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THE PROPERTY TAX AND HOUSING

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When I buckled down to prepare this paper, it didn't take me long to discover that the time available to me for preparing it, and my grasp of the intricate subject matter assigned to me by Mr. Clancy, were both too narrow to permit me to deal with more than a few aspects of New York City's tax and housing problem. I have therefore limited myself to some of those matters on which the city has long published detailed information annually, information which I have learned to interpret---after a fashion---because for 40 years I earned my living making reports chiefly on municipal revenue systems, with occasional housing studies thrown in for good measure.

Lest I give you the impression that I shall read you endless tables, and thus hand you a very sound excuse for beginning a mass movement toward the elevators, I hasten to reassure you that the facts I shall use from official sources are relatively few in number. Because I learned a long time ago that a fact, standing by itself, is rarely significant, I have tried to select my facts carefully with a view to putting them in perspective with other facts. This method has its advantages, but some of you may think that is also has its very great disadvantages.

For example, it does not help us in making a frontal attack on all of New York City's tax problems. The most recent edition of the Tax Foundation's "Facts and Figures on Government Finance" estimates that for 1958 federal, state and local governments spent sums equivalent in the aggregate to $769 for every man, woman and child in the nation. Of that average figure for every resident of the now 50 states, the federal government was responsible for just under two-thirds of the total, the states for $129, and all the local governments together for $174. A separate computation for the people of New York City alone would probably show that their contribution to federal, state and local revenues would stand well above the nation-wide averages in all three categories.

But the limitations of the method I have elected to follow do not end with the elimination of all federal and state levies from the problem. It deals only with the tax on real estate, among the several other taxes which the city levies, chief among which is the sales tax. Out of the total needed for balancing the city budget for the fiscal year which will end on June 30, the levy on real estate was designed to yield only $933,000,000 out of the $1,992 millions proposed for expenditure. On the other hand, there is a distinct advantage in using the method because it permits us to scrutinize the double barreled effects of the direct levy on real estate on the provision of housing by private individuals.

And now, a few words on certain aspects of the city's housing problem. Prior to our entry into the first World War, there had been---so far as I am aware---no proposals that the government should erect housing for able-bodied private citizens. In other words, self-financing individuals and corporations had managed to provide during almost three centuries housing sufficient to accommodate a population with an abnormally rapid rate of increase. The increase was due not only to a high birth rate, but also to an immigration which in volume and long duration was unprecedented in the history of the world. This is all the more remarkable because, at the height of the immigration movement, the immigrants included large numbers drawn from the underprivileged and the impoverished from many nations. During this period, New York was the port at which most of the newcomers landed, and the city in which many of them settled.

<u>The Tax on Houses is of Long Standing</u>

The real estate tax as we know it is a variant of the local tax system which had been developed in England during the reign of the first Queen Elizabeth, shortly before the first colonists sailed for America. At that time in the Mother Country, land and buildings were closely held by a few big landlords; sales were rare; and most people lived in rented homes. The men who had to compile for their parishes the rolls of properties which were to be taxed at a uniform rate in proportion to their value, therefore found it easiest to use annual value as the tax base.

Although vestiges of the annual value system survived in this country until after the revolution, the wholly different situation in a society where most men could own real estate, and where the great mobility of the people meant that sales of property were frequent, eventually made it easier to replace annual value with capital value as the tax base when rolls had to be compiled. It is in that form that lands and buildings have appeared on the local tax roll for well over a century and a half.

In short, local governments in this country have for a long time been taxing buildings, supposedly in proportion to their value, at a rate applied uniformly to all the many types of property which the assessor was required by law to list on his roll. How then did it happen that private builders managed to keep the supply of new housing reasonably abreast of the growing demand until about 1914, let us say? What has happened since then which made it increasingly necessary for government to step in, in order to provide dwelling space especially for people in the lower income groups?

