HENRY GEORGE **NEWS**

March–April 1975

Trustees and officers reaffirmed

There is likely to be little change in the School's policies and several successful programs will probably be expanded in the months to come inasmuch as the Board of Trustees will continue in office unchanged through this year. The trustees are: William P. Davidson, Richard D. Friedlander, Lancaster M. Greene, Edward C. Harwood, Samuel A. Krasney, Thomas A. Larkin, David C. Lincoln, R. Dean Meridith, William S. O'Connor, Agnes DeMille Prude, Leonard T. Recker, Stanley Sinclair, Glenn E. Weeks, Arnold A. Weinstein and Si N. Winters.

At the first meeting of this year, the Board re-elected Arnold A. Weinstein, president; Lancaster M. Greene, vice president, and Leonard T. Recker, treasurer. It named R. Dean Meridith, secretary, Richard D. Friedlander, assistant treasurer, and Lillian Kramer, assistant secretary.

As has been the practice during the past year, the Board intends to function through committees. To facilitate such operation, committees were set up to function in the following areas: Investment, Learning, Communications, Research, Building, and Operations. These are in addition to the standing Executive Committee of four trustees and the president, which can and often is joined by other trustees when the occasion warrants.

Serendipity and Henry George

Serendipity is the gift of finding valuable things not sought for. In a sense, then, the School's efforts may be said to be making serendipitous progress. In its quest for the educable adult, the School has found valuable students among the city's high school population, and this in turn is leading it to the promising adult.

The high school program is built around a series of classes for regular students, engaging in urban simulations, as part of the New York Board of Education's City-As-School program. This series of four 10-week cycles in the academic year is now in the second of this year's cycles. On its completion some 135 students will have gained academic credit toward their high school diplomas for their course work at the School.

Ancillary to these activities, the School has been conducting all-day workshops for high school students in cooperation with the New York Council on Economic Education. At the third of these workshops held last December there were thirteen adult auditors who had been attracted by favorable comments about the preceeding sessions. As a consequence, other alternative high schools (similar to the City-As-Schools program where regular students attend accredited classes outside their own school) have made inquiries of director Stan Rubenstein about the School's activities.

Some tentative steps are being made to expand the School's efforts along the lines indicated by these inquiries. One possible line of development is seminars for high school teachers so that they may take the simulation programs into their own classrooms and thus impart something of the land problem, the evils of land speculation and the advantages of site value taxation to their own students.

At least one definitive step is already being taken. At the instigation of the Council on Economic Education the fourth High School Urban Workshop will be held at the School on Wednesday, May 21, 1975. There will be a welcome innovation. In addition to the simulation session in the morning, the afternoon will be devoted to a panel discussion by three presidents of local corporations, members of the Metropolitan Presidents Organization.

The simulations on urban problems, in which all the participants are involved in decision making, deals with such topics as blight, urban renewal, transportation and taxes. Playing the game in the morning will give the students some experience with the topics the corporate presidents will be presenting in the afternoon from their own work-a-day experience. Informal presentations and discussions will center around "social responsibility of business," "locating a business," and "the climate for business."

So popular are these workshops with the high school student body that the Council's invitation stressed that the May 21 meeting "will be limited to a team of no more than four delegates from each school – on a first-come basis until the quota of 51 is filled."

Of particular interest are the questions outlined for the discussion on "locating a business." They are: "How valid is Henry George's principle of the 'single tax' for taxing commercial real estate today?" "Is the idea of rent control as applicable in the commercial area as it is for housing?"

"What economic principles should be followed in locating a business?"

"Contrast suburban and urban problems in locating a business."

(continued on back page)

Henry George School NATIONAL CONFERENCE: June 30 through July 3 will be held at the University of California at San Diego (UCSD)

Valuation practices in South Africa

The four provinces of South Africa have their own rating or Valuation Ordinance.

In the Transvaal, only land is rated, all the other provinces rate land and improvements, and the introduction of a land value and improvement value (in proposed legislation) was at the instance of a large Local Authority who wish to rate on a total value.

I am totally land-value rating oriented, in fact, the development of Johannesburg is due to this site value rating principle. How many cities in the world have had buildings on a site replaced three times in a period of eighty years? Johannesburg has more modern high-rise buildings than San Francisco. Market value site rating requires the land to be put to its maximum use, and it is my opinion that large cities in the United States and the United Kingdom, London in particular, are being allowed to stagnate because of the "Total Value" concept which tends to promote retention of old unattractive buildings with impractical underdevelopment of good sites.

