

Incentive Taxation

Let's Dream a Little....

Regular readers of this publication know that we stress facts, the Real World, empirical studies and statistics. But now, let us dream a little.... Imagine that in your town -

- There are no taxes, no taxes at all, on productive effort.
- But your local government is still getting the same revenue as now.
- Poor people can buy land cheaply to start a business.
- Every site is put to its highest and best use (but not more than that - no

seven-story buildings on land best used for agricultural or open-space use).

Well, isn't all this exactly what a building-to-land shift in the local property tax would bring about?

- Wouldn't buildings be taxed less?
- Wouldn't a building-to-land shift be revenue-neutral for the locality's government?
- Wouldn't the cost barrier to wider land usage be reduced?
- Wouldn't landowners be encour-

THE PROPOSAL

1. Private landownership and assessments to remain untouched.
2. Levy a lower rate on building assessments, higher on land, instead of the same rate on both.
3. How to do it? Call us! We have experience (no obligation).
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aged to develop their site more fully if they had to pay a higher land value tax on it?

Isn't this a dream that's well within our ability to attain?

A Tale of Two Cities

by Mason Gaffney (after visiting South Africa in 1992)

I am struck by The Miracle of Johannesburg. Jo-burg is Bootstrap City. It should have died when its gold mines played out, like a proper mining boomtown; instead it remains as the economic capital of its nation and half a continent.

Johannesburg defies most laws of urban economics, e.g. that "mines create no great cities." Explainers still cite the mines, but its mines are just tailings now, so it should be a ghost town. It has no harbor, no water transportation, not even any gravity water supply. It is, in fact, on a ridge-top, the Rand or "reef," at an elevation over 5,000'.

It has no sunburst of rail lines, like Chicago or Boston, "The Hub," except perhaps what it has attracted itself. It is "on the main rail line," Explainers say, but so are a thousand miles of other sites. The natural site lacks outstanding amenities, and certainly can't hold a candle to Cape Town. Jo-burg has no

governmental economic base. Surrounding farmland is poor. Why Johannesburg? Why is it the largest city, the center of finance, industry, commerce, and the international air travel?

As a public finance economist I may overvalue incentive taxation, but Jo-burg has it. The property tax is on site value alone, and at a high rate: They tell me it is 4%. This is what makes Jo-burg distinctive. Challenge and response: Jo-burg had to do something right in order to survive, it has become and remains Number One. Give me a better explanation and I'll back off. I haven't heard one yet.

Most people, especially The Explainers, may live in the midst of a great applied demonstration of a principle, and never see it.

Jo-burg is not heaven, far from it. Its enlightened municipal policy has not solved the great national problems of race discrimination and black

homelessness: blacks might not buy land there, or in any "white" area, until a year or so ago.

Cape Town

Cape Town, by contrast, is Sleeping Beauty. It is gifted with one of the world's great sites, ideal climate and scenery. There are only so many continents, with so many southern tips in the right latitude to replicate the Mediterranean climate. It also has the national legislative capitol. It enjoys the business potential on New York with the climate of La Jolla, the scenery of Vancouver, and the political base of Washington (or at least Sacramento). Tourists flock there, and would do so even if the place were misgoverned by Mayor Idi Amin with Police Chief Saddam Hussein.

Actually the Honorable Mayor, Frank van der Velde, is a good fellow who favors changing to a site value tax.

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• This publication is 21 years old this year. Frankly, I am somewhat abashed, despite the \$88.8 million/year transferred in property taxes from building owners to landowners; we have had a real impact.

Why then, "abashed"? Because this \$88.8 million/yr. has been hard-won - we had to visit each of the many cities which have gone two-rate. We had to fight and fight hard for lower taxes on producers. We had to act ourselves. We had to do it all. Where have been the IT readers? Are they not interested in the public welfare? After all, they can't now plead ignorance.

All too often, our listeners seemed only interested to know that most voters would receive tax breaks, two-rate as compared to an equivalent-in-revenue one-rate property tax. For God's sake, here's a revenue which can actually promote (not hinder) economic development, something which many of these towns we visit are desperate for.