Tax Burdens Before and After 1914

Here is the first point where we need figures which will give us a little perspective on the problem. Available figures, compiled by the Census Bureau, give us at least an approximate idea of the level of governmental spending back to 1860. I have at hand a computation made for the Commonwealth of Massachusetts in 1945 which had been derived from a long series of these federal reports, now replaced by other series. This computation for 1860--- a time at which the general property tax was almost the sole source of revenue for governments on the local level, and an important source for the states--- indicated that the nation-wide aggregate of levies of this type in that year amounted only to $3.00 per capita. For the three Middle Atlantic States, to which New York belongs, the corresponding figure was $3.43. I haven't had time to get a comparable figure for New York City, but it must be obvious that the tax burden on houses during that period cannot have been unduly onerous in its impact on owners, operators and builders of private housing.

During the next 20 years, the Civil War had been fought, the post war boom had collapsed, and the federal government had taken steps toward halting inflation by making currency convertible on demand into gold. Even so, levies on real estate for state and local governments had almost doubled from the $3 per capita of 1860 to $5.87 in 1870. These figures (end others on federal revenues) were available when Henry George was writing Progress and Poverty; and amply supported his assertion that "the value of the land taken as a whole is sufficient to bear the entire expenses of government."

The first comparable figures released by the Census Bureau after Henry George's death in 1897 were those for 1902. These revealed that state and local real estate taxes for that year totaled, when reduced to per capitas, only $9.22. Since that time, however, they have literally gone out through the roof. By 1932, the last year for which the Massachusetts compilation cited earlier provides comparable data, per capita levies on real estate had reached $40, 13 times higher than in 1860. Taking the Tax Foundation compilation of per capita state and local receipts from all taxes, including those imposed in order to relieve the burden on real estate, the per capitas for 1902 were only $2 more than the real estate tax alone. By 1932, the corresponding figure had mounted to $49, $9 more than the real estate tax for that year. By last year, the aggregate state and local taxes with no compilation readily available for real estate alone had reached the level of $188 per capita. On a nation-wide basis, then, it is obvious that taxes have reached a level where they cannot be overlooked as a major element in shortage of privately built housing for the lower income groups.

Increases in Property Taxes in New York City Since 1906

Against this nation-wide background, of state and local taxes of all kinds, let's now take a look at the real estate tax alone in the city of New York. For this purpose, we shall rely on a series of annual reports which have been issued for many years by the department charged with the task of listing and valuing all items of taxable property in the five boroughs. They are fairly, though not wholly, comparable back to 1906.

In 1906, the levy on all taxable real estate in the five boroughs, when reduced to a per capita figure, amounted to $17---a good deal higher than the corresponding figure for the nation. By 1910, it had risen to $26. In the ensuing decade, the economic dislocations attending the first World War brought a great pressure for increased salaries to municipal employees, at the same time that greatly increased costs of building brought new construction practically to a standstill. The constitutional tax limit and the slowly mounting tax roll left the city dependent for a time on greatly increased state aid, in order to meet the legitimate demands on it.

The economic log jam broke after two or three years, and by about the middle of the decade, the city was in the midst of a building book which survived the collapse of the stock market in 1929. Taxable values did not reach their peak until 1931. In that year, the per capita tax levy also reached a peak of $73. In 1940, when the second World War had not yet sucked us completely into its orbit, the per capita property tax levy was held at $66 only because the aid of the sales tax had been invoked to carry the separate budget which had been created for all relief expenditures. It had risen slightly to $68 by 1950. But events since then, chief among which, perhaps, were the Korean War and the Cold War, have now sent the real estate tax burden to $120 for every man, woman and child in the city.

Why the Great Increase in Property Tax Burdens

We are justified in asking why this fantastic increase has come about in the taxes on lands and buildings payable directly or indirectly by the men, women and children of New York City---not far short of a billion dollars for the fiscal year soon to draw to a close.

