

# Incentive Taxation

Special  
Allentown  
Issue

## Allentown, Pa.

## The Land Value Tax Wins the Support of Voters in a Big Popular Election

The voters in Allentown, Pa. opted to save their two-rate Land Value Tax by a 4,941-3,955 margin (Final Count, Board of Elections 6/12/97).

"When given a second chance to scrap the controversial tax, which was approved in a referendum a year ago, voters Tuesday [May 20th] decided to keep it after all" (*Ibid.*).

It was a hard-fought campaign. Supporters of the tax were driven by moral imperative and the economic good of Allentown but were greatly out-spent by the opponents, who employed rallies, airplanes with banners, advertisements on billboards, TV, newspaper and direct-mail; they went all-out. Nevertheless, most Allentonians voted to support the two-rate Land Value Tax (lower tax rate on building assessments, higher on

land, instead of the same property tax rate on both).

Supporters maintained that most voters would pay less if building assessments were taxed less than land assessments. They also maintained that if buildings were taxed less, there would be more buildings, and if land were taxed more, then it would have to be used more fully, which would also mean more new construction and jobs.

Supporters were pleased that ALL pro-Land Value Tax candidates won re-nomination. Councilman candidate **Dennis Cramsey** was a particularly strong and effective advocate of the Land Value Tax. The May 20th election was Primary Day in Allentown and throughout Pennsylvania, so that candidates as well as questions appeared on the ballot.

The local newspaper also endorsed the two-rate Land Value Tax.

### The Lesson to be Learned

This election shows that if the voters are **fully** informed that they'll pay less with the Land Value Tax approach, they will support it. Clearly, local politicians everywhere need not fear a truly informed electorate. This was a vote to improve the quality of life for all in Allentown.

After all, it stands to reason that if a politician repeatedly tells the voters he has a proposal which will reduce the taxes of most voters and that will be good for the town because it is a tax-free incentive for new construction which has been proven in EVERY study so far, how could he lose? It would seem to be a sure vote-getter. That's been proven in Allentown!

## "Don't Let the George Foundation Rule Allentown"

The headline above was featured on TV commercials paid for by the opponents of the Land Value Tax (LVT) just before the May 20th vote. It's laughably false and almost no one in town knew what they were talking about (besides, there's no such foundation with that precise name).

We print below the arguments advanced by the LVT opponents in a newspaper advertisement the Saturday before the Tuesday election (too late for rebuttal by supporters, whose re-

plies are printed below in parentheses and italics):

1. "Property owners in the city would see their tax bills return to the same balance between land and buildings which existed prior to 1997." (*True, but that's the problem. The tax on buildings was too high. Allentown needs new buildings.*)

2. "Allentown businesses need land for customer and employee parking. The businesses want to remain in Allentown and increased land taxes will

not afford them to be competitive with surrounding communities. This may result in their moving out of Allentown. We will lose Allentown jobs and business privilege taxes." (*To see how businesses will benefit from LVT, see article, page 2. Parking lots contain few jobs; businesses using parking lots should pay for their cost, not homeowners; parking lots could be the best use of some land parcels; parking garages save with LVT;*

*Continued on page 2, column 3*

# How Would the Land Value Tax Affect Allentown?

Let's first deal with the economic effects on homeowners and businesses. Then we can concentrate on the moral effects.

## The Economic Effects on Homeowners

1. 82.4% of the residential property owners in Allentown would save on their property taxes with the two-rate land-value-oriented property tax as compared to the old-fashioned penalizing one-rate property tax which raises the same revenue for the city (source: current Allentown assessment roll). This is particularly true for elderly and row-house owners; tenants (including commercial & industrial) do better.

2. Homeowners in EVERY ward save with the two-rate Land Value Tax.

3. All buildings which get improved (i.e., better roofs, porches, plumbing, etc.) will pay less tax thanks to Land Value Taxation. Many homes in Allentown need improvement.

4. Out-of-town property owners (who constitute an astounding 13% of all property owners in Allentown) will pay more with the Land Value Tax; thus, Allentown residents will pay less.

5. ALL buildings in Allentown pay less with the Land Value Tax.

## The Economic Effects on Businesses

1. Construction spurts have followed the adoption of the Land Value Tax approach in ALL the other Pennsylvania two-rate cities where studies could possibly be made; this is also true of ALL studies we have seen from foreign countries. C.S.E. has conducted most of these Pennsylvania studies; there is one by some University of Maryland economists unknown to C.S.E., and another by the Pennsylvania Economy League).

2. Literally hundreds of tax and urban experts have endorsed this idea,

including the Pennsylvania League of Cities, the Pennsylvania Economy League, and eight recent American Nobel Prize winners in economics.

