HENRY GEORGE **NEWS**

January- February 1976

Courses set for spring term

A full complement of courses is scheduled for the spring term at the School, with three ten-week series based on George's *Progress and Poverty*.

Other classes that deal with George's concepts and approach to political economy include Man and His Land that looks at the land question in an historical perspective, Reform for Our Time that uses game stimulations to construct an urban model from a rural one and, thereby, enables participants to see the development of the land question and apply remedies. In addition, Money and Banking takes a private enterprise view of credit and fiscal affairs.

There are two courses in Securities Markets scheduled. One is on an elementary level and deals with personal financial planning; the other is more advanced and involves the ins and outs of security analysis. A course in Small Business Management is designed for the budding or would-be entrepreneur.

The registrar's office reports that early pre-registration activity presages an active spring season.

(See back page.)

Finkelstein addresses economists convention

The panic in Manhattan real estate will be as unreal, and as damaging, as the frenzy of the boom a decade ago, Philip Finkelstein, director of the School's Center for Local Tax Research, told the National Tax Association's panel at the American Economic Association annual convention in Dallas on December 30.

"Even with the long-term prospects for the city and the regional economy as grim as they now appear, the value of a New York City location will not disappear unless the city itself does. It is these location values, and not the transitory values of its most extravagant buildings, that the city must tap for its own survival ..." he told the economists.

'Headquarters City'

New York's fiscal problems have been aggravated, he said, by too heavy reliance on Manhattan's position as "the corporate headquarters city of the nation," which has distorted the tax burden and heightened the vulnerability of municipal revenue to external econominc forces.

Much of the city's current difficulties Mr. Finkelstein traces to long-term problems that were accelerated by the building boom of the 1960's. "It is significant that in the New York of the sixties not a penny of urban renewal funds and very little of New York's capital budget was invested in new economic activity. New York renewed itself with new neighborhoods of upper middle class and even moderate income housing and millions of square feet of new office space leased even before built, at some of the highest rentals in the world. This spectacular private building boom lent New York the illusion of growth in its tax base that could almost match its needs for more revenue...

"Even the Comprehensive Plan drafted for New York City in the late sixties called the headquarters function of New York the 'engine' that would continue to pump resources and vitality to the rest of the city and its metropolitan region. But the engine soon stalled. Headquarters . . . are no substitute for broad economic activity. There were fewer headquarters jobs and fewer factories for those without skills and higher training. Nor did the services and profits of headquarters city flow to the neighborhoods ..." He explained that in designing its taxing base to fit the headquarters city philosophy, New York was sowing the seeds of its current problems.

Unchallenged Pre-eminence

"In the decade or so of its unchallenged pre-eminence as headquarters city, New York gained a one-third addition to its real property tax base, from about $30,000,000,000 to under $40,000,000,000 of assessed value. Almost all of this gain represents the value of new construction. Almost none of it represents the additional value of existing properties and locations in all parts of the city. The tax base grew by one-third, the tax rate doubled in that same period, yet New York City, even now is a relative bargain for many property owners. While Manhattan, with its smaller land mass and shrinking population, pays nearly one-half of the property tax bill, property in the other New York boroughs of Queens, Brooklyn, and Staten Island enjoys the lowest level of assessment; in many instances one-half the assessment-to-value ratio as Manhattan . . .

Political Power

"There are nearly 600,000 one and two family homes in New York City, and they are powerful politically and economically. In one of the better neighborhoods, where a house might sell for in excess of $50,000, the tax bill is under $1000 per year even at the current rate of 8.18 per hundred. Their assessments, in many cases, remained unchanged for 40 years. There are at least as many New Yorkers enjoying below market rate living through lower assessments as there are those enjoying the same subsidy through rent control . . .

"Land in New York is valued at a much lower level than improvements on it. The speculative bidding up of land and property values in Manhattan is the major cause of a cost differential that makes New York the highest priced town on the U.S. mainland. But most of all, and most tragically, it was the greed of speculators and developers alike who oversold and overbuilt in a finite market, that destroyed the values they hoped to create . . .

"About 30 million square feet of new office space is vacant: several towers have gone bankrupt before completion: some may never be occupied at all. Older buildings forced to compete for tenants at bargain rentals fall into arrears on their taxes and mortgages and a similar fate is now overtaking Manhattan's luxury and middle income housing stock . . ."

Mr. Finkelstein explained that the economics of the New York Metropolitan area have shifted from its near-dependence on its center, to a more balanced relationship between the core and the periphery. "Strange as it may seem, New York is becoming more like other American cities with less dominant centers – with one important difference.

Suburban Exploiters

A true New Yorker regards somebody who chooses to live in the suburbs while earning a living in the city as something of a traitor at least or colonial exploiter at worst. This oddly parochial view has its sympathetic echoes in high places, like restricting public employment to city residents only, or placing more onerous burdens on commuters.

