APPENDIX 3

CASE STUDY: THE PITTSBURGH EXPERIENCE

LVT – Found and Lost: Why was a successful system of LVT abandoned?

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This account of the Pittsburgh split-rate tax is an abbreviation of the full version, which may be found on my website: http://landvaluetaxguide.com/category/related-essays/

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LVT operated as a local tax in Pittsburgh from 1914 to 2001. It was a split-rate property tax where the site and the building upon it were taxed at different rates. At the beginning of the period the ratio was set at 2:1, where the portion due to the site value paid two thirds of the total and that due to the building value one third. In later years the ratio was increased to as much as 6:1. In Pittsburgh itself the tax was known as the Graded Tax, due to the gradual method of its introduction—over a ten-year period. It was introduced when the Georgist movement was at its height of popularity and Georgist principles were well understood by the politicians in power. Its demise 87 years later was not due to any lack of success in raising revenue, or any particular opposition from the taxpayers, but by the gradual undermining of its effectiveness due to a faulty valuation system.

From 1914 to 1942 the valuations were made at three-yearly intervals by the city assessors, and the tax was administered without difficulty. The valuations for the other local taxes, school districts, utility districts and other county taxes, were the separate responsibility of the county assessors.

The graded tax did not provoke any untoward public protest or opposition during this period. But in the late 1930s, in order to avoid duplication of effort, the proposition was made that all valuations should be done only by the county assessors. The city assessors, who were generally in favour of the split rate, resisted being taken over, but after some years of argument, the county assessors, who were generally against the split rate, prevailed and the change was made in 1942.

Thereafter things were never quite the same. Over the years the integrity of the valuation/assessment system was constantly eroded by ever increasing periods between valuations and reliance on the 'base year' system, whereby new assessments were based on an earlier assessment, without a new revaluation taking place.

It was also undermined by the constant interference of politicians promising voters to reduce taxes and putting pressure on assessors to make under-valuations. Eventually when, in 1998, an attempt was made to carry out realistic assessments, the accumulated disparities were so great that the taxpayers protested en masse. They unfairly blamed the split-rate tax and within three years, after much debate and argument, the tax was rescinded. But this sad story is belied by the clear success of the split-rate tax when it was able to function properly, especially in the earlier years.

The tax operated with undoubted success for the first 28 years and provided Pittsburgh with a stable property tax that saw it through the depredations of the 1930s.

The LVT advocate Dan Sullivan cites the fall in land prices, between 1930 and 1940, of several comparable cities: 'Detroit 58%, Cleveland 46%, Boston 28%, New Orleans 27%, Cincinnati 26%, Milwaukee 25%, New York 21% and Pittsburgh 11%.'[1]

These figures speak for themselves. The existence of the higher tax on land in Pittsburgh had constrained the escalation of prices that had taken place elsewhere in the 1920s. The split-rate tax had 'discouraged speculators from bidding up prices during the previous boom.'[2] Up to the advent of World War Two the split-rate tax enjoyed much support at the level of local government. Thereafter, this advantage diminished as the years progressed and over time the basic Georgist ideas became largely forgotten, except by the ardent supporters. By the end of the century the split-rate tax was seen by the general public as 'just another tax'.

The early success of the split-rate tax was undoubtedly tempered by the concurrent introduction of the income tax in 1913, which became a competing factor for the attention of politicians constantly seeking ways of raising revenue. Although the initial application was at the national level, the income tax grew in influence at all levels of government, federal, state and local, becoming eventually the dominant tax, not only in the US but throughout the world. But it also had the effect of undermining the Georgist movement from the start.

At a Council for Georgist Organisations conference in 2013, Alex Wagner Lough suggested that the 'Passage of the income tax marks the decline of the Georgist movement and might have caused it.'[3] It certainly caused a schism in the Georgist ranks—Henry George was always opposed to it. But despite his formidable powers of persuasion in promoting the land value tax throughout the world, his arguments did not, in later years, dissuade his own son from supporting the Income Tax bill through Congress. Dan Sullivan notes,

> Wilson's administration, awash with Georgist leaders, proposed the 1913 income tax, and Congressman Henry George Jr. co-sponsored the legislation.[4]

This schism did not help the Georgist cause, but nevertheless legislation for the graded tax survived the difficulty.

Another negative influence that has to be mentioned was the neoclassical movement in economics that dominated academic thought throughout the period. The neoclassical economists saw land as just another form of capital and were generally opposed to the idea of land value taxation (see Appendix 1). They were always in the background and ready to give support to any manifestations of opposition to the split-rate tax.