3. Most of Allentown's job-producing offices and factories save with the Land Value Tax. Allentown needs jobs; maybe your city does, too.

4. Allentown's Home-Rule Charter, adopted by popular vote last year included the Land Value Tax, and FROZE all business taxes. Let us hope these business taxes will get eliminated some day.

5. In 1997, the average business paid 3.56% more with the Land Value Tax. That seems paltry.

6. Allentonian businesses will benefit from having customers with more

NOTE TO ALLENTOWN'S LAND SPECULATORS: If your town prospers, which we hope it will and now seems likely, won't that will make your land even more valuable and saleable?

money to spend from tax savings.

## The Moral Effects

The foregoing are economic effects. The moral effects are harder to measure, but no less real. They are certainly more basic.

A person is entitled to the full fruits of his labor, since labor is the only way to justify the ownership of property. Untaxed land should not be privately owned any more than slaves because neither are the product of labor. However, practicality dictates that land should be privately owned so let us all share equally in God's gift to us all (or Nature, if atheistic readers prefer) by letting land owners pay others via taxation for their privilege.

A building, however, is different: The moral title of those who built it is vested in the present owner, who should not be forced to share its value

with others through taxation.

This is not the system we have now, so in order to avoid undue disruption, we should proceed gradually.

Shouldn't all of us have equal access to the opportunities afforded by Nature? Don't we all stand equally before God? Then either we attempt to divide the ownership of land equally among us all, which is unnecessary, futile and un-American, or we have private land ownership coupled with an equal distribution of land value (i.e., annual rent) via taxation. Then buildings won't have to be taxed.

Tax land not buildings; tax land not labor, insist the supporters of the Land Value Tax.

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## "Don't Let the George Foundation Rule Allentown"

*Continued from page 1*

*parking has not been a problem in the other 15 two-rate cities - why would it be in Allentown?)*

3. Allentown homeowners should have the privilege of having open land without being taxed." (*Why? Equal rights for all, special privileges for none. If they want open land, let them pay for it - others shouldn't. Anyway, most homeowners pay less with LVT.*)

4. "Allentown children need backyards to play in, not grey high rise buildings and parking decks." (*Agreed, but if we green Allentown more - already quite green, as it happens - then we must necessarily blacktop the countryside.*)

5. "Allentown churches need parking lots without having to pay taxes on land. Churches are not exempt from the land tax." (*Churches ARE tax exempt from the land tax!*)

◆ IT reader **Mason Gaffney** reports that Brazil has adopted a new Rural Land Tax, which taxes up to 20% of unproductive (?) land property (minimum 25 hectares) with a graduated surtax on 1,000+ hectares. The government intends eventually to increase the tax rate to 350% (quoting Sergio Mendis, *Estado de S. Paulo/ Jornal da Tarde*). If we get additional information on this, we will report it to you.

◆ Some people pay a compliment as if they expected a receipt (Ken Hubbard).

◆ Although the Hong Kong government owns most of the land in Hong Kong, there's considerable land speculation there (*Wall Street Journal*, 12/10/96, A19). Reason: The government doesn't collect much of the land rent.

◆ The only dumb question is the one you wanted to ask but didn't.

◆ In 1988, Frank Guthrie, the Building Inspector in Aliquippa, Pa., told me that his fellow Aliquippans told him that when the tax on improvements was greatly reduced, they wanted to improve their property by remodeling, making additions and adding garages.

◆ "He thinks he's a wit. He's half right."

◆ A recent report released by Senator Connie Mack (R-Fla.), Chairman of the Joint Economic Committee, states that for a national retail sales tax to replace the income tax and to be revenue neutral, a minimum tax rate of 32% to 50% on all goods and services would be required (Rep. Jim McDermott, D-Wash., in *Tax Features*, 3/96, p. 4).

◆ Child: A person who doesn't want a napkin to eat an ice-cream cone.

◆ The government should concern itself with maximizing individual liberty; happiness is the business of each individual.

◆ An Urban Institute report a few years ago found that "when one follows individuals, rather than statistical groups defined by income, one finds that, on average, the rich got a little richer and the poor got much richer" during the 1980s (*Investor's Business Daily*, 6/12/96, A2).

◆ IT reader **Jonathan Silverstein** writes that Social Security funds are invested more safely in Treasury bonds than in private bonds. He favors Land Value Taxation and raising the retirement age as the best means to replenish the S.S. fund.

◆ Are you a free rider? Did you think it costs nothing to bring you this publication? It shows you the only way to pay the interest on the federal debt, to save Social Security, to rejuvenate our cities and contain urban sprawl. That ought to be worth \$20 for a year's subscription.

