INSIGHTS

The Tragedy of Pittsburgh
by Dr.Mason Gaffney, Riverside, CA

The City of Pittsburgh today is teetering on bankruptcy (AP, Dec. 9). Its population has dropped by half since peaking in 1950. Its bonds are junk. Many of its stores are closing.

Things were not supposed to be this way. Pittsburgh was the cynosure of Georgist eyes, our golden city, our shining example - or so we thought. Pittsburgh emblemizes Georgism to much of the world. Economics textbooks still touch on Georgism, however lightly, but when they do it is usually in relation to the property tax, and they often cite Pittsburgh to exemplify applied Georgism.

We dug ourselves into this hole, and pulled the textbook world after us. We believed our own propaganda, and sold others. Fortune Magazine ran a glowing article (Breckenfeld), complete with our boasts. Now we must face the awful truth: Pittsburgh is a flop.

We should have seen it coming; storm flags have been flying for years. Some of us bragged too much on the city, even while it was shedding half - yes, really, half - its people, 1950-98. No one publishing on "The Pittsburgh Plan," pro or con, has addressed this human exodus, to my knowledge. We made our case on building permit data. This has been impressive, but something is out of gear. LVT is supposed to contain urban sprawl by attracting more people to the central city; Pittsburgh has been doing the opposite. LVT is supposed to raise wages and attract people by overcoming land monopoly, but it is not self-evident that Pittsburgh policies had that effect.

We should have been stressing how little Pittsburgh resembled any Georgist model. To begin, the basic property tax rate is low, not much higher than 1%, so it matters little if it hits land or buildings. Small causes have small effects, if any. Besides that, the City's 2-rate system never affected more than one-third of its property tax load, since the school district, along with overlying Allegheny County, kept their conventional systems. 2-rate was mostly form and publicity without substance.

Assessments were not reformed, because the County, with its own agenda, handles them. They were terrible, probably countervailing any good done by the City's partial exemption of buildings. In 2001 we learned that the assessed value of land in Pittsburgh was only 1/9 of the building assessment (Councilman Daniel Cohen, cited in Snowbeck). With true assessments, a ratio so low would only be found in a small crossroads in the sticks. In Pittsburgh, it means the County was underassessing land, egregiously. Sabre Systems, an outside firm retained in 2001 for an infrequent reassessment, tripled the land assessments. It was apparently the first time most voters even realized they had a 2-rate system, whereupon the Council revolted and it was hasta la vista, "Pittsburgh Plan." How can a plan work if most people don't even know they have it, or why?

It is tempting to "Let sleeping dogs lie," but the reason reassessments awaken the dogs is because valuation of the tax base is where the bite is, and without bite there is no reform. Academic researchers, too, have neglected malassessment, because it is messy, and the modern academic style is to build complex econometric models that are topheavy and fragile, even with good firm numbers, and garbage when the input numbers are garbage. Models are mechanistic and mathematical, with no room for the attitudes of civic leaders that make a world of difference. There is wide latitude in the assessment process. The latitude can be used either to subvert a Pittsburgh Plan, as Allegheny County did, or the reverse, to implement a de facto 2-rate regime without benefit of clergy, assessing land higher and buildings lower. This was the story in Pastoriza's Houston, 1909-15, or Harris Moody's San Diego, or James Clarkson's and Ted Gwartney's Southfield, Michigan, or Lyle Bryant's Rosslyn, Virginia, or Irene Hickman's Sacramento.

In addition, Pittsburgh in the 1980s instituted a city wage tax, now up to 4%. (Commuters are exempt: an invitation to leave town.) Local Georgists, to their credit, strove bravely against it. However, when they lost, it was time to stop bragging on Pittsburgh.

Downtaxing construction makes some jobs, it is true. But it is using floor space, not building it, that makes most jobs. One desk worker occupies about 200 s.f. of floor space. The cost of constructing that is roughly $100 per s.f., or $20,000 per desk worker. (Less than half of that $20,000 is on-site labor cost, say $5,000 per desk worker.) If the mean desk worker makes even as little as $30,000 a year, the 4% wage tax comes to $1200 a year, compared to $67 a year (1/3 of 1% of $20,000) reduced tax on floor space under "The Pittsburgh Plan." This is a Plan, as it turns out, to tax buildings a little less, and workers a lot more. When we do that, we end up with more walls and fewer people: the sterile city of which Jane Jacobs warned, and not at all what Henry George had in mind.

Defenders of The Pittsburgh Plan counter the criticisms with several points.

#1 is that the whole "rustbelt" region is declining. However, Pittsburgh's 19.4% drop of population, 1980-98, exceeds those of Philadelphia, Baltimore, Cleveland, Buffalo, Cinncinati, Rochester, Akron, Syracuse, Dayton, and Toledo. Columbus actually gained 18.8% in population, and is now twice the size of Pittsburgh.

#2 is that the steel industry took Pittsburgh down with it. However, the idea of LVT is to overcome obsolescence by speeding replacement with new capital embodying new technology. Cleaning up Pittsburgh's bad air was a great benefit that should have fostered new land uses. Carnegie-Mellon and Pitt Universities stood ready to seed new knowledge-industries. Biotech and "FIRE-sector"industries started up in the 1990s. Then what happened?

