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A weekly report on the state of the economy

Bargains!

They're lying around everywhere, the experts say, and all yo

By Fern Schumer
Chicago Tribune Service

"Buy now," say retail economists who are following the recession closely. They say the market is loaded with bargains.

Listen to Jay Levine, retail economist for Sears, Roebuck & Co.: "If you can't find a bargain now, you're not really looking."

Or Irwin Kellner, economist with Manufacturers Hanover Trust Co.: "For those who have the borrowing power, this is the time to buy. Once in every business cycle a buying opportunity arises, and we're in it now. Business cycles roll over every three to four years. So you see this is not a common occurrence."

Or Dr. Peter Pekar, economist and vice president of Michael Allen Co., a corporate strategic planning consult-ing firm: "It's a buyer's market, par-ticularly for higher-price durable goods like stereos, televisions, cars, and furniture. We don't expect prices to go much lower."

Why are prices so low now? Several market forces are at work on the supply side, says Levine of Sears: "First, there is the clearance of spring-summer goods like apparel and lawn mowers. Second, there are inventory reductions of nonseasonal items. Businesses are trying to get rid of their heavy inventories like appliances and cars (although the car market is seasonally influenced, too). And third, there are plain old promotions, not seasonal, but sales of new products just to generate store traffic."

Adds Walter Loeb, retail economist with Morgan Stanley & Co.: "Another factor is rising interest rates. That forces retailers to get rid of old in-ventory in order to finance new, more salient merchandise."

On the demand side, high interest rates, the crackdown on credit and the fear of unemployment have propped up savings somewhat and caused debt to drop slightly. Says Pekar: "Many people will wait and see what the economy will do before purchasing a large durable item. That means demand is off and the retailers are hungry. So if you do go out and buy, your purchasing power is very high."

The combination of these factors spells savings for the consumer. One indicator of the trend is that average nonfood prices rose 0.4 percent in May and June. That compares with 1.6 percent in April. Depressed de-mand has curbed price rises during the last six recessions. Usually the inflation rate was cut in half, with the low point coming soon after the recession had run its course.

"Prices now are probably close to the levels of a year ago," says Dick Sherwood, Chicago area manager of J.C. Penney Co." Promotional price markdowns will probably continue through January. You'll see promo-tions which normally break after Christmas breaking before then this year."

One tactic that has not been used in years is price negotiation. "I'm convinced I could walk into Bloom-ingdale's and bargain on higher-price furniture," said Pekar. "I couldn't have done that a year ago.

"For example, I bought a $750 ste-reo from a fairly large retailer for only $550. Now I think I could have brought him down another $50. He was eager."

A retailer might negotiate on sev-eral points — price, credit terms (a lower interest rate) and extension of payments. Pekar offers these sugges-tions when negotiating with a retail-er:

- The key statement is: "Gee, I really didn't want to pay that much." If the salesman bites, he'll respond, "Well, how much are you willing to

'New' tax theory: Back to the land

Perspective

Richard L. Biddle, 34, discovered the little economics school at 413 S. 10th St. two years ago when, after several years of curiosity, he entered the rowhouse in which Henry George was born in 1839.

George was, according to Biddle, the last of the classical economists, tracing his philosophy to Adam Smith, the first enunciator of the free market doctrine. In particular, however, George was remembered as the father of the land-value tax system.

Land, which George defined as everything in the universe except man and man-made things, is the only good base on which taxes should be levied, the economist taught. Wealth, which is that which man produces, should not be taxed, George said.

Now the George birthplace here is home for the Henry George School of Social Science, a nonprofit adult education center at which Biddle, an unemployed teacher who worked 11 years in Philadelphia public schools, is an unpaid faculty member.

In the rear of the George birthplace, in a room containing a large bust of the economist and an old glass-and-wood case containing faded copies of his books, Biddle took the time last week to describe how he and other members of the Incentive Tax League of Philadelphia believed that George's economic theory could be used to help create a more equitable tax system in Philadelphia and in the rest of the country.

Specifically, Biddle and his associates are advocates of a real estate tax based on the value of land — because of its location — and not based on the value of improvements, such as buildings.

They believe that the burden of such a tax would be relatively light for homeowners but heavy for speculators who fail to make improvements to valuable urban land they own.

Biddle was interviewed by Douglas A. Campbell of The Inquirer staff.

Q. Why would costs of such a land-based tax be lower for wage earners and homeowners? Specifically, who would benefit from lower costs, and why?

A. Well, the average wage earner — say, making $15,000 a year — if his wage tax goes up 1.5 percent, he's going to be paying an additional $225 a year. The analysis that they had done indicated that the average increase in land values for covering almost all of the deficit would have increased the average homeowner's tax burden only about $60.

