Mr. Lynn: Thank you very much, John.

We have now concluded our three papers and have two discussants on the docket. The first of these is a gentleman well-known to many of you; Dick Netzer has degrees from Wisconsin and Harvard and has served in a variety of capacities, for a long time at the Federal Reserve Bank in Chicago; presently Dick is Professor and Chairman of the University Department of Economics at New York University. Dick Netzer.

Professor Netzer: Dean Lynn, ladies and gentlemen: all of us in this room know that property tax is important. It raises a great deal of money. Equally significant, for many of us it has been a portion of our own life's work.

Professor Browning's paper was a good lead-off, because it brings to bear a quite different set of concerns about the property tax. It's concerned with the relation of the tax to the development pattern of urban America, a role which is unquestionably largely negative at the present in the larger cities. He has done an excellent job, I think, of summarizing the prime issues.

But it's the discussant's role to quarrel, rather than congratulate; and there are two things that I can bring myself to quarrel with in his paper. The first is the set of issues connected with the tax exemptions, which is also the subject of Mr. Schmit's paper. The other is Professor Browning's assertion that the relative value of land in our country has declined, since the supply of urban land has so expanded and urban density has declined. However, the expansion of the supply of urban land has come from the urbanization of rural land with very large increases in the value of the latter. No doubt the relative price of the lands, which was already in urban use in, say, 1929 — the economists' favorite starting date for everything — is less than it was at that time. But I rather doubt that the relative price of land on the urban frontier today is less than it was 40 years ago; quite the opposite is probably true.

It seems to me there are a host of forces operating to make land relatively a more costly commodity. These include population pressure per se; preference for extensive over intensive types of land development, which implies a willingness on the part of land users to spend more for land and less for other things; the increased productivity of agricultural land, which implies the application of more capital, making the opportunity cost of land for urban uses higher; and the attractiveness of land as an investment for owners able to out-wait land users, largely because of failure to recognize capital gains in the federal income tax, which has a very powerful effect on the whole land market.

The only force working in the other direction, to reduce the relative price of land, is the increasing level of property taxes in general.

But this is a terribly weak force under the American system of property taxation, since land is taxed at such a low fraction of value in most cases. And, indeed, if the disparity between the assessment ratio for land and for buildings and improvements is sufficiently great, that is, if the land is sufficiently under-assessed, it may be that an increase in property taxation would actually work to increase land values rather than decrease them. That would be a rather special case.

Let me turn now to property tax exemptions and Mr. Schmit's paper. That paper very succinctly does two things; first, he summarizes the conventional arguments against property tax exemptions: First, there is the cost to local government revenue. Second, exempt property is removed from the revenue base of local governments, not by decisions of local governments themselves — local governments have very little to say in the matter. Instead, the volume and nature of exemptions are determined by state legislation and by the individual decisions of tax exempt organizations. And surely this is a bad thing in view of the fact that one of the big arguments for the property tax in general is that it is something peculiarly amenable to local government use. Therefore, local governments presumably should be the determining voice as to the nature of the tax base. Finally, there is the argument that exemptions are a form of public aid, but unlike other forms of direct subsidies, they are not subject to annual review in the budgetary process. And everybody would agree this is a bad thing.

The other thing Mr. Schmit does is make up a list of proposals for removing exemptions, proposals developed in Milwaukee, but I think proposals that apply to many other places. Some of the specific proposals are highly persuasive, no matter what one's attitude is toward the more general question of exemptions. But his paper and Professor Brown's paper both raise the more general question of attitude towards property tax exemptions. And on this, I would like to advance a rather heterodox position.

As Browning points out, tax exemptions do distort resource-use decisions. Tax exempt organizations are encouraged to use more and higher valued land and to own larger and better buildings than they would if they were taxed like everyone else. Any economist should fully subscribe to the doctrine that resource users should be confronted with the opportunity cost of resources they propose to command. Therefore, to use Browning's example, the Army should be made aware, in the compelling language that money speaks, just how costly to others its use of the Presidio is. Indeed, I would go further and argue that all public land users, if we have a property tax at all, should pay property tax on the market value of the land they use. Within a governmental unit, this would make for better budgeting, since the required appropriation for a land-hungry governmental function would better reflect its social cost. Among governmental units the same argument applies.

