assessing all properties equitably gave Salem a stable tax rate and "enough tax base to meet rising costs" for several decades.⁵⁹

When state legislatures depart from uniformity by enacting classified taxes—different legal tax rates or assessment ratios for various categories of land users—this further distorts land markets and

⁵⁵ Compact Cities hearings, p. 245. See also Lyle C. Bryant, "Rosslyn: A Case Study in Urban Renewal," Schalkenbach, New York, 1967.

⁵⁶ Department of Finance and Revenue, Washington, D.C.

⁵⁷ Walter Rybeck, moderator, "Property Taxation, Housing and Urban Growth . . . a Symposium," Urban Institute, Washington, D.C., 1970, pp. 54-5.

⁵⁸ Compact Cities hearings, pp. 212-215.

⁵⁹ Ibid., p. 172.

stirs perennial contests among pressure groups seeking favorable treatment. Farmland preferential assessments are a special case of property tax manipulation that rarely helps, and often hurts, the supposed beneficiaries.

Initiated as a farmland protection mechanism in Maryland in the 1950's, various forms of preferential farmland assessments have spread rapidly to some 40 states. Sprawl brings higher land values and higher property taxes to farmers in its path. On the theory that lower taxes will enable farmers to stay in business, their acreage is assessed according to its supposed agriculture value instead of its much higher market value.

This device (known in New Hampshire as current use assessment) has been counterproductive, forcing farmers from prime lands to "second-best or even marginal land," according to Noyes:

The effects of current use assessment are not to relieve the working farmer's real problem, but to deepen it . . . By serving to diminish the supply of land to meet all our economic needs . . . it drives land prices even higher.⁸⁰

Farmlands on the edge of towns that could relieve desperate housing shortages are held in cold storage, while large productive farms that go on sale are converted to sprawled commercial development because working farmers can no longer meet the prices.

Chairman Eckhardt of the Oversight and Investigations Subcommittee of the House Interstate and Foreign Commerce Committee unsuccessfully urged Texas to modify its farmland preferences so the tax benefit would go only to persons farming their own land rather than to landholders waiting "to make a killing" on the ultimate sale.⁸¹

Some states have rollback provisions, so that, in case of sale, a portion of the forgiven taxes is returned to the taxing jurisdiction.

Studies indicate that most preferential assessment programs do not materially protect farmland.⁸² Short-term benefits to some farmers are "more than counterbalanced by the disadvantages they entail in creating special tax shelters," concludes a study for the Council on Environmental Quality.⁸³ Mandelker urges that such programs be amended or incorporated into larger regulatory systems.⁸⁴ McCall insists they are "relatively puny" unless tied in with enforced agricultural zones.⁸⁵

Sound assessments are the foundation of property tax reform. This means (1) assessments for all properties based on market value; (2) land and buildings valued separately; (3) annual or frequent reassessments to reflect changing values; (4) assessments expressed at full value (fractional assessments hide errors and confuse taxpayers); and (5) ample provision for taxpayer review.⁸⁶ These goals are attainable by states and localities that insist on nonpolitical assessors and upgraded professional standards.

⁸⁰ Ibid., pp. 185-95.

⁸¹ Ibid., p. 366.

⁸² Robert J. Gloudeanus, *Use-Value Farm Assessment: Theory, Practice and Impact*, International Association of Assessing Officers, Chicago, 1974.

⁸³ "Untaxing Open Space," Regional Science Research Institute, Philadelphia, 1976.

⁸⁴ Compact Cities hearings, p. 234.

⁸⁵ Ibid., p. 17.

⁸⁶ *Improving Real Property Assessment*, International Association of Assessing Officers, Chicago, 1978.

c. *Temporary tax abatements*

As a quick way of stimulating new construction or rehabilitation, property tax abatement programs have become popular.

