The Evidence

For Land Value Taxation

by Steven B. Cord

Shifting the property tax off buildings onto land values has been called a "golden key to urban renewal, to the automatic regeneration of the city – and not at public expense." This booklet presents hard evidence that such a shift has, in fact, been followed by new construction.

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For Land Value Taxation

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A Compilation of Studies Presenting Hard Objective Evidence on Whether a Building-to-Land Shift in Property Tax Rates Produces an Increase in New Constuction

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Preface

What would happen in your town if the property tax were gradually shifted, over the years, off buildings onto land? For example, McKeesport, Pa. has done this so that now it is levying a 10% tax rate on land only 2 ½% on buildings, instead of raising the same revenue by taxing both land and buildings at about 5%. If constructing and operating buildings attracted less property tax (eventually none), wouldn't it be more profitable to build and construct them? Wouldn't this encourage new construction and re-employment in your town?

The current property tax on buildings is a powerful deterrent to new construction and re-employment. Consider: a typical 2% annual tax rate on a new improvement of, say, $100,000 will cost $2,000 a year, which is equivalent to a one-time cost of $20,000 (assuming a 10% interest rate), which in turn is equivalent to a 20% excise tax on the $100,000 improvement. 20%! If someone proposed a 20% excise tax on a necessity of life - on a residence, office or factory - his proposal would be rejected immediately, and rightly so. But the property tax on buildings does exactly that.

If the property tax falls on land values instead, then the city re-coups the revenue it lost by taxing buildings less, and very important - landowners will be encouraged to put their sites to efficient use. For who would keep a site out of use, or in inefficient use, if the annual rental value had to be paid out, at least in large part, in local taxes? If you rented a site (which is equivalent to paying a tax on its value), wouldn't you be impelled to put it immediately to the most profitable use you could think of?

This is the theory. It is logically airtight. It should work in reality. But does it in fact?

The articles reprinted in this pamphlet appear to provide substantial evidence that the theory is working in the real world. In fact, the results seem almost too good to believe. In all of these studies, the building-to-land tax shift was rather mild, yet noticeable construction spurts were obtained.

Could other factors have caused these construction spurts? What, in literally hundreds of cities without exception? Well, let the reader judge for himself (he should know there is even more evidence available than has been printed here; for example, Harrisburg, one of the seven Pennsylvania two-rate cities, is prospering mightily since it adopted the two-rate approach; ditto for Washington, Pa. which went two-rate as recently as 1985).

Readers wanting additional evidence could write us for a copy of the book entitled **Catalyst!** ($5/copy).

Of course, it is also true that there are many non-land-value-tax cities throughout the world with prosperous economies. Doesn't this weaken the case for LVT? Shouldn't they be suffering?

No, the existence of prosperous non-LVT cities does not undermine the LVT case. Given the evidence in this pamphlet, it's reasonable to think that they would be even more prosperous if they had LVT. Also, their prosperity could be due to the hard work of their citizens, their enterprising and risk-taking ability, a surge in demand for the products they produce - all strong factors which we could assume would be even stronger with LVT. After all, many of yesteryear's prosperous non-LVT cities are today's depressed areas.

These studies don't show that cities must suffer if they don't employ LVT. They only show that cities do better if they have it.

These studies can make one think, "if such a mild building-to-land tax switch has produced such remarkable results, what would happen in these cities if they shifted **all** their taxes onto land values, not just some? And then what would happen if the whole economy did it and not just a few cities? Wouldn't it be as if the economy were to jump out of the water and fly into the sky?"

Here are three final thoughts:

- It was Allan Hutchinson, a city councilman in the state of Victoria, Australia, who conceived the method of comparing building permits issued both before and after a building-to-land switch, as well as comparing the switching localities to neighboring and comparable localities. We have changed his methodology only slightly. Our hats off to him and his colleagues.
- The studies in this pamphlet have all been reprinted from the eight-times yearly bulletin **Incentive Taxation.** One result has been that certain statements of a general nature are repeated in these articles. The reader will be pardoned if he skips over the repetitions to get at the central facts of each study.
- The idea of taxing land more than buildings has received the endorsement of literally hundreds of urban land tax experts, from Ralph Nader and **The New Republic** on the left to William Buckley and the **Wall Street Journal** on the right. For example, Urban Land Institute Research Monograph No. 4 (p. 28) says of the land value tax that it is "a golden key to urban renewal, to the automatic regeneration of the city - and not at public expense."

So, dear reader, first read the evidence, then judge for yourself. And then act accordingly.

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Evidence

Study in Pittsburgh Shows Spurt in New Construction Follows Two-Rate Property Tax Expansion

The theory is simple enough : decrease the property tax rate on buildings and we make new construction and rehabilitation more profitable. And if we increase the land tax rate, we encourage landholders to put their sites to an efficient use in order to get enough income to pay at least the increased land tax plus a profit on the improvement as well. This slight change in the property tax can provide a carrot-and-stick incentive to urban redevelopment, and quoting an Urban Land Institute report, "at no extra tax cost" to local government.

Fine theory, but does it work in practice? There is ample evidence that it does:

- Spurts in new construction have followed tax shifts from building to land in all 24 municipalities in Victoria, Australia which have made such a shift since 1954, and these cities have far out-constructed comparable neighboring municipalities which did not undertake such a shift (Incentive Taxation, 1/78, 10/77, Spring 1980, 6/84 -- issues sent on request).
- Similar results emerge from a study of 325 cities in the Republic of South Africa: those cities taxing land the most, experienced the biggest construction spurt (Incentive Taxation, 9/83 issue).
- All five cities which have had a two-rate property tax for longer than three years have experienced construction spurts larger than their comparable neighbors (Incentive Taxation, 10-11/82, 10/83, 11/83).

Now comes a new detailed study of Pittsburgh's experience with the two-rate tax, conducted by the Center for the Study of Economics (publisher of this bulletin). It finds the same sequence of events: a building-to-land tax shift followed by a construction spurt. The logic of the matter clearly points to cause-and-effect.

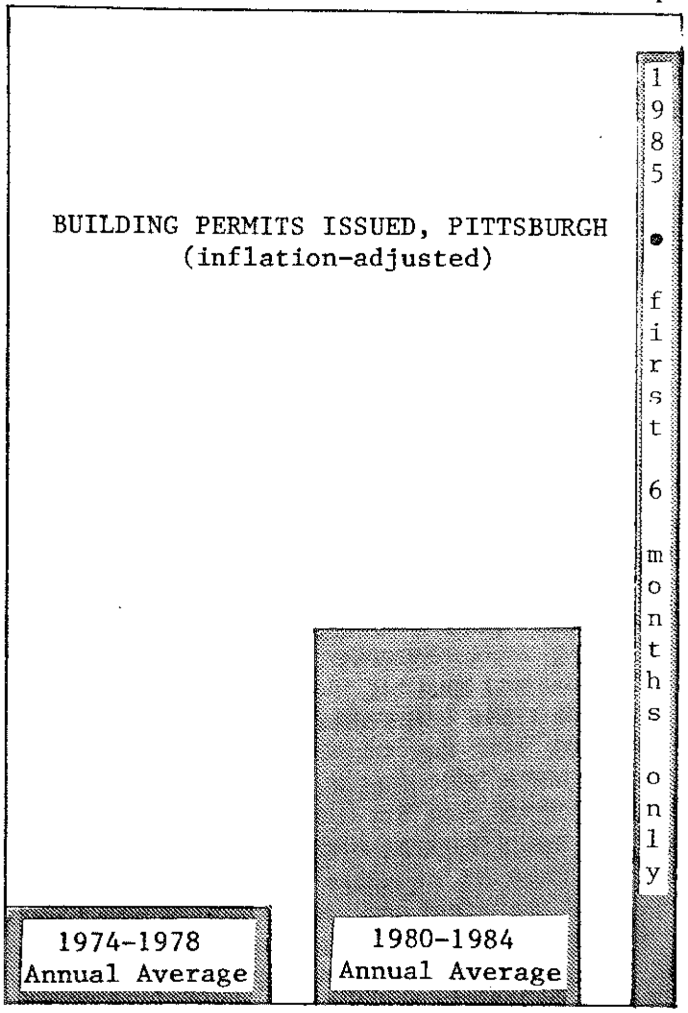
CSE Study

Pittsburgh has been taxing land more than buildings since 1913. From 1925 to 1979, its land tax rate was always double its building tax rate. In 1979, as the result of having obtained a Home Rule Charter from the state legislature, it almost doubled its rate on land without changing the building tax rate at all; in that year its property tax rates were 9.75% on land and 2.45% on buildings. They have been changed repeatedly since then so that now the rates stand at 15.15% on land and 2.7% on buildings.

Now let us see what CSE's study of Pittsburgh's two-rate experience has uncovered:

(1) In the years 1980-84, when Pittsburgh was expanding the difference between its land tax rate and building tax rate, its new construction, as measured by its building permits issued, was 5.9 times higher than in the pre-change years of 1974-78 (city figures, Pittsburgh Bureau of Building Inspection). For the entire United States, 1980-84 building permits were only 1.6 times greater than for 1974-78 ("Construction Review," 11-12/84, tables C-1, C-4, C-6). Pittsburgh did better than the nation, much better--almost four times better!

(2) CSE also attempted to rule out the inflation factor by adjusting the annual figures for building permit issuance by changes in the cost of living. When this was done, CSE found that the adjusted 1980-84 figures exceeded those of 1974-78 by 3.92 times (see p. 16, PA Economy League study).



(3) Since 1979, Pittsburgh's building boom has been spearheaded by several big, new downtown office buildings whose profitability was significantly increased by the building-to-land tax shift. For instance:

- the Pittsburgh Plate Glass complex save $615,335 a year in property taxes because of the two-rate approach as compared to a one-rate property tax raising the same revenue for the city.
- One Mellon Square Building save $1,291,266 a year.
- The Oxford Plaza complex saves $361,369 a year.

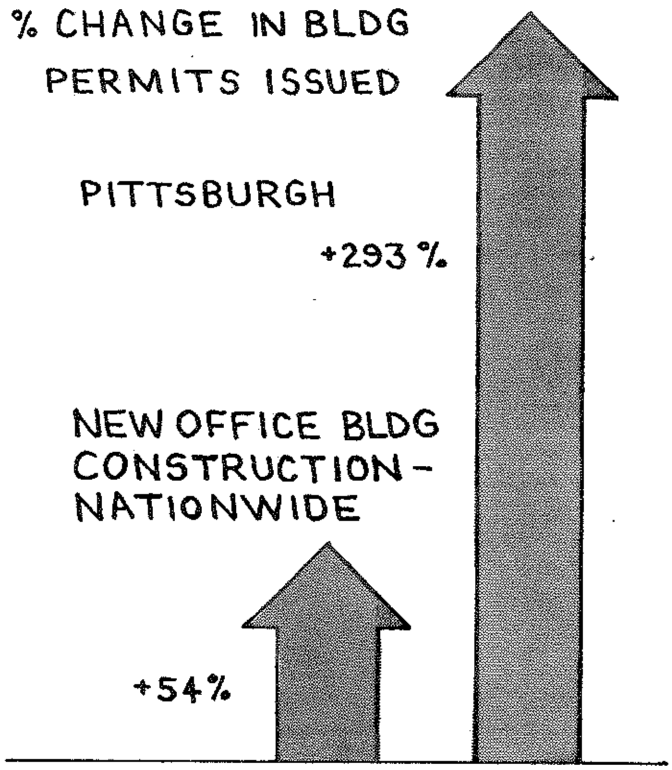
In addition, these savings are enhanced by smaller yet still significant three-year tax abatements on the improvements only (not the land), which is similar to the two-rate tax. One must assume that these tax incentives figured in the final decision to build these job-producing mammoths (the Oxford Plaza Building, with thousands of jobs, replaced a parking lot which provided maybe 3-4 jobs).