In theory, the same argument applies to tax exemptions on non-governmental entities; but here, there is a major practical problem. Exemptions have been developed to subsidize worthy activities, because the exemption route is far easier than the route of direct subsidy. A society is entirely right to seek to minimize conflict; and direct annual subsidies, I believe, would maximize conflict. There are few self-evident guide lines as to the precise amount individual organizations should receive. Neither legislators nor citizens should relish the prospect of pitched annual battles on subsidies to individual schools, hospitals, cemeteries, and so on; and this is without even mentioning the church-state problem. Now, should we relish the resolution of conflict by arbitrary allocation of the subsidies. This is not an uncommon resolution where there are large numbers of individual organizations receiving subsidies both here and abroad.

Of course, exemptions themselves have an arbitrary element and are relatively inefficient. They depend on the real property intensity of an organization's operations. Moreover, they probably encourage a distorted use of the funds of these worthy organizations, encouraging them to use their funds for bricks and mortar, rather than current services. But on balance, I think tax exemption for private organizations and full taxations for public use of land holdings is the second best solution with which we should live.

Moreover, the critics of exemptions tend to exaggerate revenue costs and potential gains from a change in exemption policy. Central city critics in particular often appear to believe that the demand for central city land is limitless and that any tax exemption shuts out taxable uses, in reality as well as in theory. But this is surely not so. In view of the changing distribution of economic activity in metropolitan areas, that is, the tremendous degree of decentralization of economic activity, I doubt that the queue of precluded taxable uses is a very long one. I suspect that, were we to have full taxation of tax exempt organizations and a drastic reduction in their consumption of land and their occupation of land, in many central cities there would be no takers for that land. Also, it may be that taxable activities corollary to the tax exempt ones more than offset any possible gains from the elimination of the exemptions, for example, activities around hospitals. One of the more important remaining sources of strength of central city economies is their role as regional centers for all sorts of non-profit activities, governmental and private, for education, health and other services, things that are frequently rewarded with tax exemption. Therefore, I think there is something self-defeating about the conventional attitude toward exemptions.

Now, let me turn to Dr. Hogan's paper, which raises a different kind of question. For the administrator this is a significant contribution, in that he presents an ingenious and economical method of analyzing standards of assessment of industrial property. It's new and useful. The findings from the correlation analysis are interesting and it is good to have evidence to support what one would deductively expect; but they are not startling. Among other things the correlation analysis shows that even the most careful and conscientious assessment organization tends to produce high assessment ratios for small properties for which the sales evidence is most accessible and which are numerous and therefore easy to compare to others. The analysis also shows that there are systematic differences on the basis of age. But it's still certainly worth having these unstartling findings.

But there is a more general conclusion. Despite the surprisingly low coefficient of dispersion which the study found, the paper in general tends to reinforce my own belief that taxation of business property, except for land, makes very little sense indeed. Most of the variation in assessment ratios remain unexplained. Dr. Hogan proposes that we should search for "some factor which differentiates specialized and highly profitable fixed capital or, more generally, the structure of improvements in all of its relevant characteristics." I really question the feasibility or likelihood of discovering this factor. If profitability is really the measure we are trying to reflect in the distribution of tax liability, why not tax profits directly, instead of going through the cumbersome procedure of trying to get at the capitalized value of the profit stream? But, again, I am not at all sure that profits are a sensible basis for local business taxation, either.

