Philadelphia's Covid-19 Budget: Everyone's Right – An Alternative Financing Plan

Hard Times

Philadelphia Mayor Kenney and City Council's budget solutions last month were understandable but avoidable. Reasonable because the traditional reaction to an emergency economic environment is to cut services, lay off workers, and raise taxes. Preventable because all options *should* be on the table, but are not.

The Mayor has made the city and its citizens face hard facts: in a sudden recession, tax revenues, especially business tax revenues, decline. Along with the Business Privilege Tax, we base revenues on the taxation of economic choices: renting a car, working a job, staying in a Philly hotel, buying something essential. Historically, slackening business tax receipts usually produce small but deadly holes in the budget, which can only grow bigger. Henny-Penny, is the sky falling? Well, yes.

Re-cranking up the engines of the economy is on hold, put off by state and city health mandates.

In July, city revenues kept drying up. As Center for Property Tax Reform predicted, the sales tax joined other taxes in cratering, after the panic buying of April and May. Only business taxes responded positively, due to extensions of tax deadlines.

Only one significant tax has seen stability: the property tax. Compare that to the 99% decline of the amusement tax!

There is a chasm dividing opinion on what a city faced by hard times should do. Advocates for safe and clean streets, libraries, fire stations, and culture stand for stable revenue streams to fund vital, often lifesaving programs. Tax reform advocates still argue against freezing the tax cuts in the name of inter-city competitiveness. In contrast, austerity advocates see city job cuts, arts programs reduction, and service cuts as a positive "no pain no gain" trope.

Everyone's Right

All positions are supportable, but the false dichotomy of "either/or" prevents real common ground and a solution to the crisis.

Service cuts are dangerous, but we cannot agree that the only way to avoid fiscal disaster is a hike in the nonresident wage tax, the parking tax, and more freezing of the scheduled reductions in business and residential wage tax. We are maintaining the sales tax pinned at an eye-watering 7%. Why? Who says these are the only acceptable choices?

The assumption that all business owners or suburban workers are 'rich' and ready to be plucked is a myth refuted by decades of tax reform commissions and reports. Must business and working people always be the "go-to" source of city revenue? Isn't it time to look for new alternatives? Most employers in Philadelphia are small business owners. Again, look at the city's tax receipts. Times are hard for them as well.

Many argue that tax-cutting isn't useful in attracting families and business. That's at least questionable. Yet, even if valid, cities and states are inevitably committed to tax subsidies for a favored few.

For example, the Philadelphia Chamber of Commerce is all for austerity, but we're confident they still support tax breaks for the "big dogs" while telling the neighborhood dry cleaner, tavern, or bodega to pay their "fair share." From Comcast to the Cira Center, we suspect the goodies will still flow through givebacks, subsidies, and abatements. "We got ours" is not the best philosophy to follow, but that's the script we've had for decades.

With small business being the engine of real job creation, the favorable tax treatment of large firms is all the more disquieting. There has to be a rethink of these freezes and tax hikes.

The crisis IS real

The Mayor is not minimizing the cash crisis facing the city. That's because, on the revenue side, we still depend too much on the taxation of action, creativity, and energy.

Losing $650 million from the budget is a shocker. The voiceless and the powerless are too often ignored, with their concerns shelved. Those members of Council who are trying for cost savings on the expense side are probably leading the first wave of genuinely good action, like battening down the hatches at the first sign of an approaching storm.

In a recession - especially in a city with chronic lagging indicators on all sides – business and wage tax revenues are particularly liable to drop as businesses retrench and job losses mount. Sales tax revenue has been bolstered only by panic buying; that's over. Revenue can slip even with current tax rates, and rate hikes will only exacerbate the problem.

The fact is Philadelphia relies on tax revenue from two things – work and private spending - that can hide, vanish, or flee. Forces beyond Philadelphia's control whipsaw labor and capital. There are many places to run, especially from high tax rates on those two things.

Another Way

If all options are indeed on the table, then we'd suggest that the city can come together and choose to base the city's revenues from the one resource that is barely nicked by taxation: the land value portion of the property tax.

The idea of a tax on land values is not new. In fact, in 1693, it was the first tax of Philadelphia. Taxing land value permits the reduction of other taxes because it attracts scarce development capital and workers. The usefulness of taxing land value under our feet started with William Penn. Further developed by Ben Franklin and Thomas Paine, land taxes were a message of economic fairness and equity personified by Henry George (all of whom were Philadelphians). The pedigree is impeccable, the theory accepted by nearly all economists – liberal and conservative – and the implementation is possible, in Philadelphia and hundreds of cities – big and small – around the world.

