Henry George NEWS

September-October 1975

Fall term off to good start

This year's fall term is off to a good start judging from the preliminary reports from the School's registrar. Responses to a varied advertising program are better than average and presage well attended classes for the coming term. Particularly gratifying are the responses to invitations for the free course based on George's classic.

The fall program features two classes in Progress and Poverty one on Tuesday evenings and the other on Wednesday evenings being taught by David Sklar. These are supplemented by an historical approach to the land question, Man and His Land, on Monday evenings by Si Winters, a general treatment of the classicists by Stanley Nass on Wednesday evenings, History of Economic Thought, and Stanley Sinclair will conduct an experimental class, Reform for Our Time, using a simulation exercise titled Community Land Use Game (CLUG).

In addition, three popular business courses are offered: Richard Friedlander discusses Security Markets, Personal Financial Planning on Monday evenings and Financial Analysis on Tuesday evening. Renato Bellu tackles the problems of Small Business Management on Wednesday evenings.

Regional land value tax proposed to support transit

A regional tax on land values to support mass transit in the metropolitan New York area was proposed by the School, through Philip Finkelstein, director of its Center for Local Tax Research at a joint hearing of the New York State Legislative Committee on Transportation and its Senate counterpart. Citing a revenue base of nearly $60 billion as the full value of land in the tristate metroplitan area, Mr. Finkelstein proposed a minimal graduated tax, of no more than 1% on any parcel as a secure, adequate and essentially equitable means of financing mass transit in the area.

"Land values are directly enhanced by access to mass transit. This is true, to different degrees, for commercial, industrial and residential properties in every location. It is both appropriate and sound economically to tap those added values to support the very system and facilities which create those values in the first instance."

The estimate of full value of metropolitan land is based on assessments and equalization rates in New York City, the five suburban New York counties east of the Hudson, the eight northeastern counties of New Jersey; and Fairfield County, Connecticut, the area primarily served by mass transit.

The full land values come to approximately $16 billion in New Jersey, $4.3 billion in Connecticut, $14.5 billion in suburban New York and nearly $25 billion in the city itself.

"A more precise total of full land value is likely to be higher than this rough estimate," Mr. Finkelstein said. "Since land is generally assessed at a lower percentage of full value that the improvements on it, variations in assessment between and within jurisdictions make it necessary to develop a full value index that could serve the entire metropolitan area. But it is clear that the revenue is there, and, despite the economic problems of the metropolitan area as well as those of the city, land values have grown and will continue to grow in the forseeable future."

The nature of the tax would be in the form of a special assessment on the value of locations enhanced by transit access. Property whose value is greatly enhanced by transit accessability would pay more and those minimally affected would pay less.

The tax on land values would be inherently more fair than the increase in fares, which hurt those who are most dependent on mass transit, or a payroll tax which burdens employers and, possibly employees at a time when employment in the metropolitan area is the most critical problem.

The revenue source could also grow with improvements in mass transit and greater use, which would enhance the value of locations served by it. At present estimated levels a 1% tax on even $30 billion of value would provide $300 million in additional revenue, more than a proposed payroll tax as well as more than the estimated yield of the fare increase.

Implementation of the regional tax would require the cooperation of the three states in the creation either of a special assessment district covering the metropolitan area or the use of an existing administrative body to collect and turn over the tax for transit purposes.

Mr. Finkelstein said that a study utilizing multiple regression analysis could readily isolate the transit access factor in land values thus providing a base on which the transit tax could be assessed.

Mr. Finkelstein had previously appeared before New York's Metropolitan Transportation Authority. Despite the chairman's admission that hearings on fare increases were a mere legal formality without influence on the inevitable advance in travel costs, the Center for Local Tax Research director proposed alternatives to the continuous boosting of fares and the taxation of labor and labor products.

"Throughout the metropolitan area land values have dramatically increased by accessibility to mass transit," Finkelstein told the transit board. "It is this added location value that should and could support public transportation in the metropolitan area. Those who profit from their locational advantage by owning the land at or near a transit route, terminal or major interchange have been for too long enriching themselves at the expense of the riding and general taxpaying public. While it is a legitimate purpose for mass transit to make locations accessible to the many, there is no justification for making the owning of land at such locations profitable for the few."

(Continued on last page)

The truth about New York's revenue source

Assessment of property at 100% of market value was virtually mandated for New York State by a decision of its highest court last spring. In effect, the 4 to 3 ruling of the Court of Appeals that a house in the town of Islip on Long Island be assessed for tax purposes at full value invalidates a 200-year old practice and has state-wide application.

This landmark action by the court has stirred controversy. Claims have been made that it will mean immediate and prohibitive tax increases for home owners, that the job of raising all assessments from their present differing percentages of market value to full valuation will be arduous, time-consuming and inordinately expensive, and that it will be counter-productive.

Philip Finkelstein, director of the School's Center for Local Tax Research, writing for the New York Times, related the ruling to New York City's fiscal crisis, asserting that "it is time to tell the truth about the city's fundamental source of revenue."