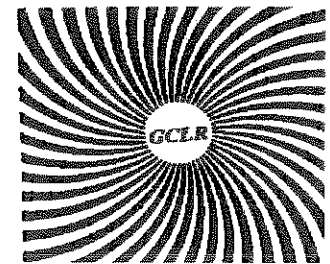
## *Other Factors: A Story*

We have seen many studies proving that a building-to-land tax shift promotes economic development; we try hard to eliminate other factors which might be responsible. This story illustrates this problem:

Some time ago, a husband, learning that he would soon lose his wife to scurvy, then a common and "incurable" ailment, fell into a profound depression. "All I can do now is make

her comfortable," he thought. "She always loved orange juice with vodka, so I'll make sure she has all she can drink of her favorite beverage while she is still alive. It's the least I can do!" After his wife "amazingly" regained her health, the man decided to share the seemingly miraculous news with others. Standing in church with his wife during the first Sunday they could again attend together, he announced to ev-

eryone, "I want to share wonderful news with you: I have irrefutable proof that vodka cures scurvy!"



### 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).

410-740-1177

We were gratified to read in the *Allentown Morning Call* (5/18/97, B1, B8) that in 1916 building permits issued doubled in Allentown when it adopted a version of a building-to-land two-rate Land Value Tax by assessing land at 100% of market value and buildings at 50%. That was legally questionable in Pennsylvania and was soon altered).



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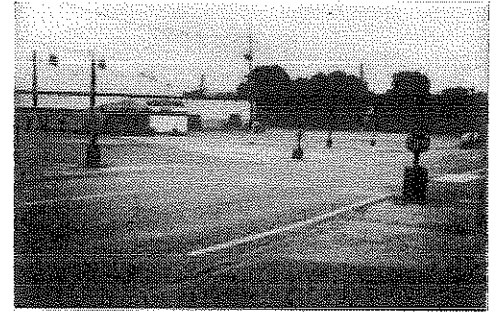
## Endorsements 437-438

Chris Moonis (as reported in the *Allentown Morning Call*, 5/18/97, B8; Moonis is now the Director of Legislative Affairs for the Pennsylvania League of Cities and Municipalities): "In communities that do have it [2-rate LVT], it does work. People are developing land. It is not a new concept, and it seems to be gaining

acceptance."

**Brisbane (Aus.) City Council Committee of Inquiry (1964):**

"The present basis of levying rates for general purposes and for water and sewerage purposes on the unimproved capital value, with the amendments as suggested, is the most appropriate for Brisbane City Council."



*Allentown, Pa. Fairgrounds (small part) - the biggest Land Speculator in America? 5/19/97*

# Why a Tax on Land Rent Is a Good Thing Just by Itself

A reader recently asked me, "I can understand that a two-rate land rent tax can reduce taxes on produced things, and that surely is desirable, but why is a land rent tax desirable by itself? Aren't all taxes bad, including those on land rent?"

This is a reasonable question, but let us realize that a two-rate tax on land rent encourages owners to develop their sites more fully so they can get an income from an improvement at least equal to the now-higher land rent tax. If the improvement is inadequate - i.e., less than the highest-and-best use - then so will the income from it; land owners will be encouraged to improve their structures. Thus, the revenue from a two-rate land rent tax could be tossed in the nearest river (there are better uses for the revenue) and economic development will ensue nevertheless. Tax labor-produced commodities and services less.

In short, every site will eventually be developed to its highest-and-best use, with greater prosperity and a plethora of jobs.

### The Environmental Impact

Please keep in mind that the highest-and-best use of most acreage is for agriculture. An office building in a field

best suited for corn growing is definitely not the highest-and-best use of such land. An office building so situated would surely go bankrupt quickly.

Environmental protection will surely fail without the efficient land use engendered by two-rate land rent taxation. If land is used inefficiently, then cities will sprawl into the clean-and-green-countryside. A 1985 report by the Maryland Department of State Planning asserted that "low-density residential sprawl is the major cause of loss of farm and forest land" (p. 11).

### Conclusion

Governments enhance land value by what they do; shouldn't they tax what they create rather than what individuals create? Who could pay a

market-determined land rent tax and then under-use a site by having an inadequate improvement? That's a sure recipe for bankruptcy for the average person.

Our governments could rent sites and dispense with the taxation of workers and businesses. What is much better, is to allow private land ownership so that the owner could determine how to use the site (within usual rational zoning limits) and have our governments live off what they create - i.e., the rent from the government-created locational value of land.

No wonder eight (8) recent American Nobel Prize winners in economics have endorsed the two-rate principle. Are you waiting for nine?

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