Daniel R. Mandelker credits tax abatement programs in Missouri with helping to generate millions of dollars worth of downtown redevelopment in St. Louis over the past 20 years.⁹⁷

In one of the earliest programs of this sort, New York City in the 1920's ended a virtual halt in housing construction with a 10-year property tax exemption. Construction under this program mushroomed to nearly a billion dollars worth of building in five years.⁹⁸ Again in the 1970's, New York City stimulated development with property tax abatements.

Boston, starting in the 1960's, attracted many mammoth buildings to its sagging downtown with promises they would be tax-free for extended periods. Birmingham attracted "at least ten major developments" in two years with a 15-year freeze on predevelopment property tax levels.⁹⁹

Experiences with scattered abatement programs for rehabilitation and new housing have been mixed. As expected, they stimulate highest participation rates and most investments where tax rates are high and the abatement benefits are most liberal.¹⁰⁰

A number of recent writers contend that property taxes have little impact on development. If that were so, lifting the taxes would not have changed the skyline in so many cities. Legitimate questions, however, have been raised and should be addressed:

Abatements apply only to a select few. Other property owners continue to carry excess burdens. Old buildings must compete with abated ones on unequal terms.

Abatements exist for only a limited period. The offending tax burden is lifted long enough to encourage building and renovation, but after this the disincentive to repair and renew returns to plague development.

Much abatement rhetoric is aimed at seducing investment in Act One so buildings may be taxed to the hilt in Act Two. But investors are sophisticated enough to do one of two things—keep their eyes on the final act, shunning inducements; or build and operate in a way to capture all possible short-term profits in Act One, selling out and leaving accumulated problems for Act Two. Neither will serve cities well.

Until states and localities achieve comprehensive property tax reform, abatements can reduce some obstacles to immediate development objectives. But equity and land use considerations call for making the relief applicable to all property owners within the jurisdiction. This approach is discussed next.

d. *Taxing buildings less and land more*

Pittsburgh's uptaxing of land and downtaxing of buildings has been politically popular and economically effective. The late Mayor David Lawrence credited lower tax rates on buildings as a prime incentive in the city's privately-financed Golden Triangle renewal after World

⁹⁷ Compact Cities hearings, p. 226.

⁹⁸ How Tax Exemption Broke the Housing Deadlock in New York City, Citizens' Planning and Housing Council, New York, 1960.

⁹⁹ Compact Cities hearings, p. 204.

¹⁰⁰ George A. Reigeluth, et al., Property Tax Relief for Housing Rehabilitation, Urban Institute, Washington, D.C., 1979.

War II.¹⁰¹ However, when the national urban renewal program tried to copy the results, it did not insist on a local tax system that made renewal more profitable than blight to individual owners.

Pittsburgh won state enabling legislation to tax land up to twice the rate on buildings in 1914, and in small steps achieved the two-to-one ratio by 1925. Land and buildings are assessed separately, the two tax rates applied, and the total bill calculated for each parcel. The level of tax rates continues to be dictated by local revenue needs.

The effect of the differential tax, however, gradually weakened. The share of total taxes by overlapping school and county governments was expanding, but those jurisdictions were not using differential rates. This reduced the actual differential for average Pittsburgh homeowners to about one-fourth higher on land.¹⁰²

A big leap forward came in 1978 when Pittsburgh's budget was short. While some urged a higher wage tax, Councilman William Coyne led a successful drive for a land tax four times higher than on buildings. This cost average homeowners \$84 more a year—compared with \$225 for average wage earners if the income tax had raised the same revenue. One reason for these savings is that land taxes fall heavily on absentees who own much of a city's prime property.¹⁰³

Impressive Results and a Sequel: The higher land tax (98 mills or \$9.80 per \$1000 of assessed value, as compared with 24.75 mills on improvements) would, according to opponents, interfere with development, increase property abandonment, and create neighborhood instability.¹⁰⁴ To test these charges, a study of the first nine months of operation was undertaken.