Final empirical verification that a building-to-land tax shift will spur new construction and re-employment must always remain elusive. We can never be sure that we will have accounted for all the other relevant factors, but there surely is a logical reason to connect the two-rate tax to the construction spurt, and it has actually occurred in so many places throughout the world that it is hard to doubt a cause-and-effect connection.

Contemplate this: if you are looking to buy a home in a community which levies a tax on the full rent on land, then the price of land would be zero (or near zero). You could invest in common stock what you save on land cost, and then use your dividends to pay the annual land-rent tax.

You'd pay nothing for the land and you'd have extra income to cover your land-rent tax. In addition, your buildings, wages, retail purchases, etc. would all be tax-free!

Wouldn't you prefer to locate in a land value tax community as compared to a tax-labor-and-capital community?



In 1979, Pittsburgh, Pa. increased its tax rate on land by 48 mills and another 28 mills in 1980. The above chart compares building permits issued in 1976-78 to 1979-81 for Pittsburgh and for new office building construction nationwide.

Poorer Homeowners in Pittsburgh Save Money with the Two-Rate Property Tax

Pittsburgh's homeowners in those wards with less-than-median income save AT LEAST $728,741 a year with the city's two-rate property tax, and the annual savings are actually much more than that. So concludes a research study conducted by the Center for the Study of Economics (C.S.E.).

C.S.E. is a non-profit research organization which publishes Incentive Taxation and prepares objective studies on the two-rate property tax. It was first organized in 1980. Incentive Taxation printed the first half of this study in last month's issue when it presented evidence to show that Pittsburgh's two-rate property tax seems to have helped bring about a spurt in new construction in the city.

Before examining how the two-rate approach downtaxes poorer homeowners, we should point out that Pittsburgh has been taxing land assessments at a higher property tax rate than buildings since 1913. From 1925-1979 the city's land tax rate was always double the city's building tax rate; since 1979, the land tax rate has been greatly increased while the building tax rate has been raised only slightly; as of 1985, the land tax rate is 15.15% and the building tax rate is 2.7% (assessments are officially at 25% of market value).

The C.S.E. Study

Now let us see how C.S.E. arrived at the conclusion that homeowners in the poorer wards in Pittsburgh save AT LEAST $728,741 a year with the two-rate approach. Some detective work is required.

First, it is necessary to determine which of the thirty-two wards in the city are poorer-than-median; this could be ascertained from U.S. census data (1980 Census-Pittsburgh, Table P-11).

Second, C.S.E. had to determine how homeowners fared under the two-rate tax. The Allegheny County Assessment Dept., which assesses for the city, doesn't classify property according to use – residential, commercial, industrial, etc. – but rather classifies property according to incorporated and un-incorporated ownership (see 1/5/85 "Total Value Municipal Summary," p. 3, Ray Watt, Assessor's Office). It is safe to assume that all or nearly all homeowners are listed on the un-incorporated list, as there is no advantage for a homeowner to incorporate and considerable time and expense to do so.

When C.S.E. combined the census with the assessment data, it found that the un-incorporated properties in Pittsburgh's poorer-than-median wards saved AT LEAST $728,741 a year with the two-rate approach (15.15%/2.7%) as compared to what they would have to pay with a one-rate tax (5.16% on both land and buildings) raising the same revenue for the city.

Poorer Homeowners in Pittsburgh Save

$728,741/Year AT LEAST

At Least!

But the actual savings to the homeowners in the poorer-than-median wards are much more than $728,741 a year. This is because the un-incorporated classification includes, in addition to homeowners, some unincorporated commercial and industrial property as well as vacant lots. These properties tend to pay more with the two-rate approach (certainly all vacant lots do). If they were excluded from the un-incorporated list, then only homeowners would be left and consequently their savings in the poorer-than-median wards would far exceed $728,741 a year.

And as far as tenants are concerned, they clearly are beneficiaries of the building-to-land tax shift, as they pay no land tax at all and there will be less building tax to be passed on to them in the form of higher apartment-rent.

Some may ask, "Isn't the land tax passed on to tenants in the form of higher apartment-rent?" Perhaps it is in the short run and in some cases, but every economics textbook asserts that a tax on land values cannot be passed on to tenants in the long run. They argue that a tax on buildings can be passed on because it causes some buildings to become unprofitable to operate and thus fall into disuse; also, it reduces the profits on new construction and so fewer buildings get built. In the long run, the smaller supply of buildings allows the rental price to be raised. But land is different – its supply is fixed and so a tax on land values cannot increase the rental price of land; because the tax won't decrease the supply of land or increase the demand for it, the tax won't increase its rental price. In the short run, a land tax might be passed on because of pass-through leases but in the long run when leases are renewed, the land-rent increases won't stick. If landlords insisted, some tenants would move out of town and others would economize on their use of space, and the lower demand for land would cause a return to the previous land-rent level, all other factors remaining the same.

In fact, because more sites would be used if taxed, then the supply of available land would be increased – with a consequent lowering (not raising) of rent!

This economic reasoning is important because it means that a building-to-land tax shift benefits all tenants, poor ones included – they pay no land tax and there will be less building tax to be passed on to them in their apartment-rents. Almost half the city's population lives in rental quarters (U.S. Census-Pittsburgh 1980, H-1), and we can assume that an even greater proportion of poorer people in town are tenants. So the two-rate approach would be a great benefit to the poorer tenants, although by exactly how much it is hard to say.

Megabuck Savings for Harrisburg Developer

Harrisburg (pop. 53,115) is slowly emerging from a rough decade. This capital city of Pennsylvania was cruelly buffeted by the Agnes flood of 1972. In addition, huge shopping centers ringing the city have been slowly strangling the retail business in the downtown area.

But Harrisburg has been fighting back. New construction has increased since it first started to tax land more than buildings in 1974. A huge complex containing office skyscrapers and an indoor shopping mall sprouted up a few years ago - and therein lies the first part of our tale.

This multi-million dollar complex, called Strawberry Square, is currently assessed at $24.488 million for buildings, $1.477 million for land (assessments are at 60% of assessed market value). If a flat tax rate of 2.829% were levied on all land and buildings, the city government would get as much revenue as it now gets with 5.825% land, 2.188% buildings. But the Strawberry Square complex would then pay $112,857 a year more in property taxes. In other words, that is the amount it saves with Harrisburg's current two-rate tax.

Megabuck Savings

The latest news in Harrisburg is that a new addition to Harrisburg's downtown, in addition to Strawberry Square, is on the verge of final approval. It is a hotel conference/office complex of huge proportions - some $60-$80 million in all. Application is being made for a UDAG grant to cover some of the expenses (maybe as much as $4-$6 million).

If we assume that the new complex will have the same building-to-land ratio as does the existing part of Strawberry Square, and that seems like a reasonable assumption, then the proposed buildings will save about $180,000 a year in taxes because of Harrisburg's two-rate property tax. It is hard to imagine that the prospective developers did not include low property tax costs of this magnitude in their calculations before offering to bid on the project. We'll never know whether they would have gone ahead with this project even with a flat tax rate; we can only say that this handsome tax savings was an added inducement. It is reasonable to think it helped clinch the deal.

Other Aspects

While it is true that these big downtown developers get substantial tax reductions with a building-to-land tax switch, do keep in mind that they provide the community with much-needed new jobs. And it is not the homeowners in town who are picking up the tax burden. Most of them pay less with a two-rate tax; about 60% of them, according to a citywide study performed in 1981. It is the under-users of land who pay more, and they are preventing the unemployed from working on their sites.

Just recently, the Harrisburg city government moved to a new, modern and beautiful city hall. The old Municipal Building, built 1910, stands starkly empty but plans are afoot for selling it to a condominium developer. Extensive remodeling will have to be done, of course - and because of the two-rate property tax, it will all be taxed at a lower rate. Thus, the plans are more likely to be realized. Generally, apartment buildings are the biggest tax savers as the result of an LVT shift.

The current city administration is favorably disposed toward land value taxation. Writes Mayor Stephen Reed: "I believe that there is an incentive for new construction and rehabilitation when a higher rate of tax on land exists."

We look forward to continued good news from Harrisburg.

LVT Scranton Maintains Construction Lead Over Non-LVT Wilkes-Barre

Nestled in the northeastern corner of Pennsylvania are two sister cities - Scranton and Wilkes-Barre.

They are similar in many ways. The declining anthracite coal mining industry has been important to both of them, as is the newer electronics, garment and trucking industries. Both can boast of many institutions of higher learning. They are twelve miles apart and their citizenry share similar ethnic backgrounds. They share the same airport and philharmonic symphony. They tax real estate at about the same general percentage. Scranton has a population of 87,000, Wilkes-Barre 51,000; both experienced about a 14% population decline from 1970 to 1980.

But there is one significant difference between the two cities: in 1980 Scranton nearly doubled its tax rate on land to 9.6% while maintaining its building rate unchanged at 2.55%; in addition, it passed a law (known as LERTA) exempting all newly constructed commercial and industrial improvements from the property tax for the first ten years (the land was not tax-exempted), and new residential construction received a somewhat lesser but still generous exemption. Wilkes-Barre did none of these things; it continued to tax land and buildings at the same rate.

Scranton's city officials had hoped to encourage new construction. A study undertaken by the editor of this publication and published in the Summer 1982 issue indicated that their hopes were being fulfilled.

This study of building permits issued in Scranton revealed that in the two-year period following the uptax on land coupled with the net downtax on buildings, new construction in Scranton increased 14% in number of building permits issued and 22% in value - and this in the teeth of a nationwide construction recession (1980-1981). In neighboring and comparable Wilkes-Barre, the corresponding figures showed a decline of 30% and 44% respectively.

The Wilkes-Barre construction decline was understandable in light of the stiff 1980-81 construction recession. But what could account for the Scranton increases during the same period of time? It would seem logical to ascribe it to the uptax on land, which should dissuade landowners from keeping their sites out of less-than-most-appropriate use; also the downtaxing of new improvements would encourage new construction and renovation. No other relevant changes seems to have occurred in the economies of Scranton and Wilkes-Barre since 1980.

