

# PITTSBURGH:

## *What Lessons?*

**P**ittsburgh, Pennsylvania — the flagship of two-rate property tax reform in the United States — has decided, for the present, to revert to a single property tax rate, in a revenue-neutral shift. The change came about when an Ohio firm, Sabre Systems, submitted a city-wide reassessment that promised increases to the tax bills of many homeowners. While there were shown to be significant problems in both the assessment data submitted and the means by which the change was sold to voters, inflammatory rhetoric won the day — at least for now. Next year, when tax rates come up once again for review, residents of Pittsburgh may realize what they have been missing.

On February 8th, the Pittsburgh Tribune-Review published an op-ed piece by Jake Haulk, Managing Director of the Allegheny Institute for Public Policy, praising the city's decision to revert to a single tax rate on land and buildings. Dan Sullivan submitted the following reply, which is a clear statement on the issues in contention.

Sabre's land value analysis was spectacularly wrong and superficial — and so are Jake Haulk's arguments for scrapping the land value tax. Haulk, who was instrumental in getting Sabre hired to do this botched job, pretends that land is particularly difficult to assess, when in fact land is far more easily

assessed than buildings. He is apparently unaware that it is standard assessment practice to assess land uniformly, without regard to the

Taxing land at very high rates and thereby holding rates on structures below what they would otherwise be raises [the] issue [of] why municipal taxes are necessary in the first place — to provide the funds to pay for the governmental services the structures and their occupants require. Clearly, undeveloped land requires little in the way of public services. Since good public policy dictates that the user of services be taxed to pay for the service, we argue that structures and occupants should bear their full share of the burden.

— Jake Haulk

improvements thereon, and then assess improvements separately, even where land is not taxed separately.

Many cities around the world tax land separately, including Hong Kong, which ranks first for economic freedom and is heralded by conservatives like Jake Haulk. Hong Kong gets more of its revenue from land values than any other country in the world. Beautiful, slumless, Sydney, Australia, which regaled us with the Olympic Games, has a land value tax as its only municipal tax. No building tax, no wage tax, no business taxes, nothing. Sydney has no problem as-

sessing land values. Pittsburgh itself has collected as much as 80% of its total revenue from land values alone, and did not have difficulty assessing land until the county took over the job and proceeded to ignore its responsibility.

There is not just a problem with "some of Sabre Systems' estimation of values" — Sabre botched fundamental distinctions between land and building values, embedding building values into land in many residential neighborhoods, and land values into buildings downtown. The value of land is simply what the land would be worth without the building on it, period. If the building adds to that value, then the additional value is building value, and if it does not add to the value, then the building should be assessed at \$1 to clarify that situation.

Haulk claims the land value tax is used to "artificially" stimulate development. Here he is completely out of step with the entire field of economics, from Milton Friedman, James Buchanan and Arthur Laffer, all the way down to early pioneers in free enterprise, like John Locke, Adam Smith and the French "laissez faire" physiocrats, all of whom advocated land value tax as neutral to the free market.

Haulk talks about government services as if they did not benefit vacant land, or as if vacant land did not increase the (*continued on page 8*)

As a Pittsburgh resident, I feel appalled at the attitude of the elected political leaders, in response to complaints from property owners, that some of the reassessments were too high, and that because the reassessments generally increased on land but not buildings, it would help to shift from a higher tax rate on land to an equal rate on land and buildings.

We need to indoctrinate the politicians and property owners with our Georgist view, that taxation rates should be minimal on buildings and that a high tax rate on land is not only a preferable source of revenue but is the only desirable form of taxation. That is a more fundamental need than accurate assessments. It will also help if we can convince people that assessments are more accurate and done more easily and cheaply on land than on buildings.

It will help if municipalities in Pennsylvania maintain or increase the differential tax rates, and if municipalities in Pennsylvania and other states adopt it. Pittsburgh can potentially be an isolated and increasingly obvious case of an unwise political decision.

— Dr. Herbert Barry

## Applied Georgism...

2) The reform was hijacked by peripheral land speculators in the 1920s, who sucked on the tax base of healthy cities to subsidize urban sprawl. With the Great Depression, landowners seized on the troubles to promote state sales and income taxes to replace property taxes.

3) With WW II and the explosion of income tax rates, rent-collectors with second-hand buildings learned to tax-depreciate land value by passing it off as building value. The IRS lacks any mechanism to control this, relying on the local assessors' land/building split to verify what the taxpayer alleges. Assessors, or those who appoint them, are locally elected. You see the plot.

Alas, most active Georgists went into denial about all that, choosing to ignore federal taxation as a hopeless case (and even, in some cases, to persecute and malign those who sought to rub their noses in it). So most of our resources went into uphill trench warfare at the local level, ignoring the powerful tectonic force of federal tax bias that made the hill so steep.

Time to wake up and smell the coffee. GJ

## Sullivan on Pittsburgh's Reassessment...

*(continued from page 6)* need for services. One only has to look at land around the airport to see how land benefits from government. One lot, purchased for \$87,000, sold for \$1.5 million when the airport expansion was announced. It resold for \$2.5 million when construction began, and again for \$4.6 million even before the new terminal had opened. It is one of many examples of how millions of dollars in windfalls to land followed government expenditures.

If one supposes there is no cost to the city for vacant lots, we must wonder whether the snow plow lifts its blade in front of a vacant property or goes back and scrapes twice if it is in front of a building that is particularly nice. Do fire departments not respond to fires in vacant lots, or respond slowly where the building values are low? On the contrary, anyone from the fire department (or the health department, the police department) will tell you without hesitation that their jobs are made far more difficult by vacant lots and properties with poor buildings.

The problem here is not just that Sabre got it wrong, but that Jim Roddey, Jake Haulk and others who are tied to this exercise in contract-patronage are circling the wagons to defend what was a fundamentally botched job, instead of demanding the kind of accountability we deserve from Sabre. As they do this, they attack a tax policy that has worked very well wherever it has been tried, so long as assessments were based on the land of *this* planet. GJ