By reforming the property tax, we can create a tax on land value that's stable, efficient, and progressive. Again, no economist of any repute denies that a tax on land value makes the most economic sense. In Philadelphia, Penn's Professor Robert Inman has, *for years*, asked the city institute this simple, efficient, and just tax.

By removing the tax on all buildings and improvements, we eliminate the tax penalty on having four walls and a roof without blowing holes in the budget.

If businesses and citizens could discover a place that rewards growth without favor or subsidy, we could see an inflow of wealth even in hard times. Why? As a city, we are locationally one of the most advantaged places in the US. With a recession, a long-term threat to people and firms in high-tax places like New York will seek an amenable outlet for their activities. Why not Philadelphia?

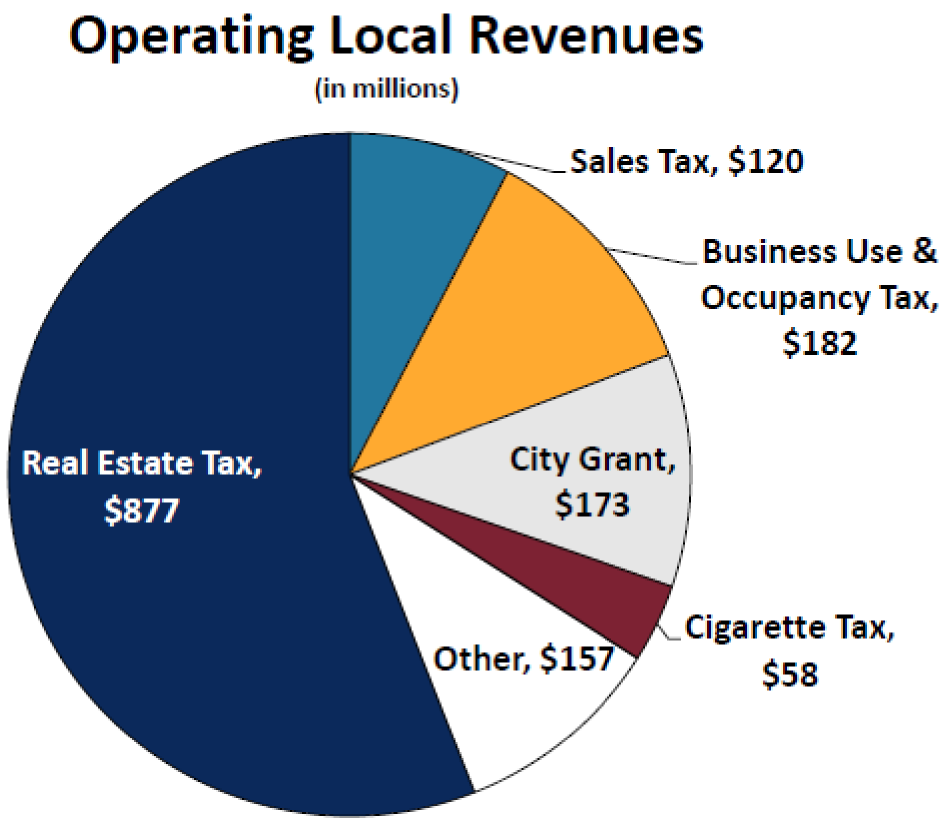
Economic Justice and Common Sense

To fill our budget hole, and then some, the city must recognize that there is community-created value and privately-created value. Land values are a textbook case of community-created value. The more desirable we think a site is, the higher its value. We, the community, need to keep that value for the services we need. Land values can pay for what our community wants. Yet, Philadelphia's government has not taken advantage of the value in the land. Philadelphia primarily taxes privately-created value: jobs, buildings, and commerce. Philadelphia is at a disadvantage because all other surrounding areas take less of it, and that's why the current downturn is so problematic.

So, let's agree that everyone is right: advocates for city services, the Mayor, and the tax reformers. We have to cut taxes on workers and production. We have to provide revenue so that essential programs survive and even thrive. The old dueling assumptions that our choices are either high taxes or low services are untenable. As Philadelphia enters a moribund economy, we have a responsibility to those who are out of work, suffering at home, or worrying about their children's education[i].

If all options are on the table, then the land value tax deserves a seat at that table.

The gulf between "either/or" has to be bridged. We suggest a land bridge.


Operating Local Revenues
(in millions)
Sales Tax, $120
Business Use & Occupancy Tax, $182
City Grant, $173
Cigarette Tax, $58
Other, $157
Real Estate Tax, $877

i