New 1982 Figures

Your editor felt, however, that this study was somewhat incomplete. Symmetry demanded that a three-year period following the change, not two years, was needed to compare to the three-year period prior to the change. So back he went not long ago to the city halls of these two cities to unearth the taxable building permits issued for the year 1982. He found that Scranton was still out-constructing Wilkes-Barre. The theory and the facts were still in consonance. See the chart accompanying

A Comparison of the Number and Value of Taxable Building Permits Issued in Scranton and Wilkes-Barre Both Before and After January 1980, when Scranton Almost Doubled Its Land Tax Rate and Substantially Reduced its Tax Rate on New Construction.

	1977-1979		1980-1982		% Change 1980-1982 - 1977-1979 / 1977-1979	
	Number	Value	Number	Value	Number	Value
Scranton	1145	$8,658,747	1239	$10,669,047	+ 8%	+ 23%
Wilkes-Barre	2520	$14,542,318	1651	$7,721,485	- 33%	- 47%

NOTE: The numbers and values are annual averages for the years indicated. For example, 1145 building permits were issued annually, on the average, during 1977-1979.

this article.

The study is now complete. We have compared the three years after the Scranton rate changes of January 1980 with the three years before. If we include years too far away from the change, then we run the danger of other factors arising to affect the rate of construction in these two cities.

Of course, the possiblity of other factors affecting materially the construction patterns in these two cities can never be entirely ruled out. None seem apparent, however, and it is reassuring to note that similar comparisons of other LVT and non-LVT cities in Pennsylvania show similar results, as do similar comparisons in dozens of cities in Victoria, Australia and literally hundreds of cities in the Republic of South Africa.

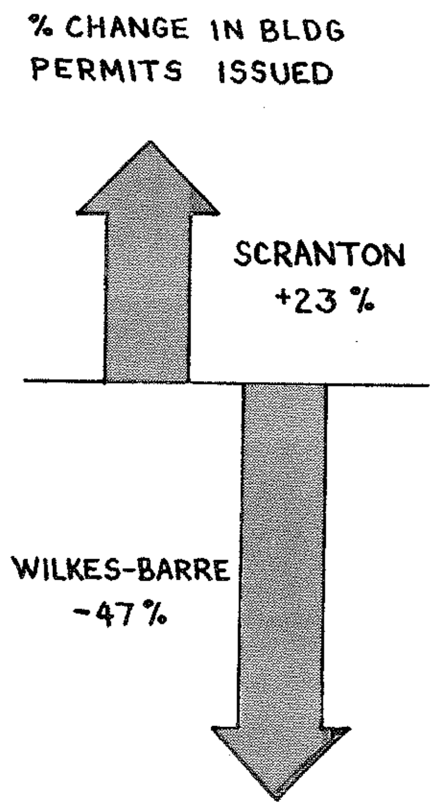
Another reassurance: the highly respected Fortune Magazine recently ran a full-scale article on the Scranton/Wilkes-Barre statistics as well as similar statistics from other Pennsylvania cities, all of which have appeared in this and previous issues of this publication. Two of their researchers, editor Gurney Breckenfeld and writer Ed Baig, visited the same sources which your IT editor visited and verified the accuracy of these statistics. You needn't take our word only; take Fortune's. It's the same. We welcome their independent verification. So should you.

Conclusion

Has it crossed your mind, "If Scranton's modest uptax on land and downtax on new construction has seemingly produced a construction upsurge, what would continued annual moves to uptax land and downtax buildings produce? How much more new construction would there be, and above all how much more new employment would result?"

If Scranton were to move steadily, year by year, in a land tax direction so that within five years or so the property tax would fall only on land and not at all on investors in new construction and rehabilitation, couldn't we reasonably expect to see a significant dent made in its still-high unemployment rate? What we need is vision and vigor on the part of leaders in business and government to act upon proven theory - to turn studies into reality.

And what about your city?



In 1980, Scranton, Pa. adopted a higher tax rate on land than on buildings. Wilkes-Barre did not. The above chart compares building permits issued in 1977-79 to 1980-82.

LVT McKeesport Still Ahead

At first glance, the city of McKeesport, Pa. seems to have little going for it. It depends heavily on the steel industry, and everyone knows how badly off that industry is. As a result, unemployment in McKeesport is far above the national average. Downtown retailing is suffering; vacancy signs can be seen on the main street, and Cox, the town's only department store, has been forced to close down. Many people are pessimistic about McKeesport's economic future.

But there's a lot of life in the old town yet. The streets buzz with people and cars, there's considerable office employment downtown, city goverment and private civic organizations are mounting strong efforts to combat the economic malaise.

And wonderful to relate - new construction and rehabilitation have been increasing steadily, year after year since 1980. It's the best statistic the town can offer to show that the city is still economically alive, with a viable future.

The year 1980 is a key year, since it was then that the city introduced the two-rate tax:

- It increased the tax rate on land from 2.45% to 9%.
- It decreased the tax rate on buildings from 2.45% to 2%.
- New construction was given a three-year tax exemption (but not the underlying land assessment).

The net effect of the tax rate changes was to increase the total property tax revenues by almost 50%. The city government was then in a financial bind. One would think that the increased property tax burden would have reduced new construction and rehabilitation, but the reverse occurred. Following the aforementioned tax change, new construction and rehabilitation for the three-year period averaged 38% more than in the previous three year period. 38%!

We should not be surprised that when land is taxed more, an incentive will be created for the owners to put their sites to a fuller use (limited by zoning); and that when buildings are taxed less, it would be easier for the landowners to improve their sites.

Taxable Building Permits Issued

	1977-79 Annual Average	1980-82 Annual Average	% Change
McKeesport	$1,716,000	$2,370,191	+38%
Clairton	$746,710	$539,564	−28%
Duquesne	$1,053,315	$839,731	−20%

Source: Building permit records in the three city halls.

Tax land and we create the incentive for it to be used intensively, and economic growth results. This cannot be said about any other tax, since they are levied on labor or labor-produced commodities; the more they are taxed, the more dis-incentive we create. This seems to be borne out by the facts in McKeesport. See the table below.

Note that McKeesport's 38% gain is for taxable building permits issued. Tax-exempt construction was excluded because it is not affect by tax considerations.

Duquesne and Clairton

Of course, the question should immediately arise - could other factors have been responsible for McKeesport's 38% gain? You can never know for sure, but none seem to be present.

In order to further rule out other factors, it makes sense to compare the record of McKeesport (pop. 31,017) to that of its neighbors, Clairton (pop. 12,073) and Duquesne (pop. 10,099). The latter is right across the Monongahela River and the other is downstream about two miles. Each of the three cities has one U.S. Steel mill as well as steel-related industries, and consequently they all have much higher-than-average unemployment. There are no other nearby comparable cities.

These three cities are truly triplets, the only visible relevant difference being that McKeesport up-taxed land and down-taxed building in 1980, while the other two cities did not.

When we compare the record of building permits issued in Clairton and Duquesne to that of McKeesport, we see that the latter did considerably better than its two comparable neighbors. In fact, it did much better - Clairton's new construction and rehabilitation fell off 28% in 1980-82 as compared to 1977-79, while Duquesne's fall-off was 20%. The accompanying table gives the details.

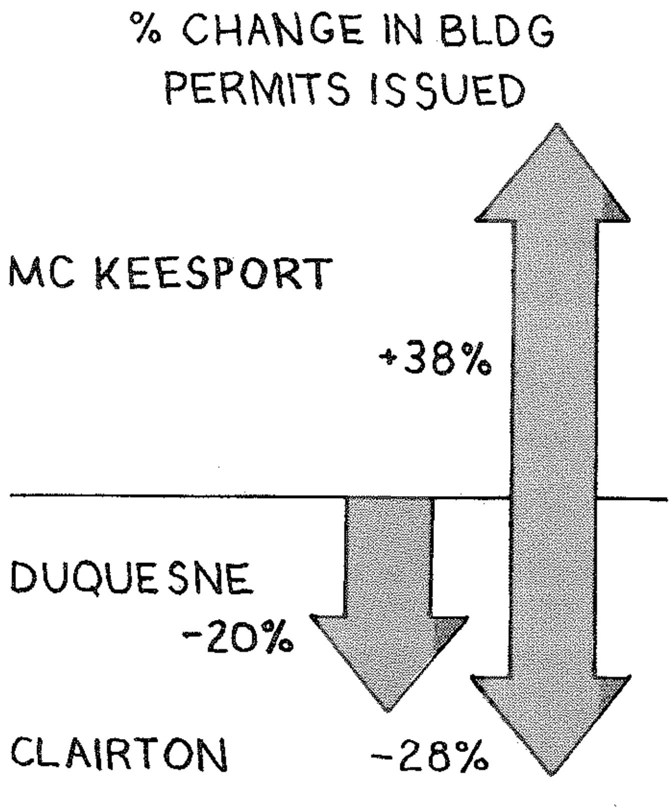
Considering the hair-raising depression in construction that occurred during 1980-82, the record of Clairton and Duquesne is better than might be expected, but clearly McKeesport did much better.

It is reassuring to note that these results are corroborated by similar studies comparing LVT Scranton to neighboring Wilkes-Barre, LVT Pittsburgh to other U.S. cities, and by similar studies in the state of Victoria, Australia (24 cities) and the Republic of South Africa (over 300 cities).

There is another kind of corroboration for these figures. FORTUNE Magazine sent two researchers around in Pennsylvania to gather research for their August 8th article on land value taxation, and they came up with near-identical figures on building permits issued in McKeesport - Clairton - Duquesne (Scranton and Willkes-Barre also), and reached the same conclusions. It is legitimate to wonder if the editor of Incentive Taxation, who is an announced land-tax advocate, didn't "doctor" the building-permit figures to suit his preconceptions. Well, the independent FORTUNE corroboration should put to rest these fears. If any IT reader wants to do his own verification, he need only consult the bulding-permit statistics in the three city halls; they are public records.

Conclusion

This Tale of Three Cities is now completed. We have compared their new construction for the three years following McKeesport's 1980 tax change to the three years before. Although no test in a changing urban setting can be declared as air-tight as what a chemist might do in a controlled laboratory setting, the case for land value taxation is clearly strengthened, especial-



In 1980, McKeesport, Pa. adopted a higher tax rate on land than on buildings. The other two cities did not. The above chart compares building permits issued in 1977-79 to 1980-82.

ly when the corroboration is added into the record.

And why not? It shouldn't surprise us that an up-tax on land would penalize inefficient use while a down-tax on construction would give added incentive to build.

How much more evidence do our city officials need before they act to introduce a two-rate property tax? Let them bear in mind that there are unemployed people out there - some of them are their neighbors - who are suffering because the present one-rate tax is an obstacle to economic growth.

Two-Rate Tax in New Castle, Pa. Followed by Construction Spurt

Up 70%!

That's the average annual increase in new construction experienced by New Castle, Pa., after it adopted a two-rate property tax.

More specifically, the dollar-value of building permits issued in New Castle was 70% higher per year for the years 1982-85 than for the years 1979-81. The first year for New Castle's two-rate property tax was 1982, and then in 1984 the city spread the rates further apart. The rates are now 6.78% on land and 2.1% of buildings.

