

Hear the liberty bell

The citizens of Philadelphia, where the American Declaration of Independence was first heard, are being invited to back a controversial rescue plan to save the city from urban decay.

CRITICS OF Western democracy and the free market model of economics claim liberty will not ultimately be realised until the tax system is drastically reformed. Now Philadelphia, the city where the Liberty Bell heralded the first public reading of the Declaration of Independence on 8 July 1776, is the scene of a political struggle that could lay the foundations for America to achieve final emancipation. Conventional taxes, although intended to help the needy, are abusive in their arbitrary nature, deterring productive activity by confiscating people's earned incomes. But an alternative, championed by Henry George - a son of Philadelphia - at the end of the 19th century, exists. George merged economic theory with the harsh experience of living in the "Wild West to rediscover the ancient wisdom of paying for public services out of the rent of land and natural resources.

Today, Jonathan Sidel, Philadelphia's controller, has hoisted that flag with a controversial 93-page analysis that proposes an overhaul of the city's tax structure. Knowing the plan will meet political resistance, Sidel has challenged the city's mayor, John F Street, to either adopt his proposals or propose an alternative. Aware that Street's staff had briefed the media in advance dismissing the plan as risky, Sidel went on the offensive with a two-plank attack on political opposition proposing to: - cut wage and business taxes, which have contributed to the flight of population out of the city; and - slash the tax rate on buildings, which has contributed to the blight on large swathes of the city. Sidel's formula makes sense to the business community, not least because one of the taxes companies must pay is imposed even if they lose money. The new plan would raise revenue by increasing the tax rate on the assessed value of land, offsetting the loss of revenue from taxes that damage the city's economy.

The tax-shift policy received its most articulate rendition in *Progress and Poverty*, which was published in 1879 (see page 18) and turned Henry George into one of Philadelphia's most celebrated citizens. In the past 20 years, senior Philadelphian politicians have expressed strong support for the tax shift but they have never been able to build the coalition to turn the idea into a reality.

Sidel has learnt those lessons. When he published his plan he did it in the presence of Charles Pizzi, President of the Greater Philadelphia Chamber of Commerce. Also behind him were five city council members, including an ally of the mayor, Jannie Blackwell, Chair of the Council's Finance Committee, and Richard Mariano, a union electrician and close associate of building trade-union leaders. Business and labour chiefs realise the city needs a recipe for generating new activity. Sidel is confident that, if the council gives his plan a fair hearing, "a tax package can be delivered to the mayor. But city hall politics dictate deft negotiation, and Sidel's trump card is his challenge to the mayor to come up with an alternative. Under the Sidel plan, the wage tax would be reduced from 4.54 per cent to four per cent for city residents. By 2007, this would be down to between 3.5 per cent and 3.3 per cent for non-residents.

For businesses, the net income portion of the business privilege tax would drop from 6.5 per cent to four per cent next July, and the gross receipts tax would drop from 0.24 per cent to 0.2 per cent. Land would face steeper charges, which Sidel's staff forecast would result in tax cuts for most homeowners, but tax increases for those businesses that own heavily underused sites in Philadelphia. Sidel proposes to tax land at 3.44 times the rate imposed on buildings.

Property taxes would drop for 78 per cent of home owners, but increase for half of the city's commercial and industrial properties. Parking lots, car dealerships and space-wasting activities would face steeply higher property taxes. Assessments of property values are not realistically related to market values. According to Sidel's report, land contributes 22 per cent of the total property tax revenue while buildings contribute 77 per cent of the total. To achieve an even split in total revenue, Sidel proposes to split the single tax rate of 0.08264 per \$1,000 of assessed value, to produce a rate of 0.1833 for land and 0.0533 for buildings. The hope is that this restructuring the property tax would deliver some of the classic benefits stressed by George.

Saidel's report states: "By taxing the value of land more than the value of [buildings] that exist on it, this split-rate taxation discourages speculation and encourages development and neighbourhood revitalisation. The mayor's office has fought back claiming the city cannot change its complicated tax structure at a time when the nation is sliding into recession. The mayor's budget Director, Rob Dubow, claims the business and wage-tax cuts would deplete revenue by \$900 million over the next five years. "It's not a question of whether this is debateable, it's just not affordable, he claims. Furthermore, Dubow hit back, the land tax is a good idea but would be expensive to administer. According to the Board of Revision of Taxes, up to \$7 million a year more would have to be spent to assess the value of land and buildings. BRT Chairman David Glancey, has been quoted as saying: "I think it represents a pretty big risk. It's the devil you know versus the devil you don't know. And I don't know if there are enough obvious and significant benefits to warrant this.