"The assessment role now stands at \$39.7 billion," he says. "The special city equalization ratio, set by the state, is 48%, making the full value of taxable property for debt-incurring purposes \$83 billion. With only a slight increase in assessments, but an 11% rise in the tax rate, the city hopes to extract more revenue, while the state permits deeper long-term debt, and neither one confronts reality.

"The reality is that in the last decade the tax base has grown by a third while doubling its yield. In no municipality but New York, which trebled its expenditures in the same period, could an increase in the tax base of 'only a third' be deplorable. Even newer, smaller jurisdictions would envy such growth. Small wonder that the rest of the country has little sympathy for the city's agony. Why should so much concentrated wealth teeter on the brink of bankruptcy?"

For most of the city, he points out, assessments first made in the depressed nineteen thirties were an almost "sacred right of the owner." The city has never been properly assessed, he says. The market comes into play only when a new building is constructed, a new owner takes over or there is a major renovation.

"The scandalous administration of assessments has led to the milking of poor properties by owners and the milking of good ones by the public treasury. Vacant, underutilized, never improved parcels enjoy the benefits of assessments bearing no relation to market clues. Top-quality improvements carry the load. As long as there were enough of the latter, the former could be blithely dismissed.

"But now, though the tax base is still there, the load has shifted. Where values in the past rose only in Manhattan, and the rest of the city crept along, the opposite now seems to be the case."

Questioning whether we can continue to subsidize some situations. Finkelstein asks: "How dare we continue the myth that vacant land has little value when the price of a lot in a good location rises even during depression?"

He concludes that to reflect reality is to obey the law. Doing so, he adds, would not show an erosion of the tax base, but a shift in its incidence; it would show not unlimited resources, but more than enough to support better services than the city now gets.

(Copies of Mr. Finkelstein's article are available from the School on request.)

Center's role in research

The Center for Local Tax Research has been set up at the School. Among its projects is the compilation of an annual statistical series on the 1,845 taxing districts in the 31-county Metropolitan New York area. The series will include current data on the true value of the tax base, ratios of assessment to real value, and effective rates. Special studies in key localities will examine the impact of local taxes on the community.

Philip Finkelstein, who directs this program, is a former Deputy City Administrator of New York. He comments: "Conflicting and misleading reports on revenues as well as expenditures aggravates the plight of local governments and taxpayers alike. The Center will concentrate on hard facts and comparative analysis, which show what our communities really can afford." Since leaving city government, he has been a professor of political science at Brooklyn College and is now a member of the faculty of Adelphi University.

Tax abatement might cure sick mortgage money market

Mortgage money is virtually impossible to come by for older industrial buildings even after complete refurbishing, Alan S. Oser complained in the real estate section of the New York Times a month or so ago. Thus it is that investors are almost precluded from renovating the kind of structures, multipurpose loft buildings, that house so much of the city's small business where so much of its blue-collar labor is employed. So deterioration and vandalism take their toll.

Real estate people explain that typically for mortgage purposes, the rent roll of commerical properties were capitalized at 10%, i.e. multiplied by 10 to arrive at valuation for the property. Then a bank would be willing to lend up to 70% of that value. With, for example, \$100,000 a year in rental income, a property would be valued at \$1 million and a \$700,000 mortgage would be written. A real estate operator would then be able to go on to rehabilitate another property, having been able to get some of his cash investment out of the first one. But now, the banks consider the risk so great that they will capitalize at 20% and lend only 50% of value. (Multiply the \$100,000 rentals by five and lend only \$250,000.) And even on this basis, they say, there's just no money available from either the banks or any other financial institutions that usually serve this market.

The reluctance of the banks to get involved in mortgages is explained by the growing number of defaults which leave the banks holding the property. And banks don't like to have to go into the real estate business, particularly when there are virtually no buyers for the property the lenders are stuck with.

It is difficult to fault the banks' reasoning. They are reluctant to lend money on a 40-year mortgage when the building is rented by tenants on five-year leases, and there's no market for the property.

At least there has been some constructive thought given to the problem. The state legislature, or half of it, has sought to ease the way for construction and renovation. In the last session it offered a tax abatement on the value of an improvement made to industrial or commercial property. The abatement would have begun at 95% the first year and scaled down by five percentage points each year until it disappeared in 20 years. Unfortunately, the measure died in the Senate.

From the GEORGE notebook . . .

(The following clipping was found yellowing in an old file. It was a column by the late Harry Golden that appeared in some publication now defunct. It is, however, of poignant interest.

EDITOR)

My secretary was gathering my political correspondence. I have helped Southern campaigners write speeches since 1946. I even went out once and helped one congressional candidate ring doorbells in the wrong district. He won anyway – the history of the South. In the midst of this I remembered my first campaign. I helped Oscar Geiger run for senator in New York in 1920 on the Single Tax ticket.

The Single Tax was the solution to poverty introduced to the world by Henry George. He argued that while population increased, land values appreciated, and that labor and land were the only sources of wealth.

