

## MANY EMPIRICAL STUDIES SHOW THAT TWO-RATE BENEFITTED PITTSBURGH

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[This is the response to the Insights column in the Nov.-Dec. 2003 issue of Groundswell casting doubts on the effectiveness of the 2-rate tax that was in place in Pittsburgh from 1914 until 2000.]

The title of this article says it all:

(1) In the years 1980-84, when Pittsburgh was expanding the difference between its land and building property-tax rates (two-rate, but called "The Graded Tax" in Pittsburgh), its new construction as measured by building-permits issued was fully 3.57 times higher, adjusted for inflation, than in the pre-change years of 1974-78, despite the steady post-1980 contraction of Pittsburgh's steel industry (source: Pennsylvania Economy League study, 1985, p. 16). For the entire United States, 1980-84 office-building permits were only 1.6 times higher than for 1974-78 (not adjusted for inflation, per Daniel Sansbury, U.S. Bureau of Census, Suitland, Md., 1/21/93 telephone call to me and as reported in Incentive Taxation, 10/93).

The construction-and-renovation boom continued in Pittsburgh: in 1985, its building permits increased 2.29 times over 1984; in 1986, they were 2.38 times greater than in 1984 (source: Pbg. Bldg. Inspection Dept., see IT 10/86).

(2) After Pittsburgh increased its land-tax rate in 1979 and again in 1980, its construction increased an almost unbelievable 6.2 times faster than construction in the U.S. during the same period of time (sources: table 1174, U.S. Census report C30, and the city of Pbg.'s building-permit annual reports).

(3) Professors Wallace Oates and Robert Schwab of the U. of Md. reported that 15 large northeastern cities in the U.S. averaged a decline of 15.5% in their annual value of building permits issued between 1960-1969 and 1980-1989, but two-rate LVT Pittsburgh recorded a 70.4% increase. (See IT 10/92.)

(4) In 1995, Professor Nicolaus Tideman of Virginia Tech University (Blacksburg) and his then-graduate student, Florenz Plassmann (now a professor at the U. of Binghamton) completed a highly technical study of land value taxation in Pennsylvania entitled "A Markov Chain Monte Carlo Analysis of the Effect of Two-Rate Property Taxes on Construction," (IT 12/00), and they verified all my studies done in Pennsylvania, including of course my studies of Pittsburgh. Their study appeared in the peer-reviewed Journal of Urban Economics, pp. 216-47 (but Tideman has told me that the study occasioned no written comments or adoptions).

(5) A Pittsburgh City Council study (1976) showed conclusively that a 1% earned income tax would hit the city's homeowners 3.59 times harder than an equivalent-in-revenue LVT increase. The same study also found that a two-rate LVT would

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down-tax 73.6% of homeowners.

(6) Pittsburgh rescinded its two-rate tax for 2001, and since then its building-permits issued declined steadily, 2001-3 as compared to 1998-2000, whereas U.S. and Pennsylvania construction increased for the same time periods.

Incentive Taxation has published other studies of Pittsburgh, in addition to the above studies. But enough is sufficient.

A word is needed here about building-permit studies. The two-rate tax shift was unfortunately slight, so that the only measurable impact was on building-permits issued (an objective measure of new construction and renovation). The two-rate shift could in no wise affect population movement or general business conditions; they were affected by many other factors.

Let the critics of two-rate bring relevant facts to the discussion, not mere airy (irrelevant) theorizing. Georgists should understand that the two-rate approach or equivalents are the only way for us to get adoptions in the political arena in the foreseeable future. So far, it has been the only approach that has been proven and actually adopted. The critics have adopted no land value taxation at all! But a knowledge of the relevant formulas (fortunately simple) and procedures are absolutely necessary and are available to anyone who asks for them.

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