Q. But why is that? It would seem that, regardless of what tax is imposed, the same number of residents must come up with the same total tax revenues.

A. The average homeowner is a relatively good user of land in Pittsburgh and Philadelphia and many places. They have relatively small lots and relatively intensive usage of these lots.

The burden in increase in values is largely paid by poor land users.

Q. What makes you a poor land user?

A. A real estate appraiser would say that you are not putting the site to the highest and best use. The concept of highest and best use is applied to any particular site in the city or anyplace. A skilled real estate appraiser . . . has the ability to go downtown, to pick a site and to tell you very specifically — and a number of them should concur — what the highest and best use is.

This gets back to the incentives and disincentives that we have structured into our tax structure and our economy as a whole. The more that you tax improvements — I think everyone realizes that improvements are desirable — the fewer of them there are.

The more that you . . . collect the economic rent of land for the public revenue of a city or a nation, you're relieving the wage earner of paying more and more wage taxes, more and more income taxes. You're relieving the disincentives in the tax structure for improvements.

The selling price of land is what ultimately we're aiming at. Incentive taxation is an anti-speculative tax.

Q. It is understandable that there may be a highest and best use at a given time for a particular piece of land. But how can the government know what that value is without the piece of land going up for sale on the open market?

A. The information is generally based on market data which the assessing officers are supposed to have. An assessor is really an appraiser.

Q. This is information that already exists?

A. The technical ability to assess is dependent upon the ability to appraise. The assessing officer should have those skills. It doesn't require anything different (from government) at all. The fact that we need improvement in our assessing procedures is another question. It's a lot easier to determine with more accuracy the value of land than it is the value of improvements.

Q. If you changed the method of taxation now, would that hurt any individual type of property owner?

A. Obviously it would hurt people who were speculating. That's their whole business.

Q. Would it have any of the anti-social effects such as driving people from their homes, eliminating jobs in the city?

A. No, it's going to create jobs. To the extent you tax land values and not wages, to the extent you tax land values and not improvements, and not other business and nuisance taxes, you create the kind of environment that businesses are looking for in locating in particular spots. We have a good location here in Philadelphia. But we have the highest wage tax in the country — which is, I think, intimately involved in the decision of 350,000 people, over the last 10 or 20 years, to leave Philadelphia.

It's a burden to keep the books. It's a burden to have to worry about that. It doesn't create a good business environment for corporations looking to come here, and it certainly doesn't create a good business environment for those marginal businesses that are here.

I think there are traumatic problems and difficulties and sensitivities in instituting a general reassessment of all real estate in Philadelphia . . . the politics that are involved in that are dramatic. Philadelphia has a long, long history of bad assessing practices. And, of course, Pennsylvania does. Pennsylvania ranks 47th out of 50 in assessment practices. So that's a problem that's involved in what we're talking about. But it's a separate problem. What we're talking about is shifting the burden of taxation to a more appropriate resource, and a passive resource.

The problems that we've seen and the discussion that we've seen with displacement and recycling largely result because we're developing land at the periphery of Center City, and there is a lot of land downtown. If we took the initiative to get that land into circulation and into developers' hands — in many cases it's bare parking lots, in many cases the city owns it or the Redevelopment Authority owns it as parking lots — getting those sites back into circulation and building housing on them or creating condominiums on them or whatever is going to take the heat out of the hotspots that we have around the periphery.

