

High land tax gives Pittsburgh big boost

Personal view

Michael J. McManus

PENNSYLVANIA CITIES are proving there is a way to raise taxes to promote—rather than depress—economic development.

Conventional wisdom holds that the higher property taxes go, the more they discourage development. But consider the case of Pittsburgh. On Jan. 1, 1979, property taxes on land doubled to offset cuts of federal aid, while taxes on buildings remained constant.

The result? Permits for new construction were only \$89 million in 1978, before the tax hike. They jumped to \$108 million in 1979.

At the end of that year, Pittsburgh jacked up its tax on land again to a nationally unprecedented level of five times the tax rate on buildings. In 1980, construction permits jumped three-fold over 1978 to \$297 million!

SOMEWHERE, THE SPIRIT of Henry George must be smiling. A century ago, when he ran for mayor of New York, George advocated putting all of the property tax on land and none on buildings. He argued that the typical U.S. practice of raising 80 percent of property taxes on buildings discouraged additional improvements and rewarded deterioration and speculation.

Fans of Henry George persuaded Pittsburgh to experiment. The resulting new investment may total \$4 billion to \$5 billion.

Thus, what Mayor Richard Calliguirri calls Renaissance II could well dwarf the \$500

million Renaissance I that rid Pittsburgh of its choking coal smog after World War II and built its Golden Triangle of office buildings in a former warehouse district where the Allegheny and Monongahela Rivers merge to create the great Ohio River.

Calliguirri doesn't believe that Renaissance II was generated by the city's high land tax, which he opposed when it came up in the City Council. He feels the partnership and sense of trust he forged between industry and City Hall was more important in stimulating the investment decisions.

HE MAY BE RIGHT. For example, one result of that partnership is an extraordinary network of exclusive bus lanes that whisk people downtown in less than half the time it takes to drive—a massive public investment that makes downtown the logical place to build in the metro area.

But the fact is that public investment enormously increased the value of the land in the Golden Triangle. So it was right for the public to recapture part of that investment with a high tax on land. And by keeping taxes low on buildings at the same time, powerful twin engines for development were fired up.

Calliguirri preferred a hike in the income tax because it "is a growth tax; and it taxes the ability of people to pay. A real estate tax is more regressive." Yet the tax he wanted would have forced the average wage earner to shell out an extra \$225 a year, compared with an average hike of only \$84 per homeowner with the increased land tax.

WHY? MOST PEOPLE have small plots of land, while the most valuable land is owned by business and by speculators.

Would a higher tax on land help a smaller community?

Consider the case of McKeesport, Pa., a city

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of 31,000 (and dwindling) in a steel-producing valley near Pittsburgh. In 1979 its property tax rate was 2.4 percent of assessed value on both land and buildings. Last year it lowered its tax rate on buildings to 2 percent and raised the tax on land to 9 percent.

IN 1970, BEFORE the change, it issued \$1.9 million in building permits. In 1980 it issued \$3.6 million. Mayor Lou Washowich attributes part of that increase to other factors, but says he is "sure that some people were encouraged to build on unused portions of their ground."

In New Castle, Pa., Mayor Angelo Sands is advocating a big hike on land taxes and lower building taxes, shifting some of the burden from small homeowners to owners of large or more wealthy landowners.

"Land is seriously undervalued and under-taxed in every city," says Philip Finkelstein,

director of the Center for Local Tax Research in New York.

He notes that shortly after St. Bartholomeo Church was offered \$100 million for its property and the Pan Am Building sold for \$400 million, Mayor Koch ordered a re-evaluation of midtown land values and "that how he's been able to balance his budget."

Unfortunately, most states don't permit cities to set a higher tax rate on land than on buildings, as does Pennsylvania. Yet, as Finkelstein says, "current practice hurts everybody but the speculators; higher taxes on land would help the homeowner, the developer, the environment, the city and business."

No reform could do more to help cities cope with the Reagan administration's budget blows—and at zero cost to state treasuries.

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