The specific findings: building permits increased 32 percent over the same period of the previous year, demolitions were down 23 percent; the number of authorized new dwelling units rose 15 percent (while they fell 18 percent in the Pittsburgh SMSA); residential sales decreased 6 percent, but vacant lot sales increased 17 percent. "The evidence . . . offers no basis for anticipating the negative consequences predicted by the land tax opponents," concludes the study.¹⁰⁵ (See Table 4.)

Pittsburghers reacted to this success story a year later by raising the land tax once more to 125 mills. Favoring this move and opposing a higher wage tax was Nobel economist Herbert Simon of Carnegie-Mellon University: "Assuming that a tax increase is necessary, it is clearly preferable to impose the additional cost on land by increasing the land tax, rather than to increase the wage tax . . . First, it is the use and occupancy of property that create the need for the municipal services that appear as the largest items in the budget—fire and police protection, waste removal and public works. Second . . . the average increase in tax bills of city residents will be about twice as great with a wage tax increase.¹⁰⁶

A Mini-Movement in Pennsylvania. Three other cities are pursuing the differential taxation route.

Scranton, like Pittsburgh, for half a century had a modestly higher land tax. But in late 1979, the 1980 rates were set at 25.5 mills on

¹⁰¹ Compact Cities hearings, p. 161.

¹⁰² The state legislature extended the differential system to smaller cities in Act 299, 1981 General Assembly—carried by votes of 60 to 0 in the Senate and 184 to 11 in the House.

¹⁰³ Compact Cities hearings, p. 226.

¹⁰⁴ Ibid., p. 216.

¹⁰⁵ Ibid., pp. 219-22.

¹⁰⁶ Incentive Taxation, Winter Issue, Tujunga, California, 1980.

buildings, 96 mills on land. As in Pittsburgh, ability-to-pay arguments carried the day.¹⁰⁷

TABLE 4.—BUILDING PERMITS, RAZED STRUCTURES, AND PROPERTY SALES, CITY OF PITTSBURGH, 1978 AND 1979

	1978	1979	Percent change
1. Building permits—January through September:			
New buildings.....	201	158	-21.4
Extensions and additions.....	185	221	19.5
Alterations.....	2,282	3,136	37.4
Total.....	2,668	3,515	31.7
2. Razed structures—January through August:			
Razed by owner.....	146	78	-46.6
Razed under condemnation.....	266	216	-18.8
Razed by owner after condemnation proceedings.....	37	51	37.8
Total.....	499	345	-23.2
3. Property sales—January through August:			
Total residential.....	4,077	3,816	-6.4
Owner single unit.....	(2,786)	(2,656)	(-4.7)
Owner multiple units.....	(77)	(62)	(-19.5)
Rented single unit.....	(1,040)	(941)	(-9.5)
Rented less than 5 units.....	(69)	(95)	(37.7)
Rented greater than 4 units.....	(105)	(62)	(-31.0)
Commercial and industrial.....	290	304	4.8
Vacant lot.....	412	480	16.5
Total (including unknown).....	4,781	4,601	-3.8

From: "The Pittsburgh Property Tax." Center for Local Tax Research, 1979.

Sources: (1) "Monthly Reports", Bureau of Building Inspection, Department of Public Safety, City of Pittsburgh. (2) "Demolition Reports", Ibid., (3) City Information System, City of Pittsburgh.

Harrisburg in 1974 enacted its first differential rates, 17 mills on buildings, 23 on land—something then-Mayor Harold Swenson called "surprisingly easy to sell." In 1977 the rates were raised to 29 mills on land and dropped to 16 mills on buildings. For 1980 the building rate was kept the same, but the land rate was raised to 55 mills. Republicans and Democrats were unanimous in support of uptaxing land and holding building taxes low.¹⁰⁸

McKeesport became the next city to follow suit. From a flat rate of 24.5 mills, it decreased the rate on buildings to 20 mills and raised it on land to 90 mills. The city cut back wage taxes because of local unemployment and adopted higher land taxes in the hope they would spur construction and rehabilitation.¹⁰⁹

As to land use implications, the differential tax system, says Coyne, "promotes the highest and best use of urban land." Converting vacant and underutilized city lots to productive and revenue-producing sites is the way a city becomes "a natural energy conservator," he asserts.¹¹⁰

Entirely Exempting Buildings from Property Taxes. Grady Clay cites equity reasons for taxing land and eliminating building taxes altogether: it will "return to the taxpayers those values created by society at large." And he gives practical reasons: It will "encourage maximum building development, and discourage premature wrecking of existing buildings and the underuse of city land."¹¹¹

¹⁰⁷ Ibid.

