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The Need for a Tax Increase on Land Value

The Pittsburgh City Council met on New Year's Eve, with some of its members in tuxedos, and voted to *double* tax rates on land, while holding tax rates on "improvements" or buildings constant.

In that single stroke, Pittsburgh has demonstrated one of the best possible answers to the property tax revolt touched off by the infamous Proposition 13 in California. How could a tax increase be an answer to pressure for lower taxes?

"The most harmful aspect of the property tax is its economic consequence," says Dr. Philip Finkelstein, the articulate director of the Center for Local Tax Research in New York. "It discourages investment, development, or improvement while it rewards deterioration, abandonment, sprawl and speculation.

"Pittsburgh pioneered with an answer for those problems a half century ago when it raised the tax on land values to double that of buildings. That experiment has worked so well in sparking Pittsburgh's Downtown revitalization that it is being extended and expanded in anticipation that it will promote even greater economic development where it is most acutely needed—at the urban core."

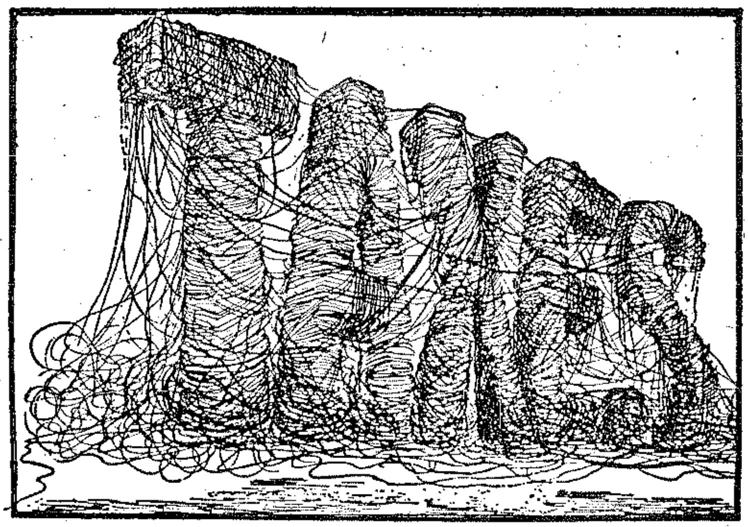
Finkelstein explains that "the property tax is, in reality, two taxes—one on land, and one on buildings; the latter is what hurts homeowners because they have most of their property value in buildings.

"The other part of the tax on land is supposed to be taxed at the same rate as on buildings but is not. Only a quarter to a fifth of the average tax bill is on land. This practice hurts everybody but the speculators. Higher taxes on the land portion would help the homeowner, the developer, the environment, the city, and the businessman."

Finkelstein says that if property taxes were to be collected on a more even-handed basis, perhaps 50 percent on land and 50 percent on buildings, that "four out of five homeowners would have a lower total tax bill. Furthermore, of those people who would be paying more (20 percent of the total), most would be those who either had very large parcels of property or those who had very minimal improvements on very valuable land."

How would higher land value or site value taxes help the developer?

"He has to pay a high price for land, and has to go far out to get



the land—too far out to get land at a price he wants to pay. This damages the environment by forcing excessive consumption of land that ought to be preserved while passing over urban areas that are the only location crying out for development.

"There is a direct relationship between rebuilding the city and preserving the countryside. A heavier tax on site values will do both. And a lower tax on improvements will give all our localities an economic shot in the arm."

Rarely have I heard such a powerful thesis for what is causing cities to decay and suburbs to sprawl. I had long planned to write a column on the subject. But I long wondered, if Mr. Finkelstein is right, why is the "truth" not more widely accepted?

To a certain extent, his ideas can be dismissed somewhat since they are being articulated by a professor (at Adelphi University), not a politician or a developer. And his work is funded by the Henry George Institute, which is located in a handsome, indeed, elegant, *tax-free* town house in Manhattan at Park and 68th streets.

Henry George (1839-97) was a writer and economist who nearly became mayor of New York though he had no party support. He is universally identified with the "single tax," a "sole tax on land alone." Many, therefore, dismissed him as an extremist who refused to recognize that a piece of ground with a skyscraper is worth more than an adjacent parcel with a parking lot. In George's view, the government had every right to tax land since public investments in streets, sewers and parks gave land its value.

But what a landowner did with his property was to risk investment in the hope of profit. Taxing the improvement, in Henry George's view, was thus to discourage investment. Planners and economists agree that even the average homeowner hesitates to add a bedroom or bathroom because his tax assessment will go up forever.

One city which picked up Henry George's belief in the taxing of land heavily is Pittsburgh. Beginning in 1914, the tax on land was gradually increased in steps so that by 1925, land was being taxed at twice the rate of improvements. Complicating matters, the assessment of land value was still low, however, with the result that only about a third of the total tax bill was on improvements.

Mayor David Lawrence, who convinced the titans of U.S. Steel, Gulf Oil, and other companies to put their corporate headquarters, not in Manhattan—as was the fashion after World War II—but in a privately financed, rebuilt downtown, the so-called Golden Triangle, had a key leverage point with the businessmen in pointing to the relatively low tax on improvements in Pittsburgh.

In 1953 Lawrence said, "It is a matter of record that the owners of the fine office buildings, hotels, apartment and industrial plants that have been built in recent years, are paying substantially lower taxes than they otherwise would pay because of the Pittsburgh tax plan which encourages all private improvements on real estate by the lower tax rates on buildings."

In calling Pittsburgh to verify this impression, I stumbled ac the fact that the City Council just acted to redouble the ci land tax from 49.5 mills to mills. The tax increase was universally hailed by any mean was pushed by City Council William Coyne, an accountant long-time student of Henry Geo but also a politician with a p lem that every city in the N now faces.

"The federal government no longer giving $5.5 million counter-cyclical revenue shar funds, and had cut $2.3 mil from our CETA funding. We ha $6 million increase in wages benefits plus other new costs the mayor said added up to million. We trimmed it back to million," a figure that the P Gazette editorially supported.

However, Mayor Richard C guiri wanted to impose a 1.5 p cent income tax on the city's r dents on top of an existing percent tax. The average wa earner would have had to fac $225 tax increase. Coyne noted t the property taxes had not rise nine years, and had in fa dropped.

By putting the entire tax crease on land value, the avera homeowner would face only an hike. Much of the rest would paid by corporations, only a p tion of which could pass the crease on in higher rents or go sold in the city.

The issue split the Post-Gaze editorial board. Some feared t the tax on land might drive aw "Renaissance II," a projected n investment of $400 to $500 mill in new buildings. Others argu that the tax was to be on land, buildings, which might help bring those improvements Pittsburgh.

Ultimately, however, the ne paper voted with the ghost Henry George for a compromi that leaned toward the land tax trimmed it slightly with a sli tax on income. The City Coun also took the George position by vote of 7-2, enough to overco the mayor's veto.

The time has come for t governors to appoint tax comm sions which can examine the pote tial of the property tax as an e nomic development tool.

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