In the *Pacific Standard News* website of October 2009, a pro-LVT contributor, in a discussion of Henry George, noted, 'He's been out of favour for decades, especially in graduate schools. Economists are trained to ignore him.'[5]

Nevertheless, in the earlier years, the obvious benefits of the split-rate property tax continued to be recognised and appreciated as much for its results as for its Georgist principles. Sullivan records that, as early as May 1915, the *Pittsburgh Press* reported, 'The law is working to the complete satisfaction of everybody except a few real estate speculators who hope to hold idle land until its value is greatly increased by improvements erected on surrounding territory.'[6] In a 1955 essay on Pennsylvania, former city chief city assessor, Percy Williams, records a comment in the *Pittsburgh Post* of 1927:

> Formerly land held vacant here was touched lightly by taxation, even as it was being greatly enhanced in value by building around it, the builders being forced to pay the chief toll, almost as though being fined for adding to the wealth of the community. Now the builders in Pittsburgh are encouraged; improvements are taxed just one half the rate levied upon vacant land. Building has increased accordingly.[7]

In an address to an LVT Conference in London in 1936, Dr John C. Rose also claimed that the split-rate tax stabilised Pittsburgh's municipal credit; 'A stabilised credit is a wonderful asset to any city or community.'[8]

On the issue of land speculation; in a 1963 paper, Williams claimed: 'Land speculation is no longer a major factor in Pittsburgh.'[9] He goes on to list a whole range of 27 well-known national magazines that had published favourable articles between 1946 and 1960.[10] Sullivan adds: 'Every one of the 19 land-taxing cities in Pennsylvania enjoyed a construction surge after shifting to LVT, even though their nearest neighbours continued to decline.'[11] In a definitive 1996 academic study Oates and Schwab suggested that 'The Pittsburgh tax reform, properly understood, has played a significant supportive role in the economic resurgence of the city.'[12]

Although most of the examples of Pittsburgh's success are related to the revival of the central business district and other downtown areas, there was also a beneficial effect on out-of-town residential areas where site values were lower. Williams makes the important point:

> It is the homeowner who emerges as the chief beneficiary of the graded tax. This is widely recognised as one of the principal reasons why this plan has popular support. Only in rare instances do we find a homeowner paying a higher tax under the graded tax. The typical homeowner's investment is largely in building rather than land, it being quite common for the assessed value of the house to be as much as five times the value of the site, and often this ratio is exceeded.[13]

Perhaps the high point was in 1998 when, at federal level, legislation by the Senate and the House was passed to allow the two-rate system for nearly 1,000 boroughs in Pennsylvania. But despite this apparent confirmation of success, within three years the Pittsburgh split-rate system would be rescinded.

So what went wrong? How can one account for this sudden reversal of fortune. Mark Alan Hughes makes the cautionary comment,

> The 2001 abandonment of the split-rate in Pittsburgh is a compelling example of the limited role that evidence often plays in policy decisions.[14]

As with many economic changes the causes often have a long gestation period, and I suggest this was the case with the split-rate tax in Pittsburgh. Perhaps the turning point in its fortunes began in 1942 when the responsibility for carrying out valuations changed hands.

After the boom years of World War Two all the north-east states were hit by a decline in heavy industry which eventually gave rise to the so-called ‘rust belt’. With its vulnerable steel industry Pittsburgh was at the centre of this decline. However, thanks to its split-rate tax policy it survived better than other comparable cities. This did not pass unnoticed: In 1960 House and Home, the construction industry’s leading trade journal quoted the Pennsylvania Governor and former mayor of Pittsburgh from 1946 to 1959, David Lawrence, as saying:

> There is no doubt in my mind that the graded-tax law has been a good thing for the city of Pittsburgh. It has discouraged the holding of vacant land for speculation and provided an incentive for building improvements. It produced a more prosperous city.[15]

Whereas many old industrial cities struggled to halt the decline in their fortunes, Pittsburgh became known throughout the US as a city that had best been able to cope with the problems, demonstrated by its continuing building activity and avoidance of dereliction, especially in the central city areas. Walter Rybeck notes that, 'Pittsburgh thrived with its two-to-one land-building ratio. After World War Two, despite the decline of its steel industry, Pittsburgh enjoyed a renaissance.'[16] Perhaps for this reason enthusiasm for the split-rate idea continued in Pennsylvania.

In 1951 the State legislated to allow for the split rate to be adopted by 3rd class cities* and at the same time abolished the limit on the 2:1 ratio. These options were taken up by Harrisburg, in 1975, McKeesport, Newcastle, Duquesne, Washington, Aliquippa, Clairton and Oil City in the 1980s, Titusville in 1990, Coatsville, Du Bois, Hazleton and Lock Haven in 1991 and Allentown in 1996.[17]

In Pittsburgh, the split-rate tax was recognised as helpful in re-vitalising the city and in 1978–80 the land to building tax ratio was increased from 2:1 to 5:1—with beneficial results. The change of ratio increased the penalty on land holders for keeping land out of use and stimulated a further building boom, the results of which are well documented in a study by Oates and Schwab (see Table 7). The study compares the relative situations of 15 'rust belt' cities in the period 20 years before and ten years after 1979, as measured by the value

* In the US, cities are classified according to the size of population.

of building permits. The value of building permits issued is taken as a measure of new building activity and therefore the prosperity of a community.