8.2% of this 70% could be accounted for by general inflation (based on statistics from the U.S. Statistical Abstract 1985, p. 467).

This fact was unearthed by a study conducted by the Center for Local Tax Research, 5 East 44th St., New York, N.Y. 10021. C.L.T.R. engages in objective studies of the property tax and based this study on an examination of the city's records of building permits issued, which are on file for public inspection in City Hall.

The C.L.T.R. study revealed that at least $1,200,804 more (adjusted for inflation) in new construction occurred during 1982-85 than in 1979-81 - see chart.

Comparison of Taxable Building Permits Issued in New Castle, Pa. for the Three Years Before the Introduction of the Two-Rate Tax (1982) with the Four Years Thereafter

1979 =	$1,799,537	1982 =	$3,622,847
1980 =	2,897,330	1983 =	1,990,649
1981 =	899,752	1984 =	2,226,356
		1985 =	4,854,569

[Source: C.L.R.T. Study based on city records of building permits issued.]

Job-starved New Castle could use the extra new construction during the post-1982 two-rate years. The city's economy has relied on heavy industries and they have been severely buffeted recently.

It is interesting to note that despite the adverse economic conditions, New Castle experienced a construction spurt anyway. Lately, this new construction is the only bright economic trend in New Castle.

The Center for Local Tax Research reported that New Castle increased its building permit fee in 1984 and 1985. This change has had the effect of inducing many builders to reduce the dollar-value estimate of the permits they are seeking in order to lessen the fee they have to pay. If the fee had remained the same as in previous years, the estimated dollar value of building permits issued would have been higher in 1984 and 1985 than actually reported, and the construction spurt would have been reported to be higher than 70%. Also: the 1986 building permits issuance will show a huge increase.

Comparison to Other Cities

There is good reason to believe that the building-to-land tax shift resulted in the spurt in new construction. After all, if we reduce taxes on buildings, we make them cheaper and more profitable to build and maintain. And if simultaneously we increase the tax on land assessments, we encourage landowners to develop their sites more efficiently in an effort to obtain an income adequate to pay for the higher land tax as well as a reasonable profit on their improvement investment.

"But," some could say, "maybe the construction spurt was due to other factors than the building-to-land tax switch. Just because the spurt followed the switch doesn't prove cause-and-effect."

Well, this is an objection worthy of consideration. It's difficult, though, to see what other factors could possibly cause the construction spurt, especially in view of New Castle's depressed economy. And then there's another aspect of the study by the Center for Local Tax Research which strongly undermines the other-factors explanation.

C.L.T.R. examined the building permits issued in two neighboring and comparable cities - Farrell and Sharon, Pa. The economies of these cities also depend heavily on heavy industry and have experienced considerable unemployment lately. So it should come as no surprise that the average annual construction (as measured by building permits issued) is decidedly down for the 1982-85 period as compared to the 1979-81 period. Sharon's new construction was off 90% while Farrell was down 66%. Compare this to New Castle's increase of at least 70%!

This New Castle-Sharon-Farrell study is strongly corroborated by other similar studies reported in this publication. For example,

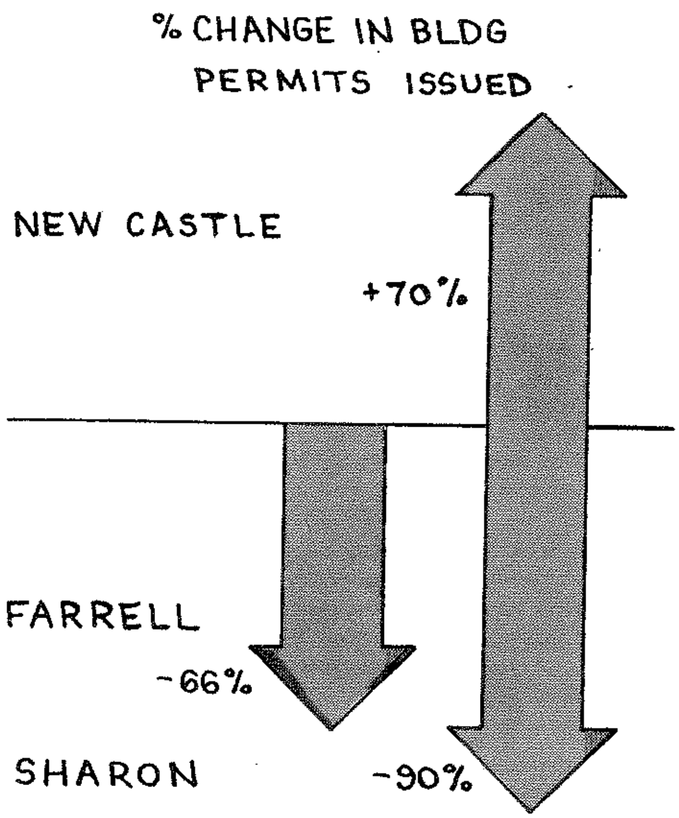
- Pittsburgh experienced a 114% increase in its three post-land-tax-increase years as compared to its three prior years (see Oct.-Nov. 1982 issue); its construction spurt far out-distanced the nationwide construction increase during the same years.

- Scranton experienced a 23% increase in its three post-land-tax-increase years as compared to its three prior years (see Oct. 1983 issue); neighboring and comparable Wilkes-Barre experienced a 47% decrease during the same years.
- McKeesport experienced a 38% increase in its three post-land-tax-increase years as compared to its three prior years (see Nov. 1983 issue); neighboring and comparable Duquesne and Clairton experienced 20% and 28% declines respectively in new construction during the same years. Duquesne has since adopted a two-rate property tax.
- 23 cities switched to taxing only land values in the Australian state of Victoria since 1955. All of them experienced construction spurts far out-distancing the construction records of neighboring and comparable cities (see issues of Oct. 1977, Jan. 1978, and Nov. 1978).
- A 310-city study in the Republic of South Africa showed that those cities taxing only land values experienced the greatest construction increase over a 20-year period. Cities taxing land more than buildings experienced the next greatest construction increase. Cities taxing land and buildings at the same rate experienced the least construction increase. And cities switching to taxing only land, or to taxing land more than buildings, experienced a greater construction increase than any of the above categories (see Sept. 1983 issue). These issues are available from this publication for one dollar each.

If there were only one study supporting the contention that a building-to-land tax switch encourages new construction, it would be legitimate to question whether the tax switch caused the construction spurt, but in light of all these studies, can we not conclude that the switch encourages new construction?

Why shouldn't it happen in your town also?

What are you doing to encourage construction and reduce unemployment in your town via the land value tax?



In 1982, New Castle, Pa. adopted a higher tax rate on land than on buildings. The other two cities did not. The above chart compares building permits issued in 1979-81 to 1982-1985.

Mayor James Barrett McNulty (Scranton;): "We're really used to it. People don't even recognize that it's in place in the City of Scranton. We've increased the rate four times as of 1980, and as a result we've had a tremendous increase in the number of building permits in the city for the years 1980 and '81 with an increase of up to 22% in the City of Scranton, while in our neighboring city of Wilkes-Barre, which is 14 miles down the Susquehanna Valley, there has been a drop of 44% over the last three

years. I believe that one of the main reasons for that is that the builder is no longer penalized in the City of Scranton."

II

Australian Evidence

Two American Experts Report: LVT Easier to Administer in Australia and New Zealand

In the fall of 1964, two American experts visited Australia and New Zealand in order to evaluate the land value taxation systems being practiced there. They were A. M. Woodruff, then Provost of the University of Hartford (and formerly a real estate appraiser) and L. L. Ecker-Racz, then Assistant Director for Taxation and Finance of the Advisory Commission on Intergovernmental Relations. Their report appeared in the October 1965 issue of "The Tax Executive."

Their comments on the ease and fairness with which land value taxation can be administered are especially interesting. We quote the following from their report:

"Dr. J. F. N. Murray, the highly regarded author of the leading Australian textbook on valuation techniques holds that:

"(a) equity in valuation can be more easily achieved when the rating is based on land rather than a combination of land and building;

"(b) considerable economies can be achieved if the Valuer General (chief assessor) does not need to maintain records on the character of buildings;

"(c) most of the errors in valuation involve buildings and not land; and

"(d) use of cadastral maps not only readily permits equalization of land values but reference to such maps makes it very simple for an aggrieved owner to determine whether he is treated equitably.

"In consulting with the United Nations concerning tax systems for new nations, where ownership records are good enough to permit clear identification of taxible holdings, Murray strongly advocates site value taxation because of its simplicity and the relative ease with which inexperienced civil servants can be trained to do the job.

"The argument commonly heard in America that site value rating is administratively impossible because of the difficulty of assessing land apart from the buildings on it, is not heard at all in Australia and New Zealand. Many decades of experience have convinced even the most hardened skeptics that while it may be considerably more difficult to appraise the land component of a single improved parcel apart from the building on it, the reverse is true when great numbers of properties have to be evaluated for tax purposes. Involved calculations need be made only for selected bench mark properties and the values established for the bench marks may be extrapolated to all properties, very much as American assessors customarily build up land value maps. The 'land value atlas' or 'cadastral map' is the device for accomplishing the extrapolation. Both Australian and New Zealand tax professionals, including a few who either oppose site value taxation or are lukewarm to it, are agreed on its administrative simplicity.

Woodruff and Ecker-Racz also reported that "the earlier graduated land taxes of the Commonwealth of Australia, the Australian states, and the central government of New Zealand were a decided factor in the breaking up of large landed estates."

"The case for the use of unimproved capital value for the base of property taxation on grounds of administrative simplicity, efficiency, and resultant equity between individual owners and classes of owners is also impressive, if only because professional administrators representing as a group nearly 300 years of collective experience are satisfied that substantial savings could be realized in valuation (assessment) costs, and assessment quality raised, if unimproved capital value were the only base used for local and state property taxation."

They Don't Kid Around in New South Wales

Some people who know a little bit say that since Australian localities don't have to raise tax money to pay for schools or police - those are state and federal functions there - the tax rates on land there are insignificantly low and provide no valid test of the common Australian practice of raising all local revenue by a tax on land only. If those towns exhibit spurts in new construction when they shift their building tax to a land tax, it's pure coincidence and the main cause for the construction spurt must be due to some other factor.

You're entitled to raise your eyebrows at such an explanation since the construction spurt invariably follows in so many cases upon the adoption of the single local land tax that coincidence would seem to be ruled out as the explanation. But now new evidence comes to us from the state of New South Wales which shows that the tax rate on land is in fact significantly high - much higher than in this country, for example.

In New South Wales, which includes the huge and booming city of Sydney, all localities are required by law to tax land values only. The tax rates there range, for most localities, from 2% to 7% of assessed value, and in Australia the assessments are up-to-date and genuine (in large part because the assessors there are state civil service employees and are not paid by their neighbors and assessees; and also they need only assess land rather than both land and buildings, and this considerably simplifies their task).