Site value rating requires the best use of the land to be utilized – when viability becomes low the buildings must be replaced.

Johannesburg, with an area of 200 square miles, has 487 townships plus large areas of farm and mining land and of the 487 townships there are 308 residential townships of which 270 are completely homogeneous.

The theme of the Transvaal Rating Ordinance is "Market Value" and I think possibly Johannesburg has achieved as near this as has ever been done before.

Basically land is valued as though vacant, the land residual method being used to arrive at land value in fully developed residential areas; obviously vacant land sales in semi-developed townships are considered. Improvements are valued at replacement cost less depreciation. For income-producing property the land is valued as though vacant, cognizance being taken of the rights the stand has. The gross income is obtained, a net income arrived at and capitalized at a rate in terms of prevailing conditions. The land value is deducted from this capitalized total leaving a building residual which in the case of rent-controlled premises is very much below replacement cost, a fact which causes numerous objections to valuations.

I must refer to the unique problems which Johannesburg has in the municipal valuation field. Johannesburg started as a result of the discovery of gold in 1886. It began as a tough mining camp with little future hope of permanency. This lack of permanency resulted in people not wanting to buy land but to lease it. There are still leasehold stands in Johannesburg.

The gold outcrop reached the surface at what is now the middle of the city. The outcrop travelled from east to west and the gold layer went from the surface at 45° downwards to the north. The result is that the city is virtually divided into two sections by this outcrop area which varies in width from a few hundred yards to a few miles.

The central city development stops dramatically on the south where development has been the cause of many problems. This land which comprises 12% of Johannesburg is in most cases proclaimed land held under mining title. In terms of the Ordinance land "held or used exclusively for purposes incidental to mining is exempt from rates. When the price of gold was pegged at $35 per fine ounce and the type of ore was reaching a grade where it was no longer economical to mine, a new development commenced.

The mining industry then became aware that the protected land was more valuable than the gold ore underneath it and the mining companies started developing land, in other words, the timing of rating was in the hands of the mining companies. To develop mining land requires the permission of the Government Mining Engineer and the Mining Commissioner and with their approval a reservation for township purposes is given, which is not rateable.

However, with the increase in the price of gold, the mining industry became more interested in the gold extration function and development of land became a secondary function.

Permission to use the surface of proclaimed land held under mining title can be obtained from the Mining Commissioner in various forms: a surface permit for agriculture or recreation; an industrial stand, or a commercial site.

As can be seen the mining situation is a difficult one particularly in view of the fact that most of this land is ripe for development and extremely valuable, and it is not often obvious that the surface is actively used for mining purposes, although there may be underground activity 12,000 feet below. It has been assessed that less than 50% of the gold ore has been extracted, so it might be true to say that there is more gold under Johannesburg than there is in Fort Knox.

(Extracted from an article by John McCulloch, City Valuer of Johannesburg, in "Land & Liberty" January-February 1975.)

Raymond Moley

Raymond Moley died at his retirement home in Phoenix, Arizona late in February. He was 88. Famed as the originator of Franklin D. Roosevelt's Brain Trust, Mr. Moley was active in politics since his association with Cleveland's renowned Mayor Tom Johnson early in this century.

Mr. Moley's interest in the land question and the works of Henry George began as a student. He would practice oratory, he often recalled, by reading aloud from *Progress and Poverty*. He still had the same well-worn, marked copy in his office at Newsweek magazine a few years ago.

Although he labored arduously on behalf of President Roosevelt's election in 1932 and virtually supervised the organization of the early New Deal, Mr. Moley left the Administration in 1936 because he disagreed with its drift toward paternalistic government.

Upon leaving official Washington, he began his journalistic career as editor of a new magazine, Today, which later was merged with Newsweek, and for which he wrote a political column for over three decades. He also wrote a column that was syndicated in newspapers across the country.

He gave the benefit of his knowledge and experience to John C. Lincoln (a past president and benefactor of the School) in helping him to put forward the concepts of Henry George. Maintaining his interest in the land question throughout his life, Mr. Moley continued to advise David C. Lincoln.