"Small wonder that residents of the fringes within the city are closer in mind and political attitudes to the residents of nearby suburbs than either of them are to Manhattan. Politically this division is even more striking, with only Manhattan consistently voting overwhelmingly liberal democratic, while the rest of the city more closely resembles the rest of the country . . . In effect, it is only Manhattan that is a special place in New York, and, as such, it is losing power, people and resources to the rest of the city, the region and the nation . . . "

Mr. Finkelstein told the economists that the terms of property ownership in New York will never be the same again. "New York must take some of the burden off the buildings which cannot carry it and place it on to the land which can, and must. The probability of more realistic market values for New York City property is more probable now. The highest court in the state has already called for such a move and a number of jurisdictions are paying heed . . .

"A full value assessment of the city should not show a dimunition of the tax base but a shift in its incidence from the core to the periphery. The enormous value gap between Manhattan and the other boroughs would be reduced and the disparity between over-assessed and under-assessed owner-occupied property would be narrowed. Above all the absurdly low estimates of vacant and under-utilized parcels of urban land would disappear, forcing some rapid redevelopment at a lower, more modest scale in size and price. In a way, this would make New York a little more like the rest of the country and perhaps less an object of envy and scorn."

Higher city taxes seen

The Citizen's Budget Commission, a private "watchdog" organization has estimated that the property tax rate in New York City could climb to $8.70 per $100 of assessed valuation for the fiscal year to begin next July 1 if the City Administration chooses to exercise its full taxing power.

A mill rate of 870 would be 51c above, or a rise of 6.2% from, the current rate of 819. Commenting on his organization's dire prediction, its president, Roderic O'Connor, expressed deep regret and a sense of foreboding with "grave doubt whether the city's economic fabric can take this additional shock without being rent beyond repair." It's possible O'Connor was not conscious of his pun.

"We are aware," he went on to say, "of the many painful consequences which now arise out of the fiscal misdeeds of the past, but enough is enough. There is a limit to the amount of punishing taxation which can be imposed upon a community. The stark necessity of cutting back all but the most vital functions must now be faced. The alternative could be economic suicide."

There are some who would agree that "all but the vital functions" should always be pared from governmental bodies. But beyond that the Commission seems to be saying many of the right things for the wrong reason. Complaining about an increase in "rate" is somewhat meaningless if there is no accompanying complaint about what values that rate is imposed on and how those values were determined.

Soon taxpayers, government officials, economists and the public at large will get an opportunity to see the whole picture. The School's Center for Local Tax Research is preparing to release the data it has collected on assessed valuations by type of land use, market values based on recent sales, and the effective tax rates in the Metropolitan New York area.

League to further site-value taxation in D.C.

A group interested in furthering more efficient land use in the District of Columbia has formed the League for Urban Land Conservation, according to its president, Walter Rybeck.

Impetus for the organization was the enactment by Congress of Public Law 93-407 late in 1974. Under this statute, the Washington, D.C. City Council is permitted to establish "different rates for land and for improvements thereon." It also enables the taxing authorities to grant tax abatements on "rehabilitation or new construction" for a five-year period.

The Washington group headed by Rybeck, includes Mary Lela Sherburne, Josephine Butler, Jesse A. Zeeman, Lyle C. Bryant, Wilbur Johnson, Tedson J. Meyers and John B. Rackham. Rackham is senior tax specialist of the U.S. Postal Service and a former District of Columbia assessor; Meyers is an attorney and former member of the City Council and was responsible for the enabling legislation. Rybeck is an editor for the Urban Land Institute.

The District of Columbia is in a good position to take advantage of this opportunity because its assessments, particularly those of land, are closer to market value than are most central cities in the country. This element, according to observers, makes the possibility of differential rates in D.C. exciting.

Several benefits that might be expected from action on the new law have been spelled out by Rackham: "Virtually all residential property would enjoy reduced tax liability. Lower-cost housing would receive especially large reductions. The apartment industry would be revitalized. The district would have a marked competitive advantage over surrounding suburbs for attracting office buildings. Redevelopment would be spurred in near-in 'hardship areas' and the riot corridor. Unhealthy land speculation would be penalized. Surface parking, as commercial ventures, would be discouraged, reducing vehicular traffic into the city.

"These claims," he says, "are supported by a computer simulation study of site-value taxation in D.C."

Johannsen Awarded Top Prize for Essay

Oscar B. Johannsen was awarded the grand prize of $1,000 for the best among 330 essays on the free enterprise system by the National Association of Manufacturers.

A doctoral candidate in economics at New York University, Mr. Johannsen has taught a popular course in money and banking at the School for some time. He was, until his recent retirement, with U.S. Steel. It was as an employee of an industrial firm that he submitted his essay along with 212 others in industry and education in addition to 117 essays submitted by students.

The award was presented at a luncheon at the Waldorf Astoria on December 4 as a part of NAM's Congress of American Industry.

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*)*

Was Carlyle irremediably correct? Is it in the nature of men that when they talk about how they make a living, they use fuzzy words and thus make economics irredeemably dismal?

