

HOW ABOUT launching a program to help meet a serious national issue that would not only not require more federal dollars, but would actually reduce local taxes for most taxpayers?

The issue is the shortage of affordable housing. We know the problems:

- Homeowners face ever-higher property taxes. Home buyers, especially the young, face impossible housing prices.

- Apartment dwellers face constant rent increases. The numbers of homeless are swelling – and more and more of them are low-income working people and parents with small children.

Increasing land costs are the biggest single factor in the escalation of housing prices.

"Affordable Housing: A Missing Link," a report by our Center, reveals that over the past two decades building costs rose about 14% a year and housing-related labour costs rose 11 to 15% a year. Residential land values during the same period averaged annual increases of 48%.

Yearly land price increases have been less pronounced in some states like Ohio (23%) and Wisconsin (31%). In Colorado (64%), Florida (58%), New Jersey (55%), Texas (87%), and Utah (69%) land values seemingly exploded.

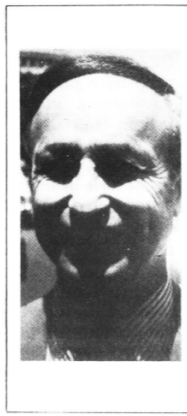
What to do about this land price boom? Let's look at property taxes. Right now, most localities are piling taxes on buildings and improvements and keeping them low on land values.

This is an upside-down approach. It keeps housing costs and apartment rentals soaring and enriches only land speculators.

It also punishes good landlords. Every time they build new rental units or make major improvements to existing buildings – a new roof, air conditioning, whatever – the assessor raises the valuation so the owner's taxes go up.

Eight cities are already benefiting from a right-side-up tax

THE US presidential candidates avoided using one word; taxation. George Bush won the election without raising fears that taxes would have to be raised to deal with the Federal deficit. WALT RYBECK (pictured right), reporting from Washington, says that Bush's opponent, Michael Dukakis, failed to use a trump card which would solve a major problem without raising taxes, and Mr Rybeck, Director of the Center for Public Dialogue, has some advice for the new incumbent of the White House.



Missing link that George Bush should supply

approach. Pittsburgh and Scranton pioneered it over half a century ago. Other Pennsylvania cities followed suit: Harrisburg, New Castle, McKeesport, Duquesne, Washington and Aliquippa.

They adopted a "two-rate system." It treats buildings and the land beneath the buildings as two distinct forms of property. These cities:

- Adopted LOWER tax rates on structures themselves. This gives tax relief to both owner-occupied and rental housing. It gives owners an incentive to make new improvements.

- Adopted HIGHER tax rates, simultaneously, on land values. This takes the profit out of holding idle land.

This makes sense. Look at Pittsburgh. Its tax rate on homes and other buildings is only one-sixth as high as on land.

One result is that average prices of new and existing homes in Pittsburgh are lower than in any other large city – \$51,300. Next lowest are Rochester and Salt Lake City – \$75,000 and \$78,400. Most are over \$100,000, led by San Francisco and Boston – \$183,000 and \$229,300.

As Pittsburgh kept widening the differential between land and building rates, *Fortune* reported that the value of new construction in the city rose 14% in 1979, 212% in 1980 almost 600% in 1981.

If this occurred only in Pittsburgh, you might question whether the tax system – or some other private or public action – was responsible. However, it stretches belief to call it a coincidence that similar results followed in the other two-rate taxing cities.

For example, in the two years

after Scranton began taxing buildings at only one-quarter the rate that it taxed land, it saw the value of private construction rise 22%. At the same time, in Wilkes-Barre, just a short distance down the Susquehanna River, private construction fell 44%.

McKeesport and New Castle saw construction take off after adoption of the two-rate tax. In comparable neighboring communities, building slumped.

New construction translates into bringing more jobs into central cities where they are most needed. Another bonus of both commercial and residential in-city development is that it reduces urban sprawl. This economizes on public funds that otherwise must be used for

over-extended sewer lines, roads, mass transit and other public facilities. It also saves precious farmland from premature urbanization.

Almost every homeowner in Harrisburg, PA, saw taxes drop when that city adopted the two-rate system. What's more, the eight cities using this system are racking up equal or higher revenues than before. Unlike Proposition 13, the reform does not drain local treasuries of funds for schools and other essential services.

The only losers are land speculators who find their taxes hiked when they just sit on their land without doing anything about it.



• Bill Coyne

'SWITCH OVER'

POWERFUL interest has been shown in the publication of a major report on the US housing crisis. *Affordable Housing: A Missing Link* was published by the Center for Public Dialogue, a Washington-based think-tank which identifies the reform of the property tax as vital if decent homes are to be provided for everyone.

After the report was published, experts endorsed the proposal for a switch in the tax burden from buildings to land. Roger Starr, a *New York Times* writer, declared: "Escalation of land values is one of the most serious causes of housing problems. High land prices reflect the under-taxation of land values which makes land a prime medium for speculation."

Father William Byron, an economist and president of Catholic University, said: "It's a scandal that homelessness is growing while boarded-up apartments stand idle."

The report reveals that, since the mid-Fifties, the cost of wages of construction workers, building costs and the consumer price index had increased about 300%. Residential land prices, however, had escalated by more than 2,000% by 1980!

Walt Rybeck, Director of the Center, told *Land and Liberty*: "There has been a very good response to the report. Lobby groups, for example those representing the homeless, and organisations such as the National Association of Realtors, showed interest,

and now we are pushing hard to reach the general public."

Information on the tax reform has been sought by a number of State governors. Strong interest has been shown by the Vermont Governor, whose commission on taxation is investigating reforms. "They are looking at the land tax as an alternative to the other options," reports Mr Rybeck.

But there is also interest on Capitol Hill, where Bill Coyne, a Democrat Representative from Pittsburgh, said: "The dual tax has given Pittsburgh the lowest housing costs of any large city. To stop blight and overpricing from eroding federal housing programs, cities and states should look to this pro-housing tax reform."

Officials from the Department of Housing and Urban Development have also asked the Center for information about the impact of land prices. Says Mr Rybeck: "In the past, they haven't done anything about the land problem: they have tried to work around it."

"Under the old approaches, pouring billions of dollars into the problem has been the 'solution' - which hasn't worked! The idea of a strategy for holding down land prices now excites them. It would enable the Federal government to stretch its housing subsidies further."