The poor man labored, then handed over his money to the landowner who had done nothing to increase its value. The way out of all this was a tax on the unearned increment of land value. Along with this, Henry George also proposed a 40-hour week, Social Security, a minimum wage, public housing, and abolition of child labor. Naturally people called him a lunatic.

Oscar Geiger, my good friend and mentor, was George's most loyal disciple. He had seen Henry George almost win the mayoralty of New York in 1890 [presumably he meant 1886] and had been with him when the economist succumbed to apoplexy in the next campaign. The man was dead, but the work went on.

In an old deserted grocery market on the West Side of New York City, sawdust still on the floor, Oscar Geiger to the tumultous cheers of perhaps 300 people accepted his party's nomination. He was perhaps 50 then. I not yet 20. As he was George's disciple, so was I. Off we went, armed with Henry George's book, "Progress and Poverty." We would show Tammany.

We set up soapboxes. Geiger, of course, was a natural orator and could hold a crowd even though he was discussing the unearned increment of land values. The rest of us weren't so lucky. I wanted to make a point once and suddenly exhorted the small crowd, "Look at that shoe store over there." I pointed. Everyone looked.

Right in front of the store were two pretty women, both with parasols, chatting away, oblivious to my harangue. None of the men ever turned back to me. In fact, looking at those girls, I forgot my point, so it's just as well.

After the campaign was over, we always called Geiger "The Governor." We were quite sure he would have succeeded to the Senate in Washington if only his Democratic opponent hadn't been Royal Copeland, Hearst's man.

'People create land values'

John R. McDowell, Administrator of Interstate Land Sales Registration for Housing and Urban Development (HUD), has said that "most of the time the purchase of undeveloped land is not a good investment," inasmuch as he says land sales are usually at twenty times their market value.

Lancaster M. Greene, School vice president and trustee, comments that the land sale business has been doing a yearly volume of $6 billion, with frequent disclosures of fraud. Among the victims were the elderly looking for ways to invest.

Successful speculation in prime city property can set a labor union up for a huge loss in developing marginal land, Mr. Greene explains. In 1925, the New York Empire Company bought 120 Broadway for the Brotherhood of Locomotive Engineers for $1 million on top of a $40 million first mortgage and a $10 million second mortgage. A year later, an investor group bought the building from the union, giving it a $1 million profit.

The union then dreamt of building a city in Florida, thinking they would make $50 million. As Venice, Fla, started, they sent me there with a view to interesting me in its financing, Mr. Greene recalls. My analysis indicated the potentiality of a successful city – but only after it has gone through bankruptcy. Sure enough, the union lost $50 million and had to assess each of its million members $12.50 a year for four years. The people who had sold them the land had charged about twenty times its market value.

To make land valuable many people have to build a city and spend vast sums on streets, mass transportation, police and fire protection as well as garbage collection, water supply and sewerage, Mr. Greene says, adding, it is the location value this investment creates that the city should collect as its revenue.

Land Tax *(Continued)*

Citing some local examples, he said: "Throughout the city there are pockets of underassessed land whose value is enhanced by mass transit. Throughout the region there are whole communities whose very existance is determined by public transit access to employment elsewhere, including the city. These are the locational values which must be taxed to justifiably support mass transit on which they depend."

Starting the values created now and in the future can be captured to support the very facilities that lend them their value, Finkelstein said he could not give firm assurance that the land value increment alone can pay all the costs of mass transit. However, he told the authorities, the Center for Local Tax Research is undertaking a review of assessments and effective tax rates throughout the metropolitan region. This data base, he explained, will enable us to calculate, with some certainty, the incremental values of transit accessibility as a major factor in land. Our preliminary findings indicate that these values are substantial, he said, they are widespread geographically and, most important, would automatically increase with any improvement in transit usage, accessibility, amenity, and attractiveness.

Not only did the assembled MTA members listen to these remarks attentively but at least one of them expressed privately his interest in pursuing the matter further.

Tried and true suggestion

Among the comments appearing in the press on the court decision for full assessment was a letter to the Times by John H. Thompson of Bellmore, N.Y. who suggested an old, but effective, means of achieving full and equitable assessment.

He recommends that 1) each owner assess his own property; 2) the taxing authority use the owner's assessment for tax purposes; 3) all data be made public, and 4) "anyone may buy any property by paying its owner double the amount of its tax assessment."

Justifying his suggestion, the writer asks, "Who could complain that his assessment is too high? He made it himself. Who could complain that his neighbor's is too low? He could pick up a bargain."

Certainly it is easy to agree that this procedure would answer one of the objections to putting the court's decision into practice. Self-assessment presumably could save a considerable portion of the costs that have been estimated for the task of reassessment. But as suggested, the plan appears to fall somewhat short of the court's directive. For a self-assessment of property to be too low, it would have to be under 50% of the market value. No one would pay double the assessment for a property if that figure exceeded what the property was worth on the market.

While this often-recommended technique might fill the desire to do the reassessment as cheaply as possible and might go far toward correcting disparate assessments of comparable properties, the suggested plan would not meet the legal requirement of 100% of market value.

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