#3 is that Mayor Tom Murphy and the City Council have blown the taxpayers' money (continued on page 10)

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on reclaiming blighted lands, tax breaks to high-tech firms, stadiums, a convention center, and expanding the Heinz plant. Those sins hardly distinguish Pittsburgh from a score of other U. S. cities, unless we find that Pittsburgh was more prodigal than the others. Some of these others have grown fast and paid their debts.

#4 is that the City of Pittsburgh contains little land, so business expansion pushes residents out to the suburbs. If so, the Pittsburgh SMSA must have a better record relative to other SMSAs than the City has relative to other cities, a matter needing research. It would be ironic, though, to find that the City that went 2-rate grew slower than its suburbs which did not. The implications would not be self-evident, except by leaps of faith and some sinuous reasoning.

#5 is that new federal highways bypassed Pittsburgh and favored Columbus, the growth leader. Research might bear that out, but note that a growing city attracts investments in transportation: federal money by having voting power, and private money by the demands of many people.

The lessons seem to be 1) where the basic property tax rate is low, the structure of the property tax is of little moment; 2) where there are two or more overlapping jurisdictions levying on property, a change in just one of them is of even less moment; 3) one must look at the whole of city policies, not just the apparent structure of the property tax, to determine the overall impetus of public policy; 4) Pittsburgh's officials have been more interested in favoring capital than labor; 5) property tax reforms may be subverted by contrary assessment practises.

Many good Georgists stoutly defend The Pittsburgh Plan, and pour their lives into promoting it. I will not paraphrase what they have written me, lest I misrender someone's meaning, and of course I will not quote their private messages. Rather, I hope they will send their signed opinions to this journal, and the editor will publish them. This matter is important enough to warrant intensive analysis and extensive dialogue in Groundswell, its natural forum. <<

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GroundSwell editor's comments: Insights was received right at publication deadline, too late to secure a Counterpoint opinion for this issue, so here is some information from GroundSwell files. (Also see GroundSwell issues of Jan.-Feb. 1990, "Pittsburgh Takes another Step in Right direction," and Sept.-Oct. 2001, "Was the Pittsburgh 2-Rate Tax Sabre-taged?" Further see the May-June 2003 GroundSwell containing testimony, about what went wrong in Pittsburgh, from Dan Sullivan, for 25 years the Director of the Center for Local Tax Research in Pittsburgh, testifying at the Philadelphia City Council's hearing on Land Value Taxation.

The following information is from the GroundSwell editor's files of the book, "Land Value Taxation Around the World" (1st edition), documents, news clippings, newsletters, etc.

The Pittsburgh Civic Committee, after a thorough analysis of the city's tax system with a view to lifting the burden of taxation from improvements and placing more of it upon the great landholders who were impeding the city's progress by holding the land at prohibitive prices, through its Housing committee in 1912 recommended that all buildings in the city be taxed at a rate of 50% less than land values.

When the Pennsylvania Legislature passed Act 147 in 1913 for the two 2nd class cities, Pittsburgh and Scranton, to phase in a half-mill rate on buildings, the city Department of Assessors had already completed its first separate assessment of land and buildings as required by the Act. In 1915 the Legislature passed a repealer which was vetoed by then Gov. Martin Brumbaugh because of strong protests from the Civic Commission, the Allied Boards of Trade, North Side Chamber of Commerce, Pittsburgh Housing Conference, and others.

The Graded Tax Plan was phased in from 1914 to 1925, when the half rate on buildings became fully effective. Pittsburgh's Renaissance I, through private urban renewal on the golden Triangle, was credited by then Mayor David Lawrence to the graded land tax incentive for building improvements and to its disincentive for speculative holding of vacant land.

In 1975 Pittsburgh city councilman (now congressman) William Coyne, seeing the need for a tax increase in 1976, started working to change the law to go beyond the 2-to-1 land-to-buildings real estate tax ratio. In 1976 Pittsburgh voters adopted a Home Rule Charter which allowed the City Council to change the ratio if it so desired.

In 1979 Pittsburgh's Council/Mayor adopted a land- to-buildings property tax ratio of 4-to-1 (municipal portion only).

In Dec. 1989 the City Council cut Pittsburgh's wage tax. which Mayor Sophie Masloff said was driving people out of Pittsburgh, and raised the land value tax.

In the year 2000, the last year that Pittsburgh operated under the 2-rate tax, the land tax rate was 18.450% and the building tax rate was 3.200%.

Pittsburgh had not had a reassessment in more than 20 years when Sabre Systems, a private appraisal company, was brought in. Sabre botched assessments so badly (blamed on computer software) in year 2000 that they were sued and another appraisal firm, Cole Layer Trumble, was brought in.

For 2001 the Pittsburgh City Council set the one tax millage rate at 1.080% on both land and buildings.

Pittsburgh continues to have a Pittsburgh Improvement District, which levies a land tax rate of 0.371%. □