Too many of us, perhaps, have jumped to the conclusion that it is due to ineptitude, carelessness, or even dishonesty on the part of the people we have selected to manage our city. Since each one of us is sometimes inept, careless, or dishonest in running his own affairs, it would be more than strange if we had succeeded in electing to office city officials who had no human frailties whatever. But since those generalizations can hardly have been less true in 1860 or in 1906, than they are now, they still don't explain why property taxes have increased so greatly.

A comparison of the budget documents of today with those of the past reveals that our governments do many things for us today that were hardly dreamed of a few decades ago. We have passed from unpaved streets, through the plank roads, cobblestone and brick, to the re-enforced concrete-sheet asphalt jobs required by the present volume of high speed motor traffic. That they should cost more per square yard is inevitable. We have gone from "outdoor plumbing" to sewers and sewage disposal systems; from wells to piped and potable water supply; from volunteer to full time, trained fire departments; from occasional night watchmen to round-the-clock police patrols, etc. We now pay in dollars for the improved facilities. Formerly we paid in high insurance rates, in conflagrations, in high morbidity and mortality rates and human suffering for the lack of them. I think most of us will agree that we have made a good trade, and that the additional tax money for those services has been well spent.

But how about the phenomenon commented on as we surveyed the rise in property taxes from 1860 down to date---that there was always a big jump, sometimes a doubling, within a short period, when the nation was involved in a major war. Municipal budgets in many parts of the country gave clear evidence during the forties of what was going on. In addition to the budget set up in great detail for each department of the city, in which the regular authorized annual salary for each grade of employee was listed, there was a supplemental list of salary increases chiefly for the subordinates in the department, which was entitled "Cost of Living Adjustments."

This was a clear-cut recognition by the appropriating authority that the salaries provided by the regular schedule had diminished in purchasing power, and that the lower paid workers at least would need additional dollars every month in the next year, if their families were not to do without actual necessities. Since this was assumed to be a temporary condition, and since the preparation of a revised salary schedule properly balanced among departments, and among grades of employees within each department, was not something to be undertaken lightly, the cost of living adjustments were left subject to change from time to time, and were not counted in computing pension deductions. Eventually, these ever increasing adjustments were consolidated into the regular salary schedules, which are still subject to frequent "cost of living adjustments," sometimes under duress by groups of employees, and out of funds transferred from appropriations for building maintenance and supplies.

The point of this part of the discussion is this: for reasons wholly beyond their control, all local governments in the nation need more money every year for current operations and maintenance even if their work has stabilized to the point where they have identically the same number of employees, all doing exactly the same things this year as last. In other words, they find themselves in a plight somewhat like that in which Alice in Wonderland once got enmeshed. Their tax burdens will have to mount rapidly even if they only want to stay exactly where they are.

Here is a problem I don't pretend to have a solution for. But since it is part and parcel both of the tax end and of the housing end of the problem I was asked to discuss, I shall need at least to play around the edges of it.

<u>Can Inflation be Checked?</u>

Many of our leading citizens seem to have decided that local governments have about reached the end of the tether of the powers granted them to tax; that they are powerless to provide the means of financing adequately many things which have long been considered to lie within the domain of local government. They have therefore become adherents of one or more pressure groups bent on persuading the Congress to aid the local units in financing them. School buildings, hospitals, highways designed to permit freer and easier circulation of motor traffic within metropolitan areas, and even pay increases for public school teachers---these are among the objects for which important personages are advocating new or expanded grants in aid.

But where does the federal government obtain the money out of which to make these grants? There was a short period, now well over a century ago, when the federal government actually distributed money among the states out of a persistent current surplus derived from the sale of public lands. There was a period of two or three years during the middle twenties when a good case can be made for the contention that grants in aid were made out of revenues actually appropriated and collected for the purpose. But in all except a few years of the last 30, the federal government has collected in actual revenues substantially less than it paid out. In other words, it has been balancing its budget by borrowing money.