I've argued elsewhere that no general tax on business, no matter what its base, is suitable as a proxy charge for public services. Aside from pure opportunism (business is a convenient tax intermediary), the only real argument that one can dream up for general local tax on business is that a business operation should contribute to what might be called social overhead, the cost of maintaining a going community, and that these contributions should be reflected in the cost of production. I am not persuaded by this either. I really don't believe there is any case for business taxation, except expediency; but if there is a case on social overhead grounds, that calls for distribution of tax liability among businesses in proportion to the scale of business activities in a community, something like value added, rather than profits or property. Hogan's evidence — the lack of ability to find explanations for variation in assessment ratios — seems to be just another nail in the theoretical coffin of business property taxation.

Now, this is not to minimize the achievements of Dr. Hogan's paper. We do tax industrial property now; and despite my attitude towards taxation of industrial property, we're going to continue doing it; clearly, we should try to do a better job of it. Dr. Hogan's paper offers help in that effort.

MR. LYNN: Thank you very much, Dick Netzer.
Our second discussant took his degree at that not altogether inactive institution across the Bay and has long been an active and productive scholar in economics, taxation and public finance, particularly in the area of property taxation, where he is a well recognized specialist. Mason is a member of the Committee on Tax Resources and Economic Development, otherwise known as TRED. Professor Mason Gaffney is Professor of Economics at the University of Wisconsin in Milwaukee and is our next discussant. Professor Gaffney.

PROFESSOR GAFFNEY: Thank you, Art. I have very little to dispute in the three papers that have been read, other than they were a little bit dull. John, I am not referring to your presentation, only the paper. I had to read the paper, however. It was not dull in style, but —

DR. HOGAN: Oh, go on, will you?

PROFESSOR GAFFNEY: — I think you could have been a little more fractious. Anyway, each of these three papers presents a solid thesis; each of them is perhaps subject to minor qualifications as to details, such as Professor Netzer's comment, which I would second. But I think I will try to supplement, rather than criticize, beginning with Dr. Browning's paper, which had to do with the relationship between property taxation and planning.

I don't believe that he really developed the title of his paper adequately. To the extent that he did, he very well, I think, quoted his two discussants — in a very politic fashion. He recommends that we think about site value taxation, which both Professor Netzer and I are known to say is right. But he does not develop its relationship to planning; and that, I think, he might have said a few words about.

Number one, site value taxation, to the extent that it is administerable, which is considerable, could be used as a positive tool of planning: it would give planners a positive tool of land use control; whereas they now have primarily negative tools of the "Thou shalt not" nature. A high site value tax, based on high density zoning, constitutes a species of a mandatory injunction to the land owner to develop the potentiality inherent in the high density zoning. Indeed, some people would shy away from this, on the grounds it gives too much power to planners; but I would not expect planners to do so. And to the extent that others are worried about the power, I think it is worth noting that the power is not a specific power to say, "You shall develop this land in a 32-story high-rise apartment building," rather it says, "Of the six or seven options which come close to being the highest and best use, you are now on notice that you would be wise to develop one or another."

In terms of distributive equity, the site value tax constitutes a sort of equipoise which the recipient of favorable zoning has to pay to the community as a return for this benefit; and by doing this, it frees planners from the constraint which they now operate under of having to use planning in a kind of a redistributive way, which means, if you give some things to one group, you have to give something compensatory to another group. And the distributive aspect of planning gets in the way of the efficiency aspect. Taxation, I think, can serve as a redistributive mechanism and thus free planning for higher and better uses.

A third use is what I call the syn-syn principle, which stands for synchronized synergism. Synergism is a word which is "in" today. That is why I use it instead of "agglomeration economics," or "critical mass" or "linkages" or some of the old familiar terms that mean more or less the same thing. By synchronization, I refer to the fact that when a city adds a block of land to the town and hopes that it will be urbanized, it's necessary for hundreds of independent decision makers to proceed more or less in synchronized rhythm to produce the things that inter-act together and produce a city. A large land owner who controls the entirety of a large development can synchronize these complimentary interdependent developments. A democracy consisting of a large number of independents, cannot do so, does not do so, in the face of the phenomenon known as land speculation. But site value taxation could be used as a tool to encourage such synchronization with considerable social savings, both of public and private costs.