¹⁰⁸ Incentive Taxation, Winter issue, Tujunga, California, 1980.

¹⁰⁹ Ibid.

¹¹⁰ Compact Cities hearings, p. 215.

¹¹¹ Ibid., pp. 136, 139, 165.

The shift from building to land taxes, says Gaffney, would "so change the arithmetic of property ownership that no subsidy at all should be needed to make it profitable for the owners of almost all parking lots and obsolete decaying or inadequate buildings . . . to replace them with new buildings." The stimulating effects will be greatest where land values are highest—in downtowns and other growth centers.¹¹²

Examples of completely untaxing buildings in the United States are confined to two atypical enclaves, Fairhope, Alabama and Arden, Delaware.¹¹³ Although the strongest proponent of land value taxation, Henry George, was born in Philadelphia and wrote *Progress and Poverty* in San Francisco, one must turn to the Far East to see the fullest applications.

In Taiwan, according to Archibald Woodruff, who is a member of the Land Reform Training Institute there, the states rely heavily on land taxation as one of their kit of tools for keeping cities out of precious farmland. Moreover, if the annual land taxes do not prod urban land into production, an additional capital gains tax is applied which becomes more severe the longer the land is vacant. The result is that "it is a pretty expensive game to play with underused land" in Taiwan cities.¹¹⁴ Farmland in Taiwan is taxed according to the potential productivity of the various grades of land.¹¹⁵

In New Zealand, some 80 percent of the local jurisdictions have adopted land value taxation with buildings completely exempt. The shift to this form of tax occurs only after a vote of property holders—suggesting that most landholders are eager to see productive activities rewarded and speculative gains suppressed.¹¹⁶

The majority of Australian localities also exempt buildings from property tax. The level of local taxation in most of Australia, however, is too low to be comparable to the American case. But in Sydney, the central business district has been subjected to a 5 percent land value tax for some years. The extent of private redevelopment has been dramatic, in terms of compactness as well as in hundreds of millions of dollars invested. In Melbourne, a city of the same size but with American-type property taxes, business development is more scattered, and more central sites remain dormant with obsolete buildings.¹¹⁷

The need in many U.S. states for either permissive legislation or constitutional amendments before land and building taxes can be treated differently will determine how rapidly states and localities can move to exempt housing and other buildings from property taxation. Yet this approach—land value taxation—appears to be one of the essential elements for containing sprawl and renewing cities.

e. Adopting tax base sharing

For no fault of the property tax as such, its use by balkanized and overlapping jurisdictions makes it an instrument of fiscal mercantilism. Competing jurisdictions try to attract residents and firms that add to the tax base and discourage those that will presumably be a drain on public services. This engenders tax enclaves, exclusionary practices, and discrimination in the provision of public services. Exploit-thy-

¹¹² *Ibid.*, p. 243.

¹¹³ Walter Rybeck, "Site Value Taxation," *Journal of Housing*, Vol. 34, No. 9, October 1977.

¹¹⁴ Compact Cities hearings, p. 426.

¹¹⁵ Shih-Ko Shen, "Land Taxation as Related to Land Reform in Taiwan," International Seminar on Land Reform in Developing Countries, Lincoln Foundation, Phoenix, 1966, pp. 334-38.

¹¹⁶ Rolland O'Reagan, Rating in New Zealand, Slade Ltd., Wellington, N.Z., 1972.

¹¹⁷ R. W. Archer, Site Value Taxation in Central Business District Redevelopment, Urban Land Institute, Washington, D.C., 1972.