In addition, water and sewer rates are levied separately. They range from 1% to 5.2% and when they are added to the basic general rates, it is seen that the tax rate on land is substantial enough to produce the construction spurts mentioned above. (Information from Sidney Gilchrist article in Progress Magazine, Melbourne, June 1979, page 9)

How New South Wales is Beating the Home-Building Recession

In the past, "Incentive Taxation" has presented ample statistical evidence from many states in Australia showing that spurts in new construction have followed the shift to a tax on land values only. Now a new state has just been heard from - New South Wales.

It had been difficult to get evidence from this state, since every locality in it has been taxing only land values for over sixty years, thus making it difficult to run before-and-after-adoption studies or comparisons between land-taxing and non-land-taxing localities.

But in 1974, the Sydney Metropolitan Water Sewerage and Drainage Board and theHunter District Board (serving Newcastle and its surrounding area) switched to a tax on land values only, effective for 1975 and thereafter. The switch affected 1,255,000 homes which had previously been taxed both on land and buildings. Commercial and industrial properties were not affected by the switch and continued under the old system.

Interestingly, water and sewer boards in rural areas of New South Wales have long been taxing on land values only. Now that tax has been extended to the urban boards.

The statistical table in this article shows the home-building approvals for the areas covered by the Sydney, Newcastle and Melbourne water and sewerage boards. The Melbourne and Metropolitan Board of Works does not use the land-tax-only system and is included here for the sake of comparison.

Before we analyze the data, the reader should know that a serious recession occurred in Australia, as in this country, in 1975. It hit the home-building industry particularly hard.

HOME-BUILDING JOB APPROVALS

Year ended 30th June	Number of New Dwellings approved	Total Values of all Dwelling approvals ($000's)
SYDNEY STATISTICAL DIVISION*		
1979	25,513	878,889
1978	22,319	698,911
1977	21,312	591,981
1976	17,392	445,153
1975	23,047	452,729
NEWCASTLE STATISTICAL DISTRICT		
1979	2,995	96,103
1978	1,724	88,086
1977	1,585	71,661
1976	1,407	57,536
1975	1,742	51,337
MELBOURNE STATISTICAL DIVISION†		
1979	15,674	547,626
1978	15,863	554,825
1977	21,771	658,485
1976	24,250	618,359
1975	18,323	383,684

* Includes Wollongong Statistical District also served by the Sydney Water and Sewerage Board.

† Excluding shires of Flinders, Hastings, Healesville and Mornington which are outside the Melbourne and Metropolitan Board of Works rating area.

‡ The horizontal line separates the figures since un-taxing dwellings from those under the old basis where they were taxed.

Let's Look at the Data

The statistical table shows immediately that home-building recovered from the recession much more quickly and fully in land-value-taxing Sydney and Newcastle than in non-land-value-taxing Melbourne.

- In Sydney, the number of approvals increased 11% from 1975 to 1979; in Newcastle, despite serious setbacks in its large ship-building industry, approvals increased 72%. In unfortunate Melbourne, approvals decreased 14% over the same period.
- Sydney increased its total dollar value of home-building approvals by 94% in the 1975-1979 period, while Newcastle's increase came to 87%. Melbourne lagged behind with only a 43% increase.

The statistical table comes from the September 1979 issue of **Progress Magazine** (Melbourne), page 3 and is compiled by Alan R. Hutchinson from building approval statistics published regularly by the Australian Bureau of Statistics.

Corroborating Data

Mr. Hutchinson also informs us that "the superiority of the N.S.W. performance over that of the Melbourne area applies only to dwelling construction." Remember that commercial and industrial properties in New South Wales were not switched over to the land-tax-only system and they show no greater improvement in new approvals issued for 1975 to 1979 than did the similar non-land-taxed properties in Melbourne. Welcome corroboration! It reduces the likelihood that other factors may be causing the greater dwelling construction in Sydney and Newcastle.

If and when the land-tax-only system is extended to commercial and industrial properties in New South Wales, it will then be interesting to examine their four-year change in approvals issued.

The Darvall Board of Inquiry has recently recommended that the Melbourne Board of Works be given power to switch to land value taxation. The dissemination of Hutchinson's figures should make the switch more likely.

In the face of this sea of evidence, this flood of studies, showing that the higher taxation of land values stimulates economic growth, is it not legitimate to ask readers of this publication: what are you doing to get your own home town or state to increase the tax on land values and decrease unemployment and poverty?

Seymour Shire Building Permits Escalate Since Adoption of Land Value Taxation

Three years have now passed since Seymour Shire - a rural area in Victoria, Australia - changed over to taxing only land values instead of penalizing building owners with a property tax on both land and buildings. It is now time to analyze the results, as seen by this chart produced by Allan Hutchinson for the February 1985 issue of "Progress" Magazine:

Year Ending 30th Sept.	Values of Building Permits Issued for: Nos. of Dwelling	New Dwellings	Alterations & Additions to Dwellings	Building Other	All new
Buildings Un-Taxed		$ 000's	$ 000's	$ 000's	$ 000's
1984	131	5,270	78	3,215	8,563
1983	89	3,672	143	584	4,399
1982	63	2,412	135	2,769	5,316
Buildings Taxed					
1981	58	1,998	22	988	3,008
1980	56	1,760	56	1,544	3,361
1979	68	1,905	62	845	2,812

The source of these statistics is the quarterly publication by the Victorian office of the Australian Bureau of Statistics (catalog number 8702.2), which contains data on building permits issued.

The essence of the chart is this:

- Seymour Shire issued 55% more building permits in the three-year period following the switch to land value taxation (LVT) as compared to the three-year period preceding.
- The dollar value (in Australian dollars) of building permits issued was 99% greater for the after-period as compared to the before-period.

Could this construction spurt in Seymour Shire be due to factors other than the introduction of LVT? We are aware of no other factors, although you never know. But it is relevant to point out that ALL 22 of the other localities in the state of Victoria which switched to LVT since 1955 experienced a similar construction spurt, after-switch as compared to before, and not only that, but their construction spurt exceeded by far that of neighboring and comparable cities. See Incentive Taxation issues of 10/77, 1/78 and 11/78. In the light of all this experience, each reader should judge for himself how valid the "other factors" explanation is in explaining the construction results of LVT.

And after making an appropriate judgment, let each reader then ACT accordingly.

(The state of Victoria is in the southeastern corner of Australia. Its capital city is Melbourne).

Seymour Shire Prospers During a Recession

IT readers of some years' standing will remember that we have published three separate studies on all 23 localities in the southeastern Australian state of Victoria which switched after 1954 from taxing land and buildings to taxing only land. In each case, a building boom followed the switch, and the boom exceeded any new-construction increase that might have occurred in neighboring and comparable localities. See IT issues of October 1977, January 1978 and November 1978 (available upon request).

In September 1981, Seymour Shire became the twenty-fifth locality in Victoria to shift to land-only taxation since 1954. Reports received earlier this year in this country tell that Seymour Shire is no exception: building permits issued are far greater than in the best previous year. The "Seymour Telegraph" of October 9, 1982 quoted a local government report as saying:

> "There has been a building boom in Seymour Shire over the past year with building permits valued at more than $7,000,000 being issued."

The official report went on to say that Seymour Shire's building permits issued in the year ending September 30, 1982 (which is the first year following the switch to land-only taxation) was almost 2 1/2 times the value of the best previous year, and the number of building permits issued represented a 5% increase over the best previous year.

This should come as no surprise: un-tax buildings and we'll have more of them; up - tax land and we encourage the fuller use of sites.

But wait - there is more to consider. The Australian Bureau of Statistics reported that in the year ended October 31, 1982, new home construction in the state Victoria slumped to its lowest level in 20 years! "If ever there were any doubts as to just how bad conditions have become, then these figures will certainly put an end to them," Housing Industry Association chief executive Les Groves said.

So - after Seymour Shire switched to land-only taxation, it experienced an unprecedented building boom while the state in which it is located slumped to a 20-year low.

The score on land value taxation in Victoria is now 23 wins, no losses. In Pennsylvania, the score is 5-0. Isn't it reasonable to say that the longer we delay introducing a two-rate tax in our home town, the more we contribute to the decline of local business and the more the army of the unemployed grows and grows? How much more evidence is needed to convert intellectual approval into real-life action? To know and not to act . . .

(Information for this article came from Progress Magazine of Melbourne, issue of Dec. 1982-Jan. 1983)

Perhaps this question has crossed your mind: "if land value taxation is so good, why hasn't it been more widely adopted?" Well, if you're not going to act after reading articles like the one above, then at least you'll know the basic answer to the question.

Hard Facts Show Land Value Taxation Spurs Economic Growth

In its five years of existence, this periodical has presented literally dozens of studies showing how the adoption of land value taxation was almost immediately followed by increased construction and rehabilitation. The chart on the right presents still more evidence. It presents building permit statistics for those localities which have switched to the land-value-tax-only basis since 1970.

The chart is based on A.M.I.S. Australian government statistics as gathered by the Land Values Research Group, Alan Hutchinson, Director, and as reproduced from Progress Magazine (Melbourne), November 1975, p. 11. UCV stands for unimproved capital value, which to Americans means a tax only on land values. NAV means net annual value and represents a tax on the estimated annual income of real estate; it is mostly a tax on buildings.

The figures in parentheses represent the building permits which could have been expected had local taxes on buildings continued after 1970 in accordance with the general construction trends in the State Statistical Divisions in which these localities are situated.

Municipality and local tax basis. Year ended 30th June	Dwelling permits issued Nos.		Value $ (000's)		Total value of all building permits $ (000's)	
KILMORE SHIRE						
Buildings un-taxed						
1975 UCV	112	(51)	2258	(981)	2577	(1646)
1974 UCV	110	(67)	1688	(1000)	1830	(1563)
1973 UCV	79	(55)	1109	(662)	1394	(1047)
1972 UCV	45	(41)	611	(443)	925	(680)
*1971 UCV	26	(27)	348	(334)	570	(530)
Buildings taxed						
1970 NAV	32		342		592	
1969 NAV	19		202		388	
1968 NAV	21		207		320	
BUNINYONG SHIRE						
Buildings un-taxed						
1975 UCV	108	(38)	2149	(763)	3349	(986)
1974 UCV	114	(60)	1824	(944)	2723	(982)
1973 UCV	90	(48)	1278	(624)	2080	(657)
*1972 UCV	44	(35)	550	(396)	1897	(444)
Buildings taxed						
1971 NAV	30		322		393	
1970 NAV	33		353		414	
1969 NAV	28		298		415	
MELTON SHIRE						
Buildings un-taxed						
1975 UCV	517	(326)	9211	(6503)	11902	(7689)
*1974 UCV	825	(485)	11881	(7461)	14850	(8423)
Buildings taxed						
1973 NAV	587		7202		8848	
1972 NAV	467		5043		5893	
1971 NAV	299		3212		3907	

UCV means Unimproved Capital Value of land.
NAV means Annual Value of land plus buildings.
*The transition year comprises 9 months of un-taxed and the remaining three months of taxed buildings

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B.Sc., M.I.E. Aust.