Finally, it could be used to release a good deal of public capital from those networks that serve to tie activities together in space, utility and transportation networks; and, thus, perhaps to answer the question of where we are going to find the new capital which we need to produce all the new houses, which all the prophets tell us we are going to build in the next 20 years, because we are so prosperous.

Incidentally, I assume that the other speakers were so well on schedule that I have until 12:00 o'clock?

Mr. Lynn: Don't you believe it.

Professor Gaffney: Professor Browning begins to integrate the subject of taxation and planning when he discusses tax exemptions. The exemption of property in a strategic location can disrupt the spatial integrity of the city and help to destroy it, or at least abort synergism of a spatial kind.

The paper by Schmit and Boucha might have been improved by stressing this particular aspect of tax exemption, rather than the purely redistributive aspects. I was especially glad to see Browning emphasize cemeteries. Of all the sacred cows of local policy, cemeteries are most in need of profanity.

Now, Dr. Hogan's paper, with his usual sophistication and finesse, has given us a display of virtuosity in his craft; and with great clarity, he has explained his results; and with his usual candor and modesty, he has let us know that he has identified only 20 percent of the causes of the deviation of the assessed from the appraised value. I have a number of comments: One is that I wish he had used market transactions to check the assessments, rather than appraisals. In effect, he has matched one set of opinions against another. Now, of course, market values are just an opinion, too; but they are the opinion which assessment seeks to simulate and therefore are more relevant. Particularly, in respect to his conclusion about land values, I think that the significance of the result depends on the definition that the appraisers use, the concept, that is, of land value. In my limited experience with the appraisers in the Milwaukee area, they do not have in the back of their minds a concept of land value that corresponds to the economist's concept of opportunity cost. Rather, they have a combination of three or four things which they put together in the manner which is convenient under the circumstances of the moment.

In some studies which I have conducted on assessments of land and buildings in our jurisdiction, and some others, too, I find that at the critical moment, on the eve of demolition of a building, when according to my definition of land value it equals the total value of the real estate and the building has a zero residual value — the assessor allocates 50 percent or more of the value of the real estate to the building. Now, this is not a matter of bad assessment; this is a matter of a different concept, a different definition. And I do believe that these different definitions need to be spelled out a little more clearly.

Then, I may have missed something — John, correct me if I'm wrong — if I understood you correctly, you indicated that your findings, of very little assessment discrimination *within* industry, indicated somehow there was little assessment *against* industry as opposed to other classes of property; and I don't see how that follows. But I may have missed something.

Now, on the Schmit paper, which was read by Marvin Boucha, like Dick Netzer, I certainly applaud his criticism of tax exemptions; and, again, like Netzer, I know that such exemptions tempt institutions into excessive use of bricks and mortar and land "for future expansion," and the inadequate use of professional staff, inadequate salaries to professional staff.

One of the 15 or 16 rival and very plausible theories of the "Fall of Rome" was the spread of the privilege of descendants of noble Romans not to pay taxes, as a result of which the descendants, (there being no birth control in those days, of course,) the descendants proliferated, they bought property all over the Roman Empire; and finally, there were no more property taxpayers. Well, something of the sort is possible with any tax exemption device. Incidentally, this may explain the success and popularity of the buttons girls wear, which say: "Kiss me, I'm Italian." I wonder about that.

I am less enthusiastic about some of the obiter dicta. It might have been better to stick to the main theme. I am a little disturbed about the subordination of the tax exemption theme to the well-known campaign theme of the Mayor of Milwaukee, that the central city is being exploited by the suburbs and the rest of the State. I think proof is needed that, indeed, it is the central city that is exploited by tax exemptions. The suburbs have tax exempt property, too. And many tax exempt properties in the central cities bring in large payrolls and enhance the value of property in the cities.