But from whom does it borrow its money? During the last war, many men of all income groups bought bonds out of funds accumulated in checking or savings accounts, or by the payroll deduction plan. But the government always needed more money than its citizens felt free to spare under this plan, so it borrowed from its banks. Most of the money a bank has belongs to its depositors---the same depositors who have already decided they can't spare any more for the government. If the bank's own funds---capital and surplus for example---are already fully invested in government or other bonds, they can't very well lend the government any more than they have already done; but in return for the government's promise to pay, they open a checking account for the federal treasury.

This is not the same kind of a transaction as that between a depositor who has actual purchasing power at his disposal which he turns over to the government for its own use. In that case, there is no more purchasing power after than there was before the transaction. In the transaction which took place between the bank and the government, wholly new purchasing power came into being which had neither been earned by the possessor through having produced a corresponding amount of value in goods or services, nor acquired by him in some exchange with one who had.

If I read correctly the theories of Colonel E.C. Harwood, one of the distinguished members of the board of trustees of the Henry George School, that is one of the several ways in which inflation can be induced---a way, incidentally, followed by France since 1914, with the result that the French franc is now worth 1/500th as much as it used to be. One inevitable result of inflation is that the sovereign government responsible for it, and all its subordinate layers of government, must always pay their employees and their suppliers more and more in depreciated francs or dollars---as the case may be--with every fiscal period that passes. That, in turn creates new pressure for more grants in aid, and more borrowing from banks, and more inflation, and so on ad infinitum. The only way for local governments to help break the vicious circle is to reduce the pressure for grants in aid for public housing, federal school construction, federal highways, etc., which the federal government now is impelled to add to its already staggering load of debt for its own needs.

Could the Tax on Land Values Help?

As I see the problem, it will certainly take more than exhortations to good citizens to break that vicious circle. Something will have to be done to stimulate private initiative in the construction fields where it formerly reigned supreme, before the mounting tax burdens on property had become as oppressive as they now are.

Most of you who are seated before me are convinced that the land value tax will help in solving almost any problem. In order to test that concept, let us now assume that those of us gathered in this room constitute the city's Board of Estimate, the City Council, and the Tax Commission. We will assume further that the time is a year ago, that we have formulated the budget now actually in operation, that the tax roll listing and valuing all taxable property in the city has been completed, and that the state legislature has empowered us to substitute a land value tax for the tax on real estate. In addition, the attorney general and the state comptroller have both assured us that we will not in their opinion be violating the constitutional tax limit for New York City, even if we shift to a land value tax. The limit allows us to levy for current operation of the city government and the city school system an amount not in excess of 2-1/2 per cent of the average of our last completed assessment roll and its four predecessors, each equalized to full value by the state board of equalization.

That is quite a large order, you will note, but all the steps I have listed as having been taken, would be necessary or at least advisable under existing statutes, before the city could safely embark on a land value tax program, even if it desired to.

We now proceed to test the advisability of making the change to the land value system. The tax rate required to produce the $933,071,709 needed to balance the budget, after revenues from all other sources are taken into account, has already been computed at $4.16 per $100 of total real estate value. To this would have to be added in each borough, a second rate to cover the so-called borough-wide assessments. These range from 5 cents per $100 in Manhattan, to 8 cents in Queens and Richmond, Brooklyn and the Bronx having 6 and 7 cent additions respectively. The basic rate necessary to produce the same levy on land value alone would be $12.70 per $100, with varying small additions for the borough-wide assessments.

If this were really the kind of an official gathering I have assumed it to be, I can imagine that the announcement of this computed rate would bring violent reactions. Some would insist there was no use in going any farther with the conference. That absurdly high rate had made the proposed change completely impractical. Others would contend that, since the evening was about over anyway, they might at least stay on to see what happens as a result of it in individual cases.