	1960–79	1980–89	% Change
Akron	134,026	87,907	– 34.41
Allentown	48,124	28,801	– 40.15
Buffalo	93,749	82,930	– 11.54
Canton	40,235	24,251	– 39.73
Cincinnati	318,248	231,561	– 27.24
Cleveland	329,511	224,587	– 31.84
Columbus	456,580	527,026	15.43
Dayton	107,798	92,249	– 14.42
Detroit	368,894	277,783	– 24.70
Erie	48,353	22,761	– 52.93
Pittsburgh	181,734	309,727	70.43
Rochester	118,726	82,411	– 30.59
Syracuse	94,503	53,673	– 43.21
Toledo	138,384	93,495	– 32.44
Youngstown	33,688	11,120	– 66.99
15 city average	167,504	143,352	– 14.42

Table 7. Comparative list of average annual values of building permits.

NB: All figures are in thousands of US dollars at 1982 values

(Source: Table 3 of paper by Wallace E. Oates and Robert M. Schwab: 'The impact of Urban Land Taxation: The Pittsburgh Experience, JSTOR *National Tax Journal*, vol. 50,no.1,1997, pp. 1–21. www.jstor.org/stable/41789240)

The results revealed that only Pittsburgh showed a large increase. Columbus, Ohio, also showed an increase, but Oates and Schwab suggest this may have been due to annexations of surrounding jurisdictions, that took place during the same period. The value of permits showed an average decline for all 15 cities of 14.42%, but a 70.43% increase for Pittsburgh (a 15.43% increase for Columbus).

However, despite its obvious success, support for the graded tax was beginning to weaken. Hughes notes that, 'By the late 1970s the consensus began to fracture.'[18] But the main reason for the abandonment of the graded tax was the faulty system of assessments, which had become increasingly more dysfunctional in the decades prior to 2001. Hughes notes that in 1979, 'The assessments of both land and building values remained essentially fixed in this period, and indeed for the next twenty years.'[19]

Another major influence that worked against the split-rate tax throughout the whole period was the neoclassical view of economics, which gained in popularity amongst economists as the years passed, and which was also in the interests of the large landholders. Also, the income tax—the wage tax at the local level—was often preferred by politicians for raising revenue.

The demise of the split-rate tax occurred suddenly in the last few years, precipitated by a bungled revaluation, which was begun in 1998 and carried out by Sabre Systems, a private company. The intention was to bring the assessments up to date after so many years of neglect, but the way it was handled was a disaster. Sabre Systems were occupied for over two years with this major operation, which involved an initial report in 2000, followed by a second report in 2001.

The first preliminary report contained a combined assessment that anticipated that the land value share would be approximately 20% of the total. But this initial assessment did not reveal the previously gross under-assessments of the land factor. However, it was made public and led the taxpayers to believe that the proposed future increases would be reasonable. When the final assessment notices were issued in 2001, showing separate valuations, the land element was much higher than had been previously indicated. Between the two reports the assessments for land value had effectively increased by 81%, and for building value by 43%.[20] These higher-than-expected tax demands caused much confusion and resentment and led to the eventual rescission.

In a 2010 article on the Philly Record website, Steven Cord, a previous member of the city council recalls that:

> Well-to-do voters in Pittsburgh were suddenly aroused to fever pitch about their property tax as never before because a county re- assessment increased their land assessments from five to eight times overnight.[21]

Bill Bradley writing on the Next City website in August 2013 noted one of the actions that brought the graded tax to an end,

> The city's unique tax structure was ended, as wealthy homeowners outmanoeuvred downtown developers and poorer residents to strike it down.[22]

Hughes summarised the situation in saying,

> The existence of the split rate made a bad problem worse and was processed as the cause rather than just a magnification.[23]

The confusion over the property tax assessments continued after 2001, and to this day remains basically unresolved. Ironically, the elimination of the split-rate tax, the supposed cause of the problem, made no difference to the ongoing crisis. In his ‘238 report’ Steven Cord records:

> After it rescinded its land tax, Pittsburgh suffered a 19.5% decline (adjusted for inflation) in private new construction in the three years after rescission as compared to the three years before.[24]

Also,

> A computer examination of the entire Pittsburgh assessment roll found that 54% of all homeowners paid more property tax after the rescission.[25]

The final Sabre assessments gave rise to more than 90,000 appeals. Further assessments carried out in 2002 showed an average tax increase of 11%, leading to another 90,000 appeals.[26]

As with the New Zealand experience, described in Appendix 2, there are also lessons to be learnt from the Pittsburgh story.