Secondly, I think it needs to be proven that it's wrong to exploit the central city. Here at the risk of sounding like Pontius Pilate, I will ask, as long as the term justice has been raised, what is justice? All the lands in Wisconsin, 150 years ago, passed into private hands at something like $1.25 an acre. The central city happens to be the place where the increment in both absolute and percentage terms has been the greatest. And the rest of the taxpayers in the State have cast about for means to latch on to some of this social surplus. I would prefer to see it done through some mechanism which does not distort allocation decisions, but I can't feel that a great injustice is being perpetrated. Incidentally, I recently moved into the City of Milwaukee; I do not speak as a suburbanite.

Finally, it would have been nice to have the discussion balanced out with a discussion of other kinds of subsidies. I think the whole package needs to be considered as a bundle, not one little piece at a time.

Thank you.

MR. LYNN: Thank you very much.

It's perhaps worth noting that the panel, not under-represented by academics, has concluded the formal component of this program at this seasonable time. This is not without value for two reasons: One, the timing of the tours. Early in this session, when I had no real notion of probable timing firmly in mind, a number of notes came up, suggesting that the tours were all going to leave at 12:00 noon. I do wonder whether that was subtle propaganda suggesting the acceleration of the speakers, or what; but Stan Bowers has verified the fact that we are fortunate — for, at any rate, the facts are that the Bay Tour will leave at 12:00 noon, with the buses leaving on the O'Farrell Street side of the hotel. The Muir Woods tour and the tour of the city will leave at 1:30 p.m. So, in view of the present time, I should think we can handle — he said optimistically — the discussion that may be generated here in time for the Bay Tour people to leave seasonably.

Some time back, when distinguished former Presidents of the Association were trying to train me, a project they found rather discouraging because I'm essentially a slow learner, they said to be sure in planning these things to leave time for discussion. We have done so today, Mr. Sutherland.

The floor is now open for discussion, and I would remind you of the custom of the Association that you state your name and your point of origin for the benefit of the recorder. And the recorder suggests that, if you have a complex name, something more complex than Lynn or Smith or Jones, you might spell it for his benefit if you wish to have it correct in the record.

The floor is now open for discussions or questions or comments.

JOHN BOWMAN (Ohio): I'd like to ask Dick Netzer to clarify one point. I believe that you took exception with Professor Browning's statement that he thinks that over the years the relative value of urban land has declined; and then said later, that if the persons now occupying tax-exempt lands in the central cities were no longer to use these lands, there would not be very many takers for these lands. Doesn't this argue that perhaps demand has slackened and values may have increased?

PROFESSOR NETZER: I was really making the distinction — this was explained by the distinction between the central cities and the entire urban area. As I said earlier in the presentation that, no doubt, the relative price of land, the parcels of land that were urbanized 40 years ago, is lower now than it was 40 years ago. But look at the whole urban area; look at what might be sort of a marginal cost concept of land on the urban-rural frontier, land that is being fully urbanized. Is its relative price higher or lower? I suspect it's much higher than 40 years ago.

MR. LYNN: The gentleman over here.

JOHN BEHRENS (Chicago): In view of some of the methodology of Dr. Hogan's paper, I wonder if Dr. Hogan or Mr. Boucha might wish to comment on the perennial controversy as to how valid market value is as a basis.

MR. LYNN: Would you like to comment?

MR. BOUCHA: Yes, I would like to comment. We do not have, as a rule, any industrial sales that can be used as market value determinations in most cases. Either the sale is of a bankrupt plant which has been abandoned and vacated and the property thrown on the market for another use; or else, it's a sale of the entire business, including the stock, assets, and their economic prospects. So, like churches and schools, properties that do not usually sell, the sound value and the obsolescence have to be considered generally on them. They are not available especially for large plants. We have not had the sale of a large plant — and we have probably 50 plants in Milwaukee in which the total valuation of each of them is in the ten million dollar category — to my knowledge; and any valuation assigned, even in the proportion of a sale, is usually done for the purposes of income tax advantages. They will assign a large share to, say, machinery and equipment which can be written off rapidly and a very small percentage probably to the larger improvements or to land. And we have to do the best that we can; and the fact that our sales run as close to our coefficient of dispersion from the various studies is as close as it is. And the City of Milwaukee in Census Bureau studies two different times ranked either first or second in the country, based on their checking of sales, of course, of residential property. But you can only do things with the information that you have; and inasmuch as market value is the statement that we have to follow by the statutes, it's market value in an ordinary sense of the word and not a forced sale; and therefore, we do try to determine.