For example, in 1975, Kilmore Shire issued $2,577,000 in building permits, more than four times the value issued in the last year prior to the switch to the land-only tax. Had Kilmore Shire experienced the same post-1970 growth rate as its district did, it would have issued only $1,646,000 in building permits. The difference of $931,000 represented wages and profits that would not have existed at all without a switch to a land-tax-only system.

It might cross your mind that perhaps we are showing you statistics for only those land-taxing localities which have had good construction records. Not so. Rest easy.

This article, coupled with three others that have appeared in the past, show statistics for ALL the localities in the state of Victoria which have adopted land value taxation between 1955 and 1974. See our previous issues for October 1977, January 1978 and November 1978. Thus, there has been no selective use of statistics to substantiate the case for land value taxation.

New Victorian Study: LVT Towns Outgrow Their Neighbors

If more hard evidence is needed, here it is:

- In the Melbourne metropolitan area, the 27 cities taxing land values only for local government showed an average inter-census growth for privately built dwellings of 12.9%, while the 15 cities that tax land and building values together showed an average growth of only 2.8%.
- For all of the state of Victoria, Australia, the average growth rate was 15.2% for the land tax only localities compared with a 10.9% for the tax-buildings-also localities.

A comment on "inter-census": it refers to the difference in privately dwelling construction between the latest government census, June 30, 1976, and the previous census of June 30, 1971.

These statistics come to us from Progress Magazine (Melbourne), July 1979, page 8 and were based on a 17-page report giving details for each of the 211 councils in Victoria. Copies of the full study (Reference 4.4) are obtainable at $1.00 per copy from Mr. H. B. Every, Hon. Secretary, Land Values Research Group, 27 McCallum Road, Doncaster, Vic. 3108, Australia.

One can wonder what tremendous economic growth would ensue if these land taxing towns in Victoria were to impose an increasingly higher tax rate on land assessment, using the extra revenue to pay for their residents' state and federal taxes, or perhaps they could distribute the extra land tax revenue received on an equal per capita basis . . . .

Conclusion: How much more hard evidence do you need before you try to get your town to lower the property tax rate on buildings and raise it on land?

Sale City Sizzles

It didn't happen yesterday, but if it was true then, it is true now and it has important implications for the beleaguered economies of our American cities. We refer to an article appearing in the February 1971 issue of Progress Magazine. It deals with the spectacular rise of Sale City, 136 miles east of Melbourne. The following is excerpted from that article:

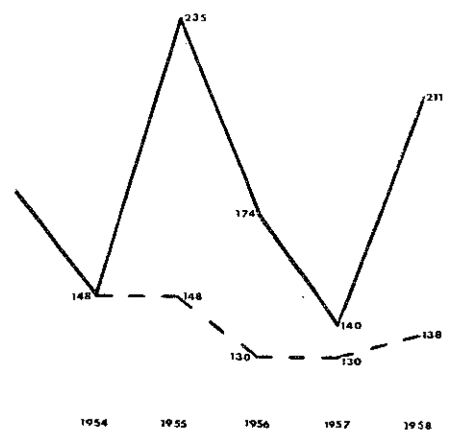
"Its growth has been spectacular for a rural city. Its population stood at 6,537 at the census in 1954, when it ceased imposing local taxes on homes and other improvements. By the 1961 census it had risen to 7,899 (an increase of 20.8 per cent). By the next census in 1966 it had risen further to 8,648 (increase of 9.5 per cent) and in 1970 is approximately 11,000. The growth to 1967 preceded the gas and oil developments which have accelerated it since.

"Before it changed to site value rating with untaxed improvements in 1954, the prospects of Sale looked bleak. Number and value of building permits issued had progressively fallen for the three years preceeding. But the stimulus of untaxed buildings first stopped the rot and then reversed the trend, and the city has never looked back since. At the time of the change-over, value of building permits issued in the year was $296,000. For the year ended June 1970 the value totalled $3,310,000.

"An article in the magazine 'The Age' says, 'The townfolk say there is no doubt that the discovery of natural gas in Bass Strait, with its consequent industrial establishments near Sale, accelerated the city's growth. But they claim it was happening anyway - that Sale was progressing rapidly towards increased industrial and commercial self-sufficency and that the past three years of rapid expansion should be regarded merely as a most welcome shot in the arm for local confidence.'

"Motels numbered only three a couple of years ago and now there are seven with more planned. Just about every pub in town has the builders in remodelling and on the outskirts of the city developers are going great guns with new housing subdivisions. At the Sale Club they argue whether they have 13 or 16 millionaires as members. Significantly they were mostly farmers!' "

In our American cities, wages and profits are lower than they ought to be, and unemployment and poverty await those who slip and fall in the competitive struggle. Is there an urban politician here or there who can look beyond the numerous short-term crises that beset him, and do something basic and powerful for the long run benefit of his constituents?



Sale City

The above chart represents actual new construction (solid line) after the adoption of LVT compared with projected construction levels (dashed line) had this town followed the construction changes of other non-LVT towns in its statistical district. (The above figures represent old Australian pounds. One pound equals two new Australian dollars.)

Sydney vs. Melbourne: Another LVT Success Story?

Sydney and Melbourne are cities in Australia of similar size (population 2.7 million and 2.4 million respectively) - but with one important difference. Sydney has been taxing only land values for its revenue needs for decades while Melbourne taxes both land and buildings. In 1976, the independent Sydney Water and Sewerage Board, which had been taxing both land and buildings, switched to a tax on only land values (LVT) for all of its not inconsiderable revenue needs. The Melbourne Water and Sewerage Board continued to levy a land and building tax.

Since 1976, residential construction has increased much faster in Sydney than in Melbourne. The difference is surprising - in excess of eleven-fold! These statistics from Progress Magazine (2/83, Melbourne) tell the story:

Year	Unit ($ millns.)	Value of Dwelling Permits Issued Sydney Metro	Melbourne Metro
1981/82	(„)	1193	790.
1976/77	(„)	554	718
Growth	(„)	639	72

During the years covered above, Sydney's value of dwelling permits increased 115% while Melbourne's increased only 10%.

One might expect that if new construction is taxed less, there will be more of it; if land is taxed more, then it will be more fully developed. Nevertheless, other factors might also help account for Sydney's greater growth.

Yet it is reassuring to note that once again the LVT town shows more economic viability than the non-LVT one. There are literally hundreds of corroborating comparisons pointing to the same conclusion, with more to come.

Something to think about in these times of high unemployment.

Study Shows LVT Towns Have Fewer Properties in Tax Arrears

Latest information just received from Victoria, Australia shows that towns in the Melbourne suburbs which tax only land values (LVT) have less property in tax arrears than towns which tax both land and buildings. Here are the figures:

	Arrears as Percent of Revenue Collected 1976-77	1977-78	1978-79
Non-LVT Localities			
Bacchus Marsh Shire Cranbourne Shire Bulla Shire Lillydale Shire Healesville Shire Sunshine City	6.62	6.25	5.82
LVT Localities			
South Melbourne City Sherbrooke Shire Croydon City Ringwood City Melton Shire	3.50	3.46	4.13

Source: Allan Hutchinson, January 7, 1981 letter to Incentive Taxation, citing Australian Government Bureau of Census and Statistics.

In other words, an average of 6.23% of the revenue collected in the non-LVT localities was in tax arrears (non-payment), while for the LVT localities the same percentage was 3.7%, or almost half.

Mr. Hutchinson also gave the arrears/revenue percentages for central Melbourne City. For the years given above, they are: 5.14%, 3.02%, 1.20%, for a three-year average of 3.12%, which is about equal to the three-year average of the LVT localities. But it would seem wiser to compare the arrears/revenue percentages of the suburban LVT localities with the suburban non-LVT localities rather than with the quite different central city.

These figures should help allay the fears of local officials in the United States who think that if the property tax is shifted from buildings to land, many derelict properties will revert to the city in tax default. Not so - the result rather will be an increase in construction.

As a matter of fact, the LVT localities listed above have an average improvements-to-land ratio which is 14% higher than their suburban non-LVT counterparts. This indicates a higher rate of construction in the LVT localities.

And one last point: the taxes payable on vacant land under LVT in all the localities listed above are more than double the taxes payable under the non-LVT approach. It is vacant land rather than built-upon land which mainly becomes tax delinquent. If there were no other factor working it could therefore be expected that the amount of unpaid taxes on vacant land would increase under LVT more than twice as quickly as under non-LVT. But the evidence here is that they are increasing only at about half the rate under land value taxation.

Ignore This Hard Evidence If You Can

The evidence piles up. Up and up and up. Now comes still more.

Regular readers of this bulletin have seen numerous hard-fact studies showing how land value taxation boosts new construction and rehabilitation.

Now comes yet one study more. And it is a beauty.

The Land Values Research Group of Melbourne, Australia, using data from the Australian Bureau of Statistics, has examined the record of new construction and rehabilitation in Caulfield City (Victoria, Aus.) and the seven cities adjoining it. Here is what the Group found:

In the three-year period 1966-69, Caulfield City taxes only land values for local revenue purposes. Then it went on to a dual tax system, collecting part of its revenue from a tax on land values and part from a tax on real estate income. This unfortunate regression at least gives us the opportunity of finding out what happens when a city reduces its reliance on land value taxation.

What happened in Caulfield? It shouldn't happen to your town, but maybe it has. The immediate effect of the change was to cut the total value of dwelling permits issued by half for the three-year 1969-1972 period as compared to the 1966-1969 land-tax-only period. Nor had the total value of dwelling permits recovered by the 1975-1978 period.

In the four adjoining cities taxing only land values (Moorabin, Oakleigh, Malvern, Cumberwell), the value of dwelling permits issued progressively increased from the initial period of 1966-1969 through 1969-1972, 1972-1975 and 1975-1978. In the latter period the value of dwelling permits issued were 50% higher than in the initial period!

But lo! The poor non-land-taxing neighboring cities of Brighton, Prahran and St. Kilda. Their value of dwelling permits issued progressively decreased, so that by 1975-1978 it was less than half of the initial period of 1966-1969!

To sum up: the cities which taxes only land values experienced progressive economic growth. Caulfield suffered when it started taxing buildings. The cities levying an income tax on real estate did worst of all.

If you want a copy of the report, send one dollar to Allan R. Hutchinson, Hon. Director, Land Values Research Group, 32 Allison Ave., Glen Iris, Victoria 3146 Australia.

Is it too much to say that the unemployment and economic stagnation that might exist in your home town is partially the fault of those who, having read the results of this study and the many others like it, make no effort to get the mayor and city councilmen to lower the tax rate on buildings while increasing the tax rate on land?

Construction Spurt in Kilmore Shire

The latest figures for the township of Kilmore Shire show continued construction growth ever since its electorate voted in 1971 to tax land values only.

- In the four years prior to the switch new construction grew 104%. In the four years after the switch, it grew 209%.
- Construction continued to grow so that by 1977 (the last year for which statistics are available), it had grown by 508%.

But you are entitled to think, "Maybe it would have happened anyway. Maybe the whole region experienced construction growth."

