

FREE-RIDING WILLOW RUN AIRPORT NEAR DETROIT

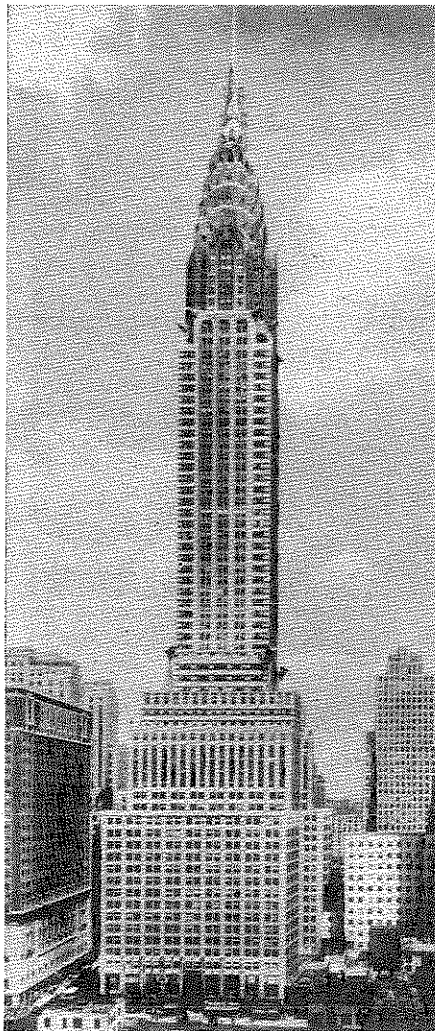
HOLIDAY INN IN GREENVILLE, ALA.

Trying to Change an Unfair Tax

IN their desperate search for cold cash, officials of financially strapped cities have lately been offering much apocalyptic prophecy about the impending bankruptcy of municipal governments (see *THE NATION*). Cities have reached the limit of their taxing powers, they insist, and the Federal Government must rush to their rescue. Touring New York City last week to impress on the public the urgency of their plight, the mayors of eleven cities sounded even gloomier than usual. Said Boston's Kevin White: "Look, we raise 70% of our money with the property tax, but half our property is untaxable and 20% of our people are on welfare. Could you run a business that way?"

One of the major problems is that municipal governments depend on property taxes, mainly from real estate, for an average of 85% of the money that they raise locally. This year these governments will collect some \$37 billion in property taxes, up from \$22.6 billion in 1965. But the property-tax system is a mess. Most fiscal experts agree that it is disgracefully administered and unfair to millions of individual taxpayers. Despite the legal requirement that property of equal value must be taxed alike, a Census Bureau study found that the typical homeowner can expect a tax bill that is 20% more—or less—than it ought to be. Some big, rich property owners pay little or nothing at all.

Erratic Assessments. In greatly differing ways, the cry for changes in the property tax has been picked up by men as disparate in their views as California Governor Ronald Reagan, Michigan Governor William Milliken, former Senator Paul Douglas, Educator Robert Hutchins and HUD Secretary George Romney. Ralph Nader has added the reform of property taxes to his roster of causes, charging that so much business and industrial real estate is undertaxed as to constitute "a national scandal of corruption, illegalities and incompetence." As a result, says Nader, "small businessmen and the owners of houses are paying nearly one-third more in taxes to meet local revenue needs." Prodded by Nader, Maine Senator Edmund Muskie's Subcommittee on Intergovernmental Relations plans to hold hearings



MANHATTAN'S CHRYSLER BUILDING
Penalizing progress, boosting blight.

on property taxes in several cities this spring.

Tax assessments are erratic and often unfair, partly because many tax assessors are ill-trained and poorly paid (average: \$6,900) political creatures. About half of the nation's 15,000 chief assessors are elected, but few states require any professional qualifications for holding the office. Flouting the law, assessors often appraise properties at widely varying fractions of their true value. The difficulties of challenging appraisals

are so formidable that the assessors generally get away with it.

The temptations to favoritism and bribery are great. In Seattle and three of California's largest counties six years ago, assessors were caught taking bribes from tax consultants to lower their appraisals on property owned by national companies. In Chicago last fall, Cook County Assessor P.J. Cullerton and several subordinates were accused of giving assessment breaks to the politically friendly owners of several industrial and commercial properties. The upshot was a \$9,000,000 rise in the valuations for eleven buildings, which will yield the city and county \$1,000,000 a year more in taxes unless the owners can persuade the courts to overturn the increase. The nation needs fewer but better-trained chief assessors—certainly no more than one per county. They should be appointed and subject to strict supervision by state review boards that could also provide specialized expertise for such complex tasks as valuing one-of-a-kind industrial complexes. Among other things, this would make it more difficult for political machines to sell underassessment in return for campaign contributions.