Incidentally, we are going through a complete reassessment in the City of Milwaukee, and the criticism made of the application of the depreciation not being made annually is very valid; and I think that we are overcoming some of the criticism due to the large period of time between which changes can be made. That, of course, however, I think you all realize is based on the size of the staff available and which can be provided.

MR. LYNN: Thank you, Commissioner Boucha.
Does that satisfy your question?

MR. BEHRENS: Yes. Perhaps Dr. Hogan might want to comment with specific reference to his paper. And then, also, I thought perhaps there might also be some exception taken, as it has reference to residential and other properties, in view of some of the recent writings of Professor Radtcliff.

DR. HOGAN: John, do you have a copy of my paper?

MR. BEHRENS: Yes.

DR. HOGAN: Let me subscribe to everything that Marvin Boucha said about the difficulty of getting clean data, as I think he described it, and the fact that there are limited situations in administration where you can be as good as you can. And I think while I'm clearly in the same camp with Dick Netzer on the basis that if I were to start from scratch, I think I could draw at least hazy guidelines for a more profitable system than we now have. The one we have is the one we ought to administer. My concern here was rather strictly with trying to provide some useful devices that might both limit the amount of "donkey" work involved here, and maybe also provide a sort of a frosting on the cake, some sidelights or some elimination of just what is at work behind these differences in ratio.

And I want to comment that I think Professor Gaffney mentioned here — he referred to my explaining the difference between assessed and full valuation; and that, of course, is not what the analysis did. The variants in the ratio, in other words, its assessment to appraised value, taking all that data as a block — and I want to analyze the variants there, that is, I want to analyze the estimated as against the actual data, the whole term squared. It's that concept of variants that I want to get at; so, his reference to my matching one opinion with another doesn't apply in that case.

Now, in the matter of uniformity, I am again in the position here of taking as data of what I find the Courts and tax administrators to find themselves confronted with; and that's the fact that you can justify assessed procedures better on the basis of uniformity than any other criterion. Coefficient of dispersion — by which I mean, if you took a whole range of data, divided this into quarters, and you took the third one and the first one, took the difference between those two, divided them into quarters, take the third quarter point — first quarter point, subtract that difference, and divide it by two, and then divide the whole expression by the median, this gives you, when multiplied by a hundred, this thing called coefficient of dispersion. A figure of 20, for reasons that Dick Netzer will know and I do not, somehow has managed to obtain a certain credibility. Who said it first or why it's there, I don't know; but I am persuaded that the residential dispersion coefficient of about 11.8 for residential property in Milwaukee — indicating the clustering, the degree to which it clusters around the median — again, the coefficient is about 9.8 for the industrial. So, this represents rather good shooting, in the sense that it's methodical and, I think, painstaking application of a manual method. And I certainly doubt that just for the practical problems involved and for the lack of any doctrine on this on any past history — that is, I don't mean that nothing should ever be done for the first time — but I think it would be an ugly administrative problem to try to substitute market valuations for an industrial assessment.

John, does that answer your question?

MR. BEHRENS: Yes.

MR. LYNN: Yes?

MR. RONALD WELCH (California): I have two questions for Professor Browning. I am with the State Board of Equalization. About once a year we receive something, from a planner as a rule, which suggests that the property tax ought not to be based on value but ought to be based on the cost of providing services in various areas of jurisdiction. For example, the typical case is one of the slum areas which frequently do not have a very high market value, but do have a high social cost. I don't know whether you subscribe to these views or not. Whether or not you do, I would ask first, if you do. I would be interested in knowing if you think this is a definable goal or whether there are any objective tests of the degree of success with which an assessor might meet such a goal.