"Let's Look at the Record"

Finally, the clerical assistants from the assessors' office produced the calculations on three selected cases. The first was from the Lower East Side, long notorious as the most congested slum area in the nation with a population density of 400 per gross acre. After 1910, more people moved out every decade than moved in, the density declined; and, after they were authorized to do so, semi-philanthropic, limited dividend companies developed some sites. More recently, a number of large public housing units have gone into the area.

The case selected consisted of seven properties, each made up of a lot, roughly 25 by 100 feet, with an ancient, poorly maintained 5-story, 10-family walkup, once typical on the entire neighborhood. The lots are all in separate ownership but do not lend themselves to separate development. They would have to be merged into not more than two units, preferably into one, to conform advantageously to the city code requirements as to light and air, for any new tenement to be constructed there. The actual assessment of land and buildings together for the seven properties was $121,000, that of the land alone was $48,600. The present actual tax on the group for this year is $5,094. The tax on the land alone, calculated at the rate needed to balance the budget when applied to all taxable land in the five boroughs was $6,240.

The second concrete case was drawn from East Harlem, now the area of the city most frequently cited when illustrations of bad housing conditions are needed. It includes six adjoining lots with a total frontage of 145 feet, each lot with a 5-story, 10-family tenement house. The lot at taxable value for the current year is $80,000, the land alone is valued at $34,700. The tax actually levied on the six properties was $3,368; that which would have been due on them, if the levy had been imposed city-wide in proportion to bare land value only, would again have been substantially higher---$4,449.

By way of contrast, the third case selected was a large development carried out by the Metropolitan Life Insurance Company without public aid of any kind. It contains 12,272 separate dwelling units, in a number of widely spaced 12-story apartment houses, along with a shopping center. The land is valued on the roll now current at slightly more than $8,819,000; the land and buildings together at $55,493,500. Because of the low ratio of land value to total taxable value, the tax actually levied on the rolls now in use---$2,347,375---would fall to $1,142,060 if it were levied in proportion to land value alone. In short, the saving in annual taxes per apartment if the change had been made would have been only slightly less than $100.

Obviously, if this were the kind of a gathering I asked you to join me in imagining a few paragraphs ago, some of those in attendance would be pointing out that in those sections of the Lower East Side and of East Harlem, where people are living in poorly ventilated, unheated, cold water flats, with perhaps one toilet for each two-family floor---in dwelling units of a type which has been illegal to build for six decades---the tax burden, property for property, under the bare land value system, would be substantially higher than it now is under the system of taxing on total real estate value. On the other hand, on properties where the buildings conform to standards of health, welfare and safety required by the building code now in force, the taxes under the land value system would be lower than those levied in proportion to total real estate values, by measurable amounts per apartment.

An Incentive Tax System

In gatherings of the National Tax Association, the Tax Institute, and other well known organizations of tax theorists from our colleges, public accountants and tax attorneys from our most reputable firms, and tax officials meet to discuss from time to time what they call incentive taxation. In their private practice, accountants and lawyers often encounter hardship cases. In these, the general laws operate in such a way as to lead certain companies to consider liquidating their business. Their consultants, many of them with a very sincere desire to adjust the existing tax laws so as to induce the taxpayers to expand their business instead of reducing volume or eliminating it completely, struggle with new formulae designed to achieve their aims. When I hear them, I always marvel at their sincerity, their industry, their ingenuity---and their admitted lack of great success. They recognize the government's need for large amounts of revenue; they see that it can be obtained through a combination of personal and corporate income taxes; they are bemused by the automatic manner in which inflation and a steeply progressive tax system can combine to produce an excess over estimates. Because they have not been accustomed to digging deeply in problems created by a tax levied at a proportionate rate on the values of two interrelated but dissimilar types of property, which react differently to the property tax, it never occurs to them that a tax on land value, relatively simple to operate, can lead them to all their objectives---except, perhaps, the volume of revenue required by war, whether hot or cold.