When we started publishing, I had hoped that our readers would be moved to action by the logic and empirics, but that has not seemed to be the case. Maybe our readers are not so disinter-

ested in the public welfare as this non-action might indicate, but I go by the evidence....

• "He has a mind like parachute - it only functions when open." (John Leo)

• IBM plans to demolish some of its buildings in E. Fishkill in order to lower its property-tax assessments. This will match its job-cutting. GE did likewise in Schenectady some years ago.

East Fishkill officials are concerned that the special tax breaks they are planning will induce IBM to demolish existing buildings and then put up new ones to get the tax breaks (local newspaper, 1/3/95 photo-copy in our files, sent to us by IT reader **William Kells**).

• Evidently, the valuation of timber land is not as difficult as some non-assessors might think. In 1993, the U.S. Forest Service valued 4,500 acres of virgin redwood forest at \$500 million (U.S. News & World Report, 8/29-9/5 1994, p. 53).

• Tallinn (pop. 500,000) is about a third of the total population of Estonia but contains 80% of the nation's assessed land values (phone conversation with Olaf Klasen, 3/6/94).

• "If the idea is so good, why isn't it more widespread?" For a brief es-

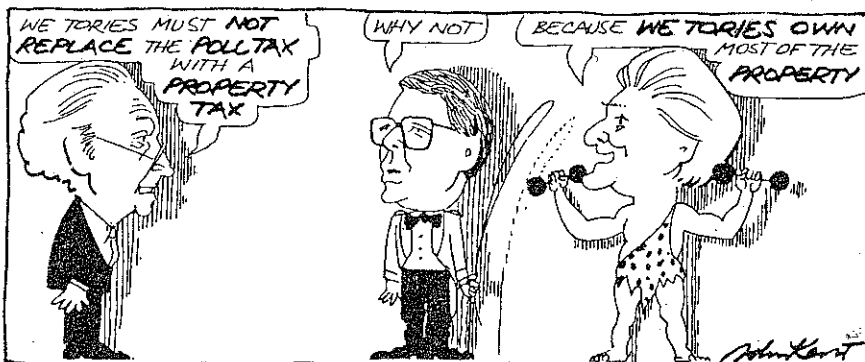
say on this subject, send \$1 to IT, 2000 Century Plaza (238), Columbia MD 21044.

• The Pennsylvania Turnpike is a great financial success, says the Wall Street Journal, (6/2/89); user fees by drivers pay for all expenses, with nary a dime of federal or state tax money. Yes, but think of the windfall profits made by landowners whose locational values were enhanced.

• The U.S. Department of Housing and Urban Development (H.U.D.): "The cost of land is a major factor in the high prices that keep many qualified consumers from buying homes - often accounting for as much as 40 per cent of the house's price." (Recent Research Results - 1986, p. 4, as cited by Frank Peddle's Cities & Greed)

• Casey Stengel, at 73, observed that "most of the people my age are dead."

• If Incentive Taxation is irrelevant to your needs or interests and you don't want to receive any more copies, we would appreciate it if you would write "Return to Sender" on the address panel and drop this issue in the mailbox (no postage required). We will then remove your name from our mailing list.



sent to us by IT reader Godfrey Dunkley. Acknowledgment to "PRIVATE EYE"

Cities & Greed

In a book by this title, Francis K. Peddle, Canadian lawyer and Ph.D economist, substantiates the greed and waste which pervade municipal property taxation in Canada. He advocates a higher tax rate on land assessments, lower on building assessments. Economic development will occur with this building-to-land shift in the local prop-

erty tax; land speculation (individual greed) is the alternative.

His objective empirical research was supported by the Canadian Research Committee on Taxation and the Oscar Boelens Foundation. We got much from it and urge our readers to buy this clearly-written book; cost - \$15.