PROFESSOR BROWNING: As I understand your question, the planner who corresponded with you wanted to assess on the basis of the cost of providing services for some value. To me, just off the top of my head, the response would be that I think possibly you could combine the two. I don't know why you have to have an either-or situation. One of the intriguing things that has always affected my judgment of property taxation — and I deliberately stayed away from the site-value tax, which probably meant that Professor Gaffney was less interested — the intriguing aspect to me is this problem of a proper location and rent for a given neighborhood or community. It's taking from the scale of what is the highest and best use for an individual site, and putting it on a wider scale; and, as far as I know, nobody has been able to satisfactorily resolve this particular question in an objective way. But it would seem to me that this is one of the difficulties that lie in the actual application of a site-value tax, and I think is a very intriguing problem. I thought about it myself, but I don't have any satisfactory answers.

Does that answer your particular question?

MR. WELCH: No. I thought you were just getting ready to answer it. I didn't hear you say anything about the cost of providing services in the various proportions of the jurisdiction levying the tax, as a test of assessed value or the assessed value goal, rather than the market value of the property or the market value of the land. I'm not trying to distinguish between site value taxation and taxation of the full value of the real property. I'm trying to distinguish between assessment or distribution of taxes on the basis of value, as distinguished from distribution of taxes on some other basis, which I frequently find planners seem to think would solve many of their problems.

PROFESSOR BROWNING: Well, I believe myself that we have three factors operating here. One is the value of the property; the other is the provision of services; and third, is this aspect which I have alluded to, which is the highest and best use on a semi-regional basis, rather than on a specific site basis. I would certainly, myself, have no hesitation in wanting to include the cost of services to a particular location; and certainly, we need more specific studies on that. So, I would include it in a sense in that package, but I don't offhand feel that the cost of services alone should be the determinative of again, how much the property should pay in taxes.

MR. LYNN: Professor Vickrey from New York.

PROFESSOR WILLIAM VICKREY (New York): In Caracas, some time ago, it was the practice to assess property taxes only on that property which benefited from three essential services, I think; it was the garbage collection, street lighting, and one other which I don't recall, which would be somewhat in line. I wonder if Lynn Stiles has anything to say about this?

MR. LYNN: Lynn Stiles, do you want to respond to that invitation?

MR. STILES: Nothing more after last night.

WILLIAM SUTHERLAND (Washington, D.C.): Mr. Chairman, I want to thank you and call attention to the fact that some of the old ex-Presidents have had something to do with trying to get the Association to run these programs in a way where adequate time is left for discussion; because, as you well know, I have always felt they would be much more meaningful; and I'm delighted to see that at each of the meetings I have been to this time there is plenty of time left.

I would like to ask one question of Mr. Hogan; and that is, what does he mean by "value"? We lawyers talk of "fair market value." Is he talking about a big plant or a big hotel? It is rather esoteric, but at least we would have some general idea of what we are talking about. I wonder what he means by "value"?

MR. LYNN: Do you wish to answer that?

DR. HOGAN: Not particularly.

I'm sure this is just a matter of eptimology in this thing; it's a matter of measurement. And I suspect that in my case I refer back to the manner in which value is defined in the problem setting, the supervisory assessment — in which out of all the alternatives there are just not market values in numbers which would make sample data credible. And that out of some rather long periods of winnowing and accumulating, manuals of assessment do exist; they do pass muster in the hands of good people as devices with which out of some combination of replacement costs and methodical updating of this with indexes of material cost, particularly construction — I am thinking of this as building materials and labor —that I think this probably from one period to another is as good a device as we can come up with.

Now, on what the value of the property is, I would make recourse as an economist to finding out what its income is and capitalize the thing; but I think that is another barrel of worms; and to my knowledge, there is not the kind of legal casuistry that would support that kind of thing. I think there is not a base of legal lore upon which this thing would be hung.