As a matter of fact, the whole region did grow, but only by 160%, which is considerably less than Kilmore's 508%. All this is revealed in the figures in parentheses in the table below. They show the construction which could have been expected had Kilmore followed the construction growth of the Goulbourn statistical district in which it is located. They are arrived at by multiplying the construction figure for the last year of taxed buildings (1970 = A$592,000) by the construction change for each of the following years.

For instance construction in the entire Goulbourn district was off 20% from 1970 to 1971. Had Kilmore followed the construction trends of its district it could have expected A$474,000 in new construction (A$592,000 minus 20%). Instead, after having adopted taxation on land values only, it had A$570,000 in new construction.

Year ending June 30th	Value of all Building Permits Issued (A$'000's)
Land Value Tax Only	
1977	3602 (1539)
1976	2658 (1598)
1975	2577 (1527)
1974	1830 (1450)
1973	1394 (799)
1972	925 (509)
1971*	570 (474)
Buildings Taxed	
1970	592
1969	388
1968	320
1967	290

*In 1971, land value taxation was used for the last nine months only.

Source of statistics: Australian Bureau of Statistics, building permits reference number 7, 1978, Victorian Office.

Note that in every year from 1971 to 1977, Kilmore's actual construction outstripped what it could have expected had it followed its district's construction trends.

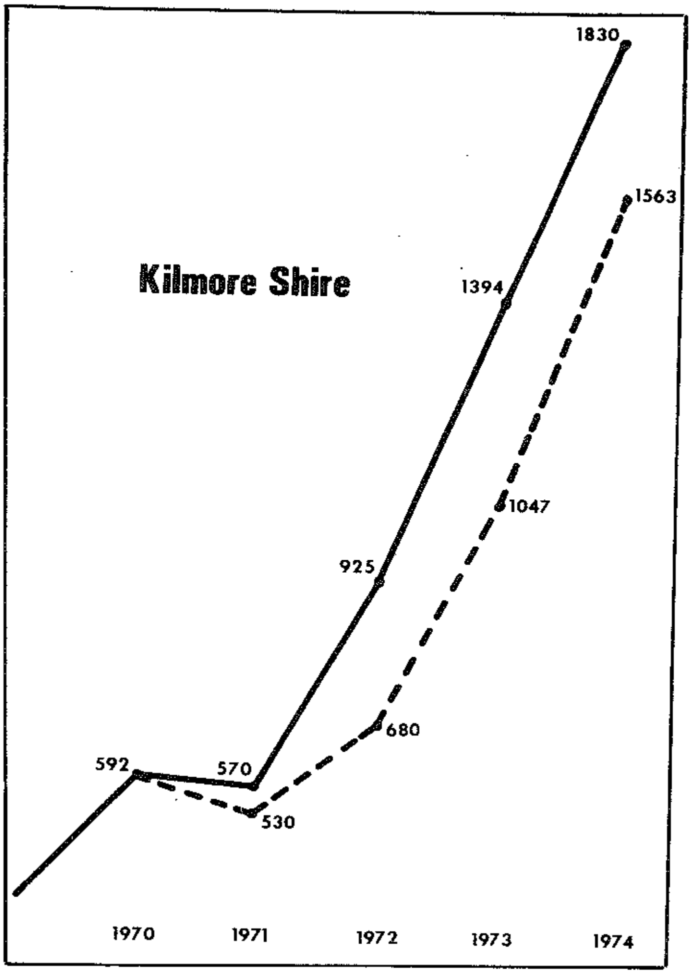
In fact, it experienced A$5,660,000 more in construction that could have been expected. In percentage terms, 72% more for the entire seven-year period!

To Be Expected

No one should be surprised to see this faster growth. After all, wouldn't you prefer to build in a community where your efforts would not be taxed? If you owned land, would you be less willing to keep it out of full use if you had to pay a heavier tax on it whether you used it or not? Wouldn't you want to build an improvement on it at least adequate to pay the tax on it? So we should expect a shift to land value taxation to spur new construction.

Are there people in your town walking around looking for jobs because land is not being taxed enough, buildings too much? Wouldn't land value taxation spur new construction in your town, just as in Kilmore? Why should it be any different?

What are you doing to improve economic conditions in your town?



The above chart represents actual new construction (solid line) after the adoption of LVT compared with projected construction levels (dashed line) had this town followed the construction changes of other non-LVT towns in its statistical district.

Draw Your Own Conclusion

Buninyong is a rural shire 73 miles west of Melbourne. It was famous in the past as a rich gold mining center but its fortunes declined when the mines were worked out. In 1972, the local taxpayers, mostly farmers and cattlemen, voted out the old property tax system and replaced it with a tax on land values only. It has no other taxes.

We present here the record of building permits issued both before and after the change. You draw your own conclusions.

Year ended 30th June	Building Permits Issued Number	Value (A$'000's)
Buildings un-taxed (LVT)		
1978	184	7,087
1977	158	5,976
1976	166	4,545
1975	108	3,349
1974	114	2,723
1973	90	2,080
1972*	44	1,897
Buildings taxed		
1971	30	393
1970	33	414
1969	28	415

*Year of tax change: three months of taxed and nine months of un-taxed buildings.

The source of these statistics is Progress Magazine (Melbourne), June 1979, page 3, as taken from the Australian Bureau of Statistics, series catalog number 8703.2.

Bear in mind that 1975-76 were years of serious recession in the building industry.

Good Old Evidence for Land Value Taxation

Good evidence is good evidence, no matter how old it is. According to a pamphlet by Johan Hansson entitled "Land Value Reform in New Zealand" and published around 1910 -

- in those towns of New Zealand which are not taxing land values exclusively, the increase in population from 1901 to 1906 was 15.5%;
- in the land-tax-only towns, the increase was 29%.
- the value of improvements increased 36% in the non-LVT towns and 82.3% in the LVT-only towns.

These statistics were based on government census data. They seem to support the contention that LVT induces economic growth, and this is how we might combat unemployment today.

III

Miscellaneous

Evidence

How to Contain Urban Sprawl and Save the Clean-and-Green Countryside

I live about a quarter of a mile north of Indiana, Pa., a town of some 15,000 souls. Between my house and the town boundary there are four empty lots for which the owner is asking $17,000 apiece. In the other direction, away from the town about two miles out, is a pretty picture postcard farm, surrounded here and there by homesteads. The farm now bears a sign, "For Sale."

There's a clear cause-and-effect relationship between the empty urban lots and this farm (as well as others) up for sale in the countryside. Because homeowners are not settling on those urban empty lots, they are settling in the countryside, enticing farmers to sell out. And when the homeowners settle out of town, they buy an acre or two, whereas in town they would have bought a quarter-acre plot.

To be sure, many homeowners out in the countryside are there by choice. They prefer the great outdoors to in-town living. But most of them would have preferred to live in town, as the higher price of in-town land indicates.

Because these homeowners are living out of town while working and shopping in town, they use gas, emit exhaust, use up the roads, increase costs for the extension of sewers, gas and water to their distant sites, etc.; all these costs would be less if they could have settled on the in-town and near-town lots which were their preferences had not these lots been held out of use at a huge price.

Not only that, but public transportation becomes uneconomic in sprawled out, sparsely settled areas.

In addition, the city provides roads, sewers, utilities, schools, hospitals, police and fire protection to those lots at huge cost. What a waste to service empty lots! And what a windfall profit to the landowners, since the taxes paid by workers and building owners finance the public improvements that enable these landowners to sell out at a huge profit. What an insane system - the active producers of wealth are taxed to enrich non-producers! How much would those vacant lots be worth if those public improvements didn't exist?

Of course, the obvious solution is to tax land more. It would become too expensive to keep land out of use and it would also bring down the price of land within the means of lower-income homeowners.

Because we don't tax land more, the countryside is despoiled, gas is wasted, pollution increases, and the cost of local government services skyrockets. Also land costs more and so does homeowning.

"When urban land shoots up in price, developers are encouraged to construct in the suburbs or rural areas instead. When rural land prices zoom, then farmers are encouraged to sell out at a speculative profit. Up-taxing land and down-taxing buildings is the antidote." - Catalyst!, p. 36

Moreover, because countryside land is inadequately taxed, it is used inefficiently and this causes still more invasion of the clean and green. Rural sprawl is no good, either.

21%

"Wait a minute," some readers will say. "That all could be true, but look about you. There isn't much vacant land around. There are more important causes of the problems you mention."

Not so. In 1971, the prestigious journal "Land Economics" published a vacant land survey of all 86 U.S. cities with populations over 100,000. Fully 21% of the land area in the cities for which data was available (58 out of the 86) was vacant and buildable upon. 21%! A much greater percentage than that was vacant, but not all the vacant land was buildable upon (see Ray Northam, "Vacant Urban Land in the American City," Land Economics, 11/71).

The chart below gives vacant land information for 13 of the 86 cities surveyed.

Vacant and Buildable Land in 13 U.S. Cities

City	Date Reported	Proportion of land area vacant	Total Acres Vacant Land	Proportion Considered Buildable	Proportion vacant and buildable	Net Acres of Buildable Vacant Land
Allentown, Pa.	1970	22%	2,465	75%	17%	1,849
Erie, Pa.	1970	17	2,063	95	17	1,960
Fresno, Ca.	1970	20	3,169	100	20	3,169
Jersey City, N.J.	1970	17	1,750	100	17	1,750
Los Angeles, Ca.	1970	10	29,408	100	10	29,408
Milwaukee, Wis.	1970	23	14,092	85	20	11,978
Mobile, Ala.	1966	59	46,782	NA	NA	NA
Newark, N.J.	1966	9	1,422	NA	NA	NA
New York, N.Y.	1970	13	25,656	90	12	23,090
Pittsburgh, Pa.	1970	23	8,230	36	8	2,963
San Diego, Ca.	1970	54	107,537	95	51	102,160
San Francisco, Ca.	1970	5	1,371	85	4	1,165
San Jose, Ca.	1970	57	39,630	62	35	24,571

Sources: Ray Northam, "Vacant Urban Land in the American City," Land Economics, 11/71. Values referring to dates other than 1970 are calculated from data in National Commission on Urban Problems, "Land Use in 106 Large Cities," Three Land Research Studies. Study No. 2, Research Report No. 12, (Washington, D.C.: Government Printing Office, 1968). Values referring to 1970 are based upon personal corresponddence with officials of each of the cities reported.

"Ah, yes," some will say. "But that was in 1971, or just prior. What about today?"

Well, these are the most recent figures I can find. But consider: Most of these cities have lost population since 1970. Abandoned old buildings are a well-known urban problem of the 1970's. It is not likely that the 21% vacant-yet-buildable figure has decreased, and it may well have increased.

Other studies corroborate this one. They are summarized in a book entitled "Catalyst!" available for $5.00 from HGFA, 2000 Century Plaza, Suite 238, Columbia, MD. For example, a 1966 U.S. census report showed the number of vacant lots to be 14.25 million, or 1.25 million more than in 1957, despite all the new construction of the 1957-1966 period. This is another indicator that the 21% vacant-yet-buildable figure is not out of date.

