3. How Harrisburg in the US was transformed through a land value tax

In the United States, many local authorities, including Harrisburg, the capital of Pennsylvania, operate a so-called split-rate tax system, in which buildings and land are taxed separately. Some bias it towards buildings and others towards land. The evidence is that the more it is biased towards land, the more this benefits the local economy – which is what would be predicted by the theory of land value tax – because the more that land is taxed the more this provides an incentive to invest capital on the land in the form of buildings and other economic activities. That is precisely what happened in Harrisburg after the city authorities more than doubled the tax rate on land, while reducing the rate on buildings, such that the rate for land was three times that for buildings.

In 1982, before the change, Harrisburg, with a population of 52,000, was listed as the second most run-down city in the US. Since then, following the change, empty sites and buildings have been re-developed, with the number of vacant sites by 2004 down by 85 per cent. The city authorities have issued over 32,000 building permits, representing nearly $4 billion of new investment – nearly 2,000 were issued in 2004 alone. Over 5,000 housing units have been newly constructed or rehabilitated, and the number of businesses has jumped from 1,908 to 8,864, with unemployment down by 19 per cent. Furthermore, crime has fallen by 58 per cent, and the number of fires has been reduced by 76 per cent, which the authorities say is due to more employment opportunities, and the elimination of derelict sites, making vandalism less likely. They list 40 other positive benefits, including much improved public amenities. More recently, the bias towards tax on land is now six to one compared with three to one originally. This will likely further enhance the trends from which the city has already benefited.

Meanwhile, the heightened economic activity has increased public revenues, not only from land and buildings, but also from other taxes, thus benefiting public services. And it has increased quite dramatically both the value of land and that of buildings, from around $400 million in 1982, in today's prices, to $1.7 billion now. This has enabled the authorities to reduce the rate of tax on both land and buildings. Not surprisingly, this system of taxation has been politically popular, with Mayor Steven Reed Jr being re-elected continuously since 1982.

One constraint has been the fact that 47 per cent of the land in Harrisburg is occupied by state, federal, educational and charitable institutions, which, anomalously, are exempt by State law from property taxes. However, some of that lost revenue has been clawed back through charges on water, gas and electricity supplies, which are publicly owned – perhaps another lesson that we can learn from Harrisburg.

Meanwhile, another city in Pennsylvania, namely Pittsburgh, has gone in the opposite direction with its split-rate tax system. In 2000, it reduced the rate of tax on land to the same lower rate as that for buildings. Voters were persuaded that they would pay less tax. In fact, for most, taxes have increased, because the council has had to raise the tax rate on buildings to make up for the revenue lost through lowering the tax on land. Within just the first two years, it led to new construction falling by 21 per cent, and businesses moving out of town on a regular basis – which, again, is what would be predicted by land tax theory.