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A Tale of Two Cities

We never call it "The Jo-burg System" there - lots of jealousy - but some leaders are considering tax reform on its merits. Up to now, however, Cape Town has subsisted without that benefit, and suffers the usual consequences: urban sprawl, a fractured CBD, and acres of blight on prime land that should bear housing for downtown workers. Vast rail yards off downtown are little used, and there is no use of air space over the tracks.

HGFA

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\$88,767,040! A year!!

In 1995, FULLY \$88,767,040 PER YEAR IN PROPERTY TAX HAS BEEN TRANSFERRED FROM BUILDING OWNERS TO LAND-OWNERS IN PENNSYLVANIA'S TWO-RATE CITIES. That ain't hay.

Let's be clear what this is all about: These localities are saving their build-

ing owners \$88,767,040 a year in property taxes. This is the difference between what their building owners are paying now under two-rate as compared to what they would pay with the usual same-revenue one-rate property tax (not so long ago, the building owners' sav-

ings were \$60.9 million per year). It could happen in your town if you act.

In addition, our studies indicate that IN EVERY INSTANCE a construction spurt has followed a building-to-land shift in the property tax. Act now or at least feel guilty.

Fifteen Two-rate Cities in Pennsylvania

CITY	Land Rate	Building Rate	One-Rate	Population	Two-Rate Since	% of Tax Rev.		\$ Per Yr. Saved
						From Land	By Bldgs.	
Aliquippa S.D.	163.00	11.000	0.0442	13,374	1993	80.55%		\$2,115,366
Aliquippa	79.00	7.000	0.0227	13,374	1988	75.92%		\$1,001,915
Clairton	100.00	21.050	0.0366	9,656	1989	53.72%		\$300,193
Coatesville	50.15	25.000	0.0303	11,038	1991	33.90%		\$70,521
Connellsville	113.50	17.500	0.0304	9,229	1992	50.10%		\$384,508
DuBois	51.00	13.000	0.0193	8,286	1991	43.96%		\$31,180
Duquesne	80.00	38.000	0.0463	8,845	1985	34.04%		\$134,182
Harrisburg	32.25	10.750	0.0142	52,376	1975	36.05%		\$2,533,689
Lock Haven	31.10	10.273	0.0175	9,230	1991	61.84%		\$117,963
McKeesport	100.00	19.000	0.0364	26,016	1980	59.04%		\$865,637
New Castle	87.28	22.030	0.0338	28,334	1982	46.58%		\$1,192,131
Oil City	85.50	26.800	0.0378	11,949	1989	42.45%		\$478,190
Pittsburgh	184.50	32.000	0.0609	369,379	1913	57.42%		\$73,739,859
Scranton	66.00	12.000	0.0261	81,805	1913	65.96%		\$3,997,371
Titusville	61.34	15.00	0.0200	6,434	1990	32.97%		\$308,773
Washington	177.24	17.660	0.0482	15,791	1985	70.38%		\$1,495,562
TOTAL								\$88,767,040

Rates for Fiscal Year 1995

LVT in Estonia

The new nation of Estonia has a national land value tax (LVT). It has a national land-only (no buildings) assessment. The national tax rate is a somewhat diminutive 1.2%, supplemented by a local rate of 0.3% to 0.7%.

Andres Trink, Economic Officer of the Estonian Embassy in Washington,

D.C., informs Joshua Vincent by phone on 3/17/95 that this tax provides less than 1% of the national revenue (1994), or no more than \$6,250,000, but that soon much more will be collected from this tax.

Writes Trink (in a 3/13/95 letter to

J.V.): "In line with the rapid development of property registration and enforcement procedures the projected land tax revenue in the coming years are much higher."

Kindly get your town on board the train before it picks up speed.

Federal Estate Tax Hurts the Economy

Rep. Bill Brewster (D, Okla.) writes an article in the Tax Foundation's Tax Features (12/94-1/95, p. 4), asserting that the federal estate tax is inimical to family businesses. Upon the death of the business owner, he writes, "What happens all too often is that the family

simply cannot borrow enough money to pay off the government and the business cannot borrow enough money to redeem enough of the decedent's interest [i.e., pay the federal estate tax] to allow the estate to pay the tax. The family is forced to sell the business, often to a large

agribusiness or another corporation that has few ties to the community."