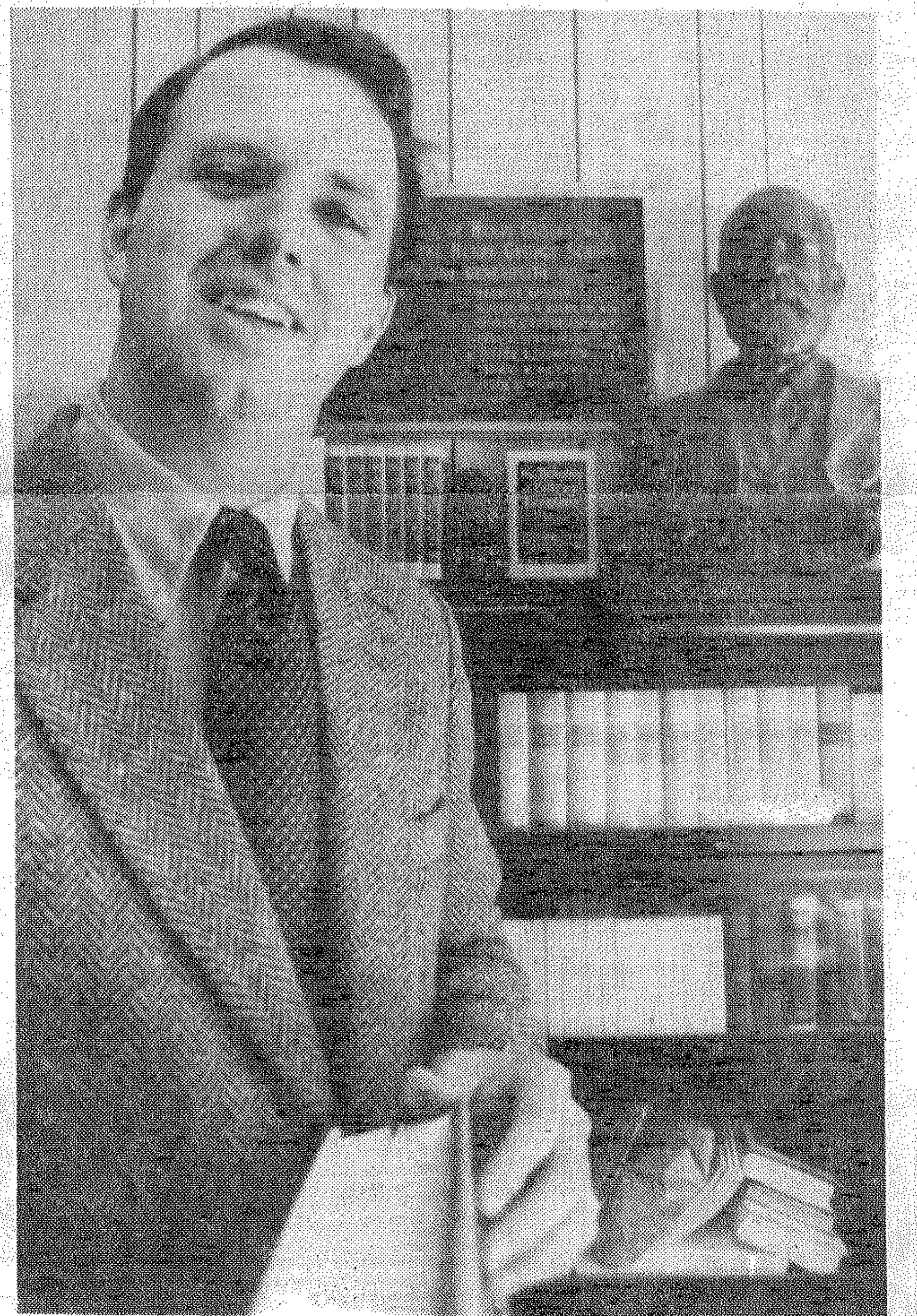
The whole of Philadelphia's 83,000 acres — I think it's safe to say that we have at least 20,000 usable, nonpark vacant acres in Philadelphia. It shows the incentive we've created, the reward we've created to hold land out of circulation.

Q. What is the incentive you've mentioned?

A. The incentive is that there are fantastic rewards if the path of development is in your direction. All of these peripheral areas to Center City and Center City itself have seen fantastic increases in land values. We've seen lots in Queen Village that have increased in value from $8,000 to $40,000 a lot, which is a pretty fantastic increase in a year or two.

The person who benefits the most from that kind of increase is not one who necessarily is doing the developing, because that is a risky business, but one who has owned that land prior to its dramatic increase in value.

To that extent we've harnessed the private-profit motive to the wrong horse.



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Richard L. Biddle, with a bust of classical economist Henry George

Q. How would the presence of a land-value tax influence the decision of that landowner to hold that land off the market?

A. In Pittsburgh (where a land-value tax was recently installed), one of the reasons you've seen a 16 percent increase in vacant land sales (was that) there was a 4 percent cost to hold vacant land. If you have a $10,000 lot, 4 percent means $400. That's a dramatic escalation in the risk involved in the possibility of securing a dramatic future profit. So we've seen people begin to unload land.

Q. You contend that you would stimulate the construction of housing and therefore there would be no problem of displacing poor persons by making their homes unaffordable?

A. Yes. The concept of displacing people tends to lose sight of the fact that there is a lot of land close in. The people who are moving to Queen Village would be just as happy in parking lots across from the Academy of Music in condominiums very often.

You can't lose sight of the amount of land available in Philadelphia, and it's easy to lose sight of it because nobody really looks at it. I'm absolutely certain that the problems of displacement are largely the result of the present tax structure and the fact that we have a lot of interest . . . in people moving back into the city. It's a very trendy existence.