Philadelphia has a budget of \$2.9 billion. Saidel has had to try and balance this by identifying efficiencies of between \$27 million to \$95 million a year. But he insists drastic surgery is necessary to stop the economic haemorrhage. Philadelphia lost more than four per cent of its population in the 1990s. Jobs were reduced by six per cent. Taxes remained the highest of any US city. But Saidel's plan "will expand the tax base and increase tax revenues in the long term. In Saidel's view although the tax shift does involve risks, the worst case scenario could be handled. Supporting him is Joseph Vignola, Head of the State Agency that monitors the city's budget. He supports the call for a cut in business privilege taxes, and believes that renewing schools is also important to Philadelphia's future. Robert P. Inman, a Wharton professor and an economic advisor to the mayor, has entered the political fray.

Inman was a co-editor of a volume on economics, published in 1977 that contained an important essay called *The City as a Firm* by William Vickrey, who was awarded the Nobel prize for economics in 1996. In this Professor Vickrey demonstrated that efficient decision-making would enable a city to generate sufficient rental income to pay for public services. Inman believes a well-administered land tax could be valuable if land was assessed for its "highest and best use, but he warns the Saidel plan "will open up a can of worms politically and I'm sceptical that it can be pulled off.

Saidel's package of measures has been structured so the land value tax can stand alone and he is warning Philadelphians: "If we do nothing, then we go out of business. We didn't get where we are now overnight and we won't get back to where we should be overnight. Backing him is the Greater Philadelphia Association of Realtors whose president, Ann Rubin, says the land tax would fit the mayor's plan to eliminate blight by applying pressure on speculators to develop their sites. Securing the support from the real estate lobby is important. In other Pennsylvania cities it has fought strenuously to oppose proposals to restructure the property tax in favour of a heavier burden on land.

For the past two decades, Pennsylvania's land reformers have successfully persuaded a string of towns to adopt the two-rate tax, but this success suffered a serious defeat last year when Pittsburgh abandoned the two-rate tax it first adopted in 1913. The Henry George Foundation of America recently re-located to Philadelphia in order to lend its weight to the push, but Philadelphia Inquirer journalist Andrew Cassel warns: "Putting a land-value tax into practice in Philadelphia would be far from easy, particularly given the degree to which city politics and the real-estate industry are often joined at the hip here. In particular, a land-value tax could threaten the system of special-favour abatements and tax-free zones that some local politicians rely on to make themselves indispensable.

Saidel wants to use Philadelphia as a test-bed for Georgist theory. He points to the enigma of a major city blighted by empty sites and boarded up buildings. These testify to the disincentives of taxes that penalise people who work and who wish to invest their savings in their communities.

Fact file:

- 1682 Philadelphia founded by William Penn as a Quaker colony

- 1751 Pennsylvania Assembly ordered the Liberty Bell in 1751 to commemorate the 50-year anniversary of William Penn's 1701 Charter of Privileges
- 1752 Liberty Bell, weighing 2,080 lbs with a circumference around the lip of 12 ft, cast in London's Whitechapel Foundry and inscribed with the words from Leviticus 25, verse 10: "Proclaim liberty throughout all the land, unto all the inhabitants thereof"
- 1753 Liberty Bell hung in Philadelphia
- 1775 Two Philadelphians, Benjamin Franklin and Robert Morris, finance the revolution that leads to the founding of the United States of America.
- 1776 The Continental Congress sit in Independence Hall, where the Declaration of Independence is signed, and the Liberty Bell is rung on 8 July 1776 to summon Philadelphians to hear the Declaration read out by Colonel John Nixon
- 1839 Henry George born in Philadelphia 2 September 1839
- 1846 There is widespread disagreement about when the first crack appeared on the Bell. However, it is agreed that the final expansion of the crack that rendered it unringable occurs on George Washington's birthday in 1846.