Mr. Moley's ideological differences with FDR took tangible form when the two-term presidential tradition was broken. In 1940, Mr. Moley wrote his account of New Deal politics in a best seller *After Seven Years*. He wrote many other books, among them *The First New Deal*, published in the 'sixties; *The Republican Opportunity in 1964*, and *The American Century of John C. Lincoln*, published in 1962. His latest work was a biography of the Irish patriot Daniel O'Connell. (NEWS Jan.-Feb. '75) At his death he was working on his memoirs.

Thornton K. Brown

Thornton K. Brown, a retired businessman who had long been a contributor to the School, died in New York recently. He was 85. Active in the shipping and investment business, Mr. Brown took a course in Progress and Poverty in the winter of 1940 and for many years afterward was associated with the School's correspondence course efforts.

Land tax before the California Senate

An amendment to the California constitution proposed by Sen. Albert S. Rodda would provide for the gradual reduction of taxes on improvements and personal property with a view toward their abolition after five years.

Senate hearings on the proposal attracted an array of talent. Appearing in favor of the measure were Schalkenbach Foundation president Perry Prentice, Columbia University professor C. Lowell Harriss and University of Wisconsin professor Arthur P. Becker. The School in San Francisco was represented by its president Polly Roberts and William J. Filante. Dugald Gillies of the Governmental Relations of the California Association of Realtors appeared in opposition.

Mr. Prentice advised the lawmakers to "stop subsidizing the underuse and misuse of land by underassessment and undertaxation and stop penalizing improvements by overtaxation." Under the guise of property tax reform, he said, speculators seek tax breaks for themselves. Legislation that was "sold to the public as a way to preserve open space, he said, in practice has forced developers to leapfrog still farther out into the boondocks to get land they can afford. As a consequence of current laws permitting assessment on the basis of present use, he cited the Orange county assessor's example that the Irvine Ranch receives a $600,000 a year tax saving on land it may not begin to sell until some time in the next century.

Professors Harriss and Becker stressed the more technical aspects of the proposal. The former explained that untaxing improvements would greatly stimulate new capital formation, encourage building, and the latter refuted the idea that shifting the property tax to land would lead to overbuilding. Market demand, he explained, would determine the level of development.

Sunshine dwellers suffer unequal tax burden

If it's your dream to retire to a little cottage in southeast Florida, you'd better be prepared to carry a heavy tax burden. Single-family home owners in Dade and Broward counties (Miami and Fort Lauderdale areas) pay a larger proportionate share of taxes than the owners of any other types of property, according to a study by the Miami Herald published February 9, 1975.

These conclusions are based on a study of 1974 assessments compared to 1973 sales value. Tabulations of some 770 properties showed the following ratios: In Dade county single-family homes were assessed at 74% of market value as compared with 67% for apartment houses, 66% for condominiums, 58% for commercial property and only 58% for raw acreage. To the north in Broward the disparity is a little worse: single-family 81%, apartments 69%, condominiums 68%, commercial 59% and raw acreage 47%.

The study turned up not only unequal treatment of differing land uses, but disparate assessments between two similarly used properties of comparable value. The survey also indicated that single-family home owners in less desirable neighborhoods – presumably owned by lower income groups – often pay a greater proportionate tax than do those with property in the more fashionable areas.

The study was designed by Charles Kimball, former chairman of the Dade Tax Assessment Advisory Board, to find out whether taxpayers on differently used sites were paying comparable taxes and whether the tax roles met the statewide requirement that property be assessed at 100% of its "just value."

"Just value" has been defined as the price a property would be expected to sell for when given reasonable exposure on the open market with neither buyer nor seller under any compulsion to act. Assessors criticized for unequal treatment among parcels will usually attack the use of assessment/sales ratios. They claim that few sales are made under ideal open market conditions and therefore are not a true reflection of value. They do not, however, offer any objective alternative, but seem to prefer their own subjective evaluations.

Interestingly, Mr. Kimball commented on the situation: "The reason assessors don't get into trouble more often is because they consistently underassess – and every individual looks at his own assessment, sees that it's too low, and so he's not about to complain. But he doesn't know how much other people are underassessed, and he might actually be losing in the process."

It is interesting to note that the Miami Herald's editor, Don C. Shoemaker, is a grandnephew of Henry George.

From the GEORGE notebook...