No matter how often the observation is repeated that *Not only is it requisite in economic reasoning to give such words as 'wealth,' 'capital,' 'rent,' 'wages,' and the like, a much more definite sense than they bear in common discourse, but, unfortunately, even in political economy there is, as to some of these terms, no certain meaning assigned by common consent* . . . , each man goes on using words with the meaning he alone ascribes to them.

Recently the chairman of a "Fortune 500" company complained about uninformed critics who have so perverted the meaning of the word "profits" in the public mind that it has come to mean something like "undeserved income" or the "exploiter's unjust reward."

He went on to talk about jettisoning the offending term, despite the long tradition in accounting for its use. Moreover, he had interesting justification for ignoring accounting practice. "Almost half of what are called profits are really the government's take from the operation of a business, the corporation's income tax. The part paid out in dividends is really 'interest on equity,' a fee paid for the use of savings, essentially no different from interest paid on loans. And the remainder—the profits reinvested in the business—are just as well called 'business savings' or reinvested earnings.

This executive, it would be invidious to name him for we are interested in a concept and not in indicting an individual, went on to step into the same trap he was describing. "The advantage of calling these costs of operation by their right name," he said, "is that people understand such things as taxes, interest, earnings and savings, because they are all part of the family budget. But nobody in the family thinks in terms of profits. They are considered something alien, received only by the undeserving businessman."

The semantics involved here are both interesting and informative. This businessman would seem to have a well-supported complaint about the abuse of language. He may be on to something when he wants to turn his back on accounting practices as a medium for economic analysis. It may well be that much of the confusion and ineptitude exhibited by today's economists lies in their reliance on accounting terminology and data derived from accounting reports. Accounting practices and terminology have grown out of business managers' and owners' needs to evaluate their conduct and to know the state of their affairs. More recently they have developed to abet business in its continuing contest with the tax collector. How can terminology and data so derived serve economic analysis? The excuse, "that's all we have," cannot suffice.

But if accounting terms are misleading, the family budget apparently isn't much help either as a source of language. At least in the suggestions quoted above, the executive's self-interest has betrayed him into regarding "interest on equity" the same way he looks at "interest paid on loans." To managers of a large corporation with a long history of dividend payments and continually rolled-over debt, these two categories of payment might have the same appearance, just cost items. They are, in fact, quite different as are what he calls "business savings." The political economist, however, might willingly lump all three as the return earned by the capital invested—provided the businessman and the politician were willing to separate out from this aggregate what is rightly the return to the site.

Spring 1975 Program

(All classes are 6:30 to 8:30 p.m. – 10 weeks)

February 2nd, 3rd, and 4th:

Free classes based on Henry George's ***Progress and Poverty*** –an opportunity to learn what George said about political economy and why more and more thoughtful people in and out of power are taking note of his insights. No tuition.

February 9th:

Man and his land–an historical treatment of the land question in the development of civilizations. Tuition $10.

Securities markets and personal finance planning–an introduction to markets and the choices available to the saving public. Tuition $50.

February 10th:

Money and banking–a novel interpretation of monetary affairs that suggests a market approach to the subject in contrast to the political one with which we live. Tuition $10.

Reform for our time–attacking the urban land problem through the medium of an adult game that simulates the rise and fall of municipalities. Tuition $10.

Securities markets and financial analysis–a study of corporate financial reporting as it is seen to affect stock prices. Tuition $50.

February 11th:

Small business management–a survey of the problems and pitfalls faced by those who have the responsibility for small firms. Tuition $50.

(Dates indicate when classes begin.)

High court broadens tax authority

In the immortal words of Finley Peter Dunne's Mr. Dooley: "I dunno whether the flag follers the Constitooshun or the Constitooshun follers the flag, but I do know the Soopreem Coort follers the elecshun retooms."

After some 104 years, the august justices decided that the Supreme Court of 1871 had it all wrong. The U.S. Constitution clearly provides that no state shall levy an import duty. That authority is clearly reserved for the Federal Government. In fact, until the Civil War, when the Lincoln Administration imposed the first income tax, and then until the Wilson Administration acted under the 16th Amendment, import duties were a principal source of federal revenue.

In this vein, the Court in 1971 ruled that foreign goods held in the possession of importers were not subject to direct levies, such as property or inventory taxes, by state and local governments. Recently, in an eight-to-one decision (newly appointed Justice John Paul Stevens did not participate) the Court reinterpreted the import-export clause of the Constitution by permitting a Georgia county to impose its ad valorem property tax on the warehouse inventory of an importer of automobile tires.

Under the 1871 ruling, local taxing authorities could impose levies on imports only after they had lost "their character as imports and become incorporated into the mass of property in the state." Now, however, the court has permitted local jurisdictions to extend their taxes on labor products to imported goods that have not become so intermingled with other property.

It is worth noting Justice Brennan's majority opinion in which he said property taxes were levies "by which a state apportions the cost of such services as police and fire protection among the beneficiaries according to their respective wealth . . . and there is no reason why an importer should not bear his share of these costs along with his competitors handling only domestic goods."

Such is the "conventional wisdom" of our day.

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