Since family businesses employ millions of workers, the federal estate tax reduces job creation, says Brewster. Tax land, not family businesses.

Don't lessen competition and kill Free Enterprise.

Endorsements 407-408

David Messner (Coordinator of the Pennsylvania Department of Community Affairs [D.C.A.] Enterprise Program in his 2/21/95 to us): "I suspect that the ubiquitous real property tax abatements to developers are a temporary but unfocused short term discount to capital. That's a pity. The same amount in opportunity costs focused through the LVT as a discount to capital could strengthen the long-run, not merely the short run, viability of these developer, business, or investor ventures.

"I remain a strong advocate of land value taxation, have recommended adoption of LVT ordinances to our enterprise zone municipalities, and will continue to do so."

Oscar Johannsen (Schalkenbach Foundation Executive Director): "The ideal fee (the tax on land value) should be sufficient to make the price of land approach zero. This should not only give to the community the necessary funds to pay for the services rendered, such as police and fire protection, but also as it brings the cost of land down,

induces entrepreneurs to establish business, which serve the community and give employment.

"The bad feature of the property tax is the tax on the improvements to the land. A high tax discourages improvements and results in smaller homes, smaller businesses, smaller factories, and smaller incomes. The best tax would be none at all, for this would encourage the production of the most efficacious improvement, whether it be a house, a business, or a factory." (News Tribune, 3/27/94)

Accuracy Accuracy Accuracy

This publication has higher standards than most other publications - because we ALWAYS give the source (always highly reputable) of every quotation and statistic we use. We are religious about this. Whenever possible, we give a double footnote, which indicates the source of our sources; who are they citing? Few other publications do that. It seems to us that we all are constantly being bombarded by quotations and statistics but have no way of knowing whether they are true or not. Readers of this publication at least can know where these quotations and statistics come from. They can judge their accuracy for themselves. In addition, they can always write us for photo-copies of the sources. They can rely on the accuracy of quotations and statistics cited in Incentive Taxation.

New Readers

But frankly, we worry about our new readers (we add new ones constantly). Have they become accustomed to the lower standards they find elsewhere? Are they aware of the importance of source information, or do they look upon footnotes and double-footnotes as academic impediments? We often assert that if buildings are down-taxed, we'll have more of them and they'll be more affordable, and if land is up-taxed, then it will have to be used efficiently and this, too, will lead to more buildings. But even though there is logic behind this assertion, we are still

Missing Something?

Some of these articles in back issues might easily be worth a dollar to you; they may be able to save you many thousands of dollars and many headaches. The following IT back issues are available at \$1.00 each:

September 1987: "Paul Douglas: We Need Land Reform," "The Moral Basis for Land Value Taxation," "Wall Street Journal Writer Advocates Air-Space Value Taxation."

October 1987: "Most Homeowners Pay Less With a Building-to-Land Property Tax Shift," "New Sources of Income for Elderly Homeowners," "Land Value Tax - More Progressive than the Income Tax;" also (double offer) December 1987: "Buninyong Benefits by Building Boom," "The Story of the Fairhope Single Tax Corporation," etc.

November 1987: "Urban Land is Being Inefficiently Used," "Phoenix: Sprucing Up the Downtown," "End Sprawl - Develop Land Rationally," "A Tax on Jobs."

Send your order to: Back Issues, INCENTIVE TAXATION, 2000 Century Plaza (#238), Columbia MD 21044.

required to provide empirical justification for this assertion; we certainly try to do so.

To sum things up: We are advocates, but we nevertheless try to pro-

vide adequate source information through footnotes and double-footnotes on every quotation and statistic we use. Accuracy is king.

Incentive Taxation

As costs rise, INCENTIVE TAXATION needs more financial support. If you have been receiving it free, please consider sending the subscription cost of \$15 a year to the publisher.

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2000 Century Plaza • Suite 238
Columbia, MD 21044

Mr. Robert Clancy
The Henry George Institute
121 E. 30th St.
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