Exemptions Everywhere. Another source of wide inequity is that much property is tax-exempt. About a third of such property is owned by—and often produces profit for—governmental, religious, educational or charitable organizations. Measured by its dollar value, half or more of the real estate in Albany and Ithaca, N.Y., and Washington, D.C., is tax-free. The ratio is 33% or more in New York City, Pittsburgh and Harrisburg, Pa., and Montpelier, Vt. In a penetrating new book, *The Free List* (Russell Sage Foundation; \$7.50), Journalist Alfred Balk argues that the exemptions have become so large, loose and inconsistent as to hurt all other property-taxpayers and the nation as a whole. Balk cites several authoritative estimates that \$600 billion worth of real estate—one-third of the U.S. total—is not taxed at all. The cost in terms of lost taxes amounts to \$310 a year per U.S. family, and it is rising.

Balk points out that Manhattan's 77-story Chrysler Building pays no property tax because its collegiate owner,

Cooper Union, has an 1859 charter from the state legislature granting permanent exemption. The Chrysler Building will soon lose its distinction as the world's tallest tax exemption to the 110-story World Trade Center, now rising, says Balk, "like a tombstone over the tip of downtown Manhattan." The twin towers are being built by the quasi-public Port of New York Authority, which is tax-exempt but will make a token payment for city services.

Obvious Abuses. Inexplicable inconsistencies abound. Pennsylvania exempts properties owned by the American Legion and Veterans of Foreign Wars, but the Elks, Moose, Eagles and Masons must pay taxes on their properties. The Lutheran Church's profit-making Augsburg Publishing House in Minneapolis is exempt, but Nashville's assessor has denied exemption to similar publishing enterprises of Methodists, Baptists and Seventh-day Adventists. The Holiday Inns at Greenville and Boaz, Ala., pay no taxes because the municipalities own them. The University of Michigan earns a tidy income from Willow Run Airport, on which it pays no property taxes; Michigan State University's exempt holdings include a large department store in Lansing. Thanks to a charter exemption similar to that of Cooper Union, Northwestern University for years has enjoyed a steady stipend from a supermarket, a medical office center and several downtown Chicago office buildings that it bought and then leased back to corporations.

To end some of the obvious abuses in tax exemption, Balk urges states to narrow the legal definitions of eligible property. If legislatures insist on requiring localities to give exemptions to favored groups, he argues, states should then reimburse localities for the resulting tax loss. Most of all, local assessors should be forced to publish more comprehensive and accurate exemption data. Balk even questions whether federal and state property should be immune from local realty taxation, because the arrangement often leads to a profligate waste of expensive land.

Prospects for Overhaul. Some critics of the property tax argue that it is so fundamentally unfair that it ought to be abolished. Property taxes add an average 25% to the rent that tenants pay and the carrying costs that homeowners must meet—a higher tax than is found on anything except alcohol, cigarettes and gasoline. For all its shortcomings, the property tax certainly will not be abolished because nobody has devised an alternative way to raise so much revenue. Still, the entire system needs a considerable overhaul.

The most basic step would be to change the structure of the tax. Realty taxes are a fusion of two separate levies—one on the value of locations and the other on buildings. Most cities collect two or three times as much tax from buildings as from the site value of land. This low taxation of land re-

wards speculators, who can easily afford to keep property off the market until urban growth forces its price up enough for a fat profit. A costly consequence of this is "suburban sprawl," much of which is caused by subdivision developers moving farther out of town to find cheaper land while bypassing idle acreage closer to the city.

At the same time, high taxes on improvements discourage both construction of new buildings and the maintenance of aging ones. Since every improvement leads to a higher assessment, landlords too often find it more profitable to let rental housing deteriorate than to modernize it. As Housing Consultant Perry Prentice points out: "Today's property tax harnesses the profit motive backward instead of forward. There is not a city in this country that

KEN REGAN—CAMERA 5



CRITIC BALK

Too many pay nothing.

is not making its growth, urban renewal and redevelopment problems worse by the way it misapplies the property tax to penalize improvements and subsidize the misuse of land."

Most experts want to lighten or even abolish taxes on buildings and make a corresponding increase in taxes on land. This would deter land speculation and force property holders to put half-idle metropolitan property to better use. The change would also help hard-pressed center cities by giving businessmen more incentive to keep their corporate headquarters and factories in town.

Almost a century ago, Economist Henry George won an army of ardent followers by proposing that governments raise all their revenues by doubling the taxes on land. Now that federal, state and local governments consume nearly a quarter of the nation's G.N.P., George's idea is no longer feasible. Yet there is a powerful argument for sharply increasing land taxes. Says Dick Net-

zer, a tax expert and dean of the graduate school of public administration at New York University: "Land values rise mostly because of other people's investment, community development and population growth, not because of actions by individual owners. The community as a whole creates the unearned increments of value, and it has every right to recapture them by taxation." More than that, the public has every right to a fair shake, and local governments have every need to get rid of the evil side effects of the existing property-tax system.

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