(These notes on random topics are not definitive and certainly are not offered as the last word on the subject. Instead they are intended to be sometimes informative and always provocative. EDITOR)

The question is often asked: Is economics a science?

Science may be defined as organized knowledge. Such definition only substitutes two words, "organized knowledge" for the one, "science." While the qualifier "organized" may give us little trouble, the substantive "knowledge" is hard to pin down. Do we always know what we know, or might we often confuse it with what we believe?

Perhaps greater insight can be had by turning to the generally accepted explanation of "scientific method" Does this describe the economist's method? The term suggests more than systematized thought; it includes the testing of hypotheses. This process requires the application of a standard against which data can be measured to observe change. The standard may be an invariant such as a meter or a gram, or it may be a control situation where the outcome of given inputs is known or predictable.

Analysis cannot be considered "scientific" merely because it posits assumptions – no matter how reasonable or viable – and proceeds inductively. Such an approach to real phenomena may constitute a discipline, but it lacks an invariant or control standard. It cannot be called a science.

In the areas delineated as political economy or economics – the study of production and the distribution of the product – there are neither invariants nor are there opportunities to construct control situations. Hence, we may ask: Can this subject – or any of the behavioral studies – be a science or is it only a discipline?

From the public press:

The following letter to the editor appeared in The New York Times of January 23, 1975; it was written by Philip Finkelstein, a former Deputy City Administrator of New York who now heads the School's research efforts.

To the Editor:

Now that the City Comptroller has joined the annual charade of the dire property tax rate forecast, perhaps it is time for those responsible officials in New York City government to inject some reality into the performance. The dismay with which the Citizen's Budget Commission and its real-estate constituency responded, on cue, to a threatened rate rise of more than a dollar per hundred valuation might be dismissable as the well-rehearsed antics of perennial players. Unfortunately, the grim fiscal plight of the city is real enough.

Yet the city does have some legitimate alternatives to both a frightening tax rate and a heavy slash in expenditures. New York remains the richest urban tax base in the world. Nowhere is there such an extensive aggregation of valuable and underutilized land, which bears so small a share of the city's tax burden. The high rates of assessment on improvements, especially the older multifamily dwellings which house the overwhelming majority of New Yorkers, have in fact helped subsidize the absurdly low assessment rates on unimproved but fully serviced urban land of which even in our dense city there is a substantial amount.

Before we lean once again on the job-producing, home-providing taxpayer for yet another bite on his cash flow, we might look to the speculators in valuable parcels all over town whose assessments have not risen in more than a quarter of a century of inflation and enhancement of value by the city, and by other taxpayers.

Quite apart from bringing New York City assessments in line with the law that requires uniformity, and the revenue it could generate, the economic consequences of such a reassessment of the land could provide a vital shot in the arm for new development and construction. The high cost of land, even in outlying areas of the city, is an added burden to the failing building industry. Unrealistically low assessments have contributed to the higher costs providing an incentive for speculation and disincentive for the development of anything but highest priced luxury offices and apartment houses, of which New York already has much more than it can possibly use.

While reassessment alone will solve neither the city's budget nor its building depression, it is certainly better than another big jump in the tax rate or yet another slash in services. At the very least, by taking what we can from those profiting from urban land holding, we might moderate the pain of everyone else.

Serendipity . . .

"How is profit figured in the real estate business?"

"How can the real estate industry help businesses locate in the 'inner city'?"

"How can the real estate industry contribute toward alleviating urban blight?"

It is through such efforts that the School is able to make an increasing number of people aware of the land problem, the pressing necessity to seek its solution, and the advantages offered by reform put forth by Henry George.

Another endeavor along similar lines and toward the same end is the City-As-School independent study program at the School. Under this aegis, high school students spend eight weeks working on a research project under the leadership of the School's research director, Philip Finkelstein. As research progresses, three crucial questions are to be answered: 1. Is the property tax equitable? 2. Is the method used to compute the property tax conducted in a haphazard fashion? and 3. What are the effects of the current property tax on economic development?

Assessment and taxing data on 300 lots, 150 residential and 150 commercial or manufacturing, will be compiled. Students visit the properties, take pictures and make their own observations of activities at and conditions of each location. In addition assigned articles are read and the students receive counseling at the School. At the conclusion students are expected to submit written reports, with exhibits, of around 1,000 words. They then will receive academic credit for their work at the School.

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