But there's another big consideration. Unused land is just the tip of the iceberg. What about all the partially used land sites - aren't they semi-vacant? To the degree they're vacant, shouldn't they be added to the 21% basic figure?

For example, suppose we put a camping tent on a valuable vacant site; isn't it still mostly vacant? Suppose the site contains a building which was once suitable but has depreciated into dilapidation; once again we have a partially used site. Aren't most downtown parking lots in only partial use? Ditto for two-story buildings at valuable intersections, and so on. Many sites are not being put to their highest and best use, and so they are to that extent vacant.

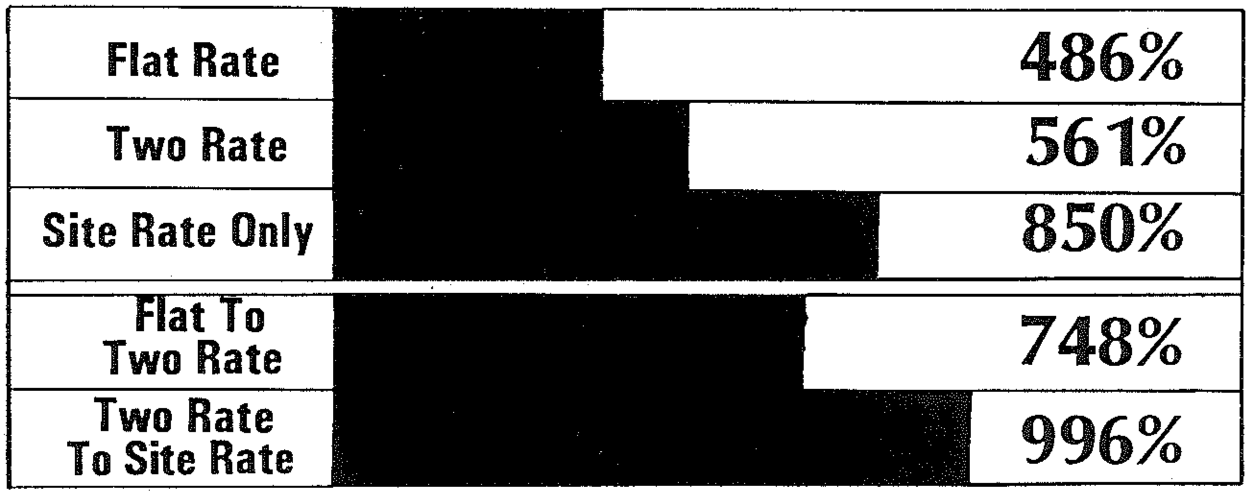
It is not possible to measure exactly how much partial use there is, but it is clearly considerable.

Tax land more and we do much to correct the ills of urban sprawl. We do much to keep our countryside clean and green.

Don't tax land more and we continue to dilapidate both town and country. And fall victim to other economic ills also.

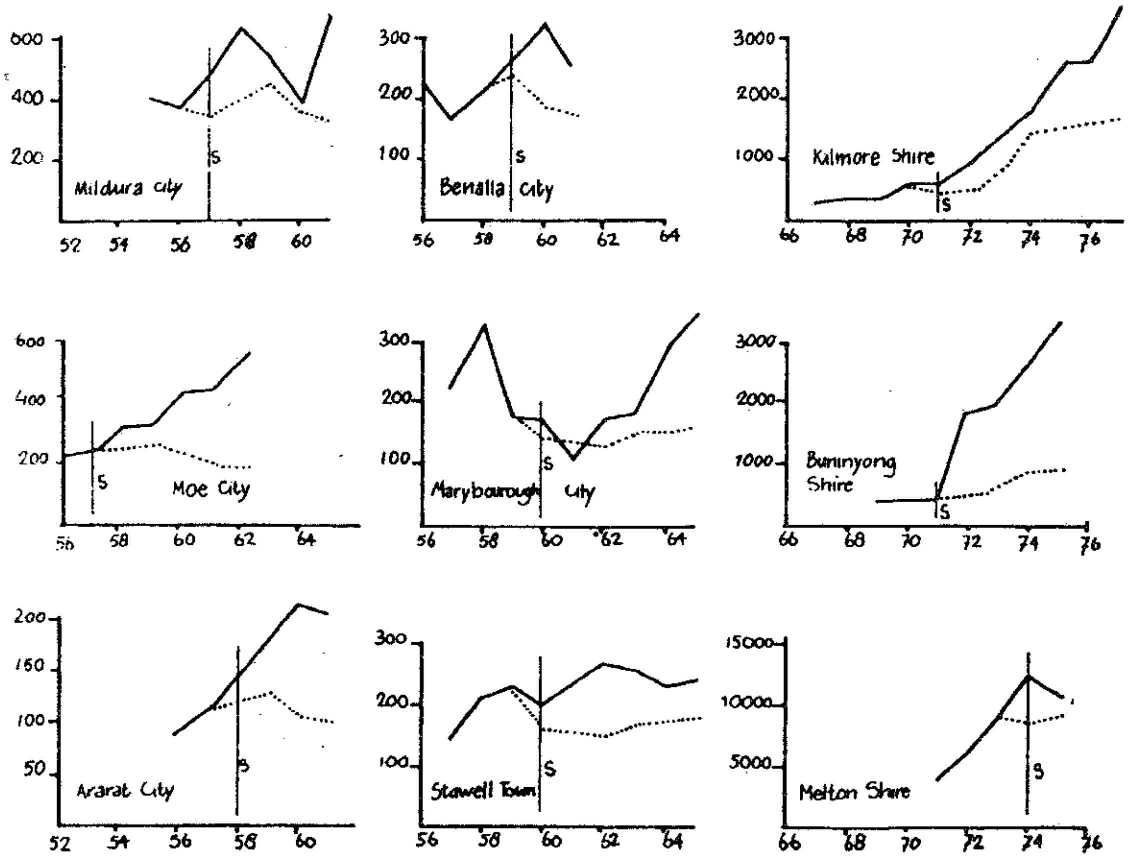
COMPARISONS OF THE 20-YEAR GROWTH OF THE 125 LARGEST TOWNS IN THE R.S.A.

1959 – 1979 Bldg. Assessments

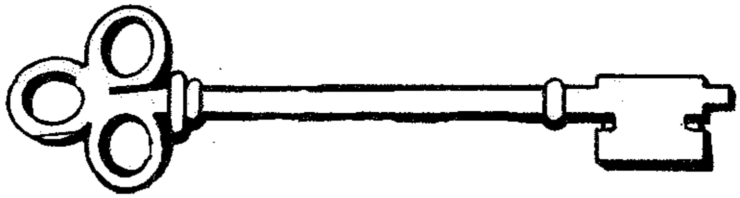


This chart shows that in the Republic of South Africa during 1959-79, cities taxing only land-sites increased their building assessments the most (i.e., bldg. asmts. increased 850% for cities taxing only site values). And when they shifted toward taxing land-sites more during 1959-79, they showed the greatest building assessment increase of all. Land value taxation seems to produce economic growth.

Flat Rate - same property tax rate on both land and building assessments. Two Rate - higher rate on land. Site Rate Only - only land asmts. taxed. The last two categories refer to towns which switched, 1959-1979.



The solid line above represents actual new construction. These towns adopted LVT in the year indicated by the vertical line marked "S" (for switch). The dotted lines represent what the construction would have been had these towns followed the construction changes of the other towns (some of which were taxing land-only) in its statistical district. [The above figures represent old Australian pounds. One pound equals two new Australian dollars.]



The Urban Land Institute calls land value taxation "A golden key to urban renewal, to the automatic regeneration of the city—and not at public expense."

(Research Monograph No. 4, Pg. 28)

We take this opportunity to thank the Robert Schalkenbach Foundation for its generous grant which made possible the publication of this pamphlet.

Would you like to obtain copies of Catalyst! [115 pages, $5], "Incentive Taxation" [free back issues, $2/yr. subscription], or more information on two-rate taxation? Then contact the Center for the Study of Economics, 2000 Century Plaza [238], Columbia MD 21044, [301]740-1177 or after office hours [301] 997-9232.

A biographical note about the author of these articles: Steven Cord has been a professor of history and social science for 24 years at Indiana University of Pennsylvania [13,000 students, Indiana, Pa.]. He retired in 1986 to become full-time president of C.S.E. and editor of "Incentive Taxation." He has authored two books and many research articles on land value taxation. He is married, with three children.

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A 'Golden Key' to Urban Renewal and City Growth

FOR SEVERAL DECADES Dr. Steven B. Cord, president of the Center for the Study of Economics in Columbia, Maryland, has been studying the effects of differential taxation of land and buildings in the Pennsylvania municipalities (now grown to seven) and in the cities elsewhere in the world where this form of land value taxation has been introduced.

He reports on his findings in a monograph entitled *The Evidence for Land Value Taxation* just published by the center.[1] The work is subtitled "A Compilation of Studies Presenting Hard Objective Evidence on Whether a Building-to-Land Shift in Property Tax Rates Produces an Increase in New Construction."

"Shifting the property tax off buildings onto land values," Dr. Cord points out, "has been called a 'golden key' to urban renewal, to the automatic regeneration of the city—and not at public expense." The monograph, he adds, presents hard evidence that such a shift has, in fact, been followed by new construction.

He notes that one of the Pennsylvania cities, McKeesport, now has a 10 percent rate on land, 2½ percent on buildings and new construction was given a three-year abatement of the tax on buildings. This increased total tax revenues by almost 50 percent and new construction in the three year period averaged 38 percent higher than in the previous three years.

Dr. Cord reports that it was Allan Hutchinson, a city councilman in the state of Victoria, Australia, who conceived the method of comparing building permits before and after a building-to-land tax switch, as well as comparing the experience of the switching locality with that of comparable localities.

He first reported the results of these studies in the bulletin, *Incentive Taxation,* which he edits. The studies were made by the Center for the Study of Economics; the Center for Local Tax Research in New York; the Advisory Commission on Intergovernmental Relations, and the Land Values Research Group, Melbourne, and several magazines.

"The theory is simple enough," Dr. Cord writes. "Decrease the property tax rate on buildings and we make new construction and rehabilitation more profitable. And if we increase the land tax rate, we encourage landholders to put their sites to an efficient use in order to get enough income to pay the increased land tax plus a profit on the improvement."

W.L.

1. Center for the Study of Economics, 2000 Century Plaza, Suite 238, Columbia, MD 21044, US$3.00, postpaid, in the U.S.; US$4, postpaid, elsewhere.

NOTE

FORTUNE Magazine, for its August 1983 article on land value taxation, independently corroborated all the Pennsylvania statistics given here, except for the New Castle, Pa. statistics (which were developed since August 1983) and the Pittsburgh statistics, which were taken from a study done by the Pennsylvania Economy League (a prestigious independent research agency).

The sources of information for all the studies in this booklet are government statistics - city building-permit statistics in the case of the Pennsylvania examples, and national government statistics in the overseas cases.