MR. SUTHERLAND: It seems to me you've got to know what you mean by "value." I have very little experience with local assessment, but I assume that you're talking about actual value and must some way get to the market at some point. And as I understand what you say, and I'm certain you probably don't mean that, if you had two buildings here, one of which was very efficient and cost just as much to reproduce; one of them is a great mistake; and the other one has been built by a fine engineer and is an excellent property; but both cost the same to reproduce; you certainly can't value them the same. And yet it seems to me with anything you said, you would expect to have the same value put upon those two properties, assuming they're the same, of course.

DR. HOGAN: I think the capitalized value would be on a prudent asset basis.

MR. SUTHERLAND: Now, what difference would that make in those properties we're talking about? What I'm concerned about is how you know how to appraise property, unless you know the standards with which you're measuring the value.

DR. HOGAN: I define the problem exactly as you do. I think whenever it's a matter of being asked what under prudent management would be derived from a pile of assets, as stated, this is an ugly question. But all I'm saying, we've had it before the Courts; it carried us through for generations, and began as a public utility property, where that criterion is admitted or is used as the standard. But it's about the same category as Mason's potential site value, or I can imagine — as someone said, "If you ever want to bring a series of discussions to a screeching halt, the best thing to do is make an appeal to principle."

But I think the factual situation is one where you have a basis of legal lore plus administrative capability; and I mean capability in the sense of what is possible to accomplish and what kind of resource is made available to supervisory assessment. But the value that comes here, I suspect, is best defined by what the manual says the value is. That presumably refers to reproduction costs, jazzed up by heaven knows how many other weighting factors. I would be more concerned, I guess, about any other ten or twenty-year horizons, just that it is methodically and uniformly applied, that it meet all the tests.

I don't personally think they are much more sensible than you do, but one ought to have some respect for the law. I mean, you know, it's an honorable state.

MR. LYNN: Mr. Boucha says, I believe as he put it, as principal non-academic on the panel, he wants to comment on some of the discussion that has come up thus far.

MR. BOUCHA: As the tax administrator here, of course, I can't lightly take the criticism. I feel a good deal of it is valid, but it needs to be viewed in the light of comparison and things that are available. I don't think comparisons are invalid; and I think that, as a whole, why, we have not done badly. Things can be always worse or better.

I am reminded of the husband that died and his wife attempted to reach him through spiritualism for a considerable amount of time. And she finally made contact, and she said, "Dear, are you very happy?" He says, "Yes, I'm very happy." And she said, "Are you happier than you were with me?" And he said, "Yes, I'm happier than I was with you." And she said, "Just how are things in Heaven?" And he said, "Who's in Heaven?"

I, of course, am quite intrigued on the site valuation tax; and I think that Professor Browning's comparisons of 1918-1929 today are very valid. The inner-city land has decreased in value. We had land in Milwaukee that was worth \$120 to \$150 a square foot in 1929; and today, with the dollar worth less than one-third as much, the top's generally running between \$35 and \$80 a square foot. I do not think the site tax alone could possibly raise enough money for the central city's operation. I think it could hasten the exodus of commercial and industrial firms from the city to much lower priced land in the suburbs. I believe in the old days when land tax was first advocated, why, the sites were limited by transportation. Today, I think land is one of the most portable of all things, through the construction of expressways; at least in Milwaukee, the industrial city has paid a good deal toward the construction of the expressways, which have benefited the rural properties to a great extent.

The criticism was also made of the valuation of the site when they are just about ready for demolition for higher and better use — I presume that was presented by Professor Gaffney — and I think that's a valid criticism, too; but I must explain that the State statutes of Wisconsin require a separate valuation for land and a separate valuation for improvements, almost force a summation value, which, as an experienced appraiser would say, is not a correct way of evaluating land. And furthermore, you can object to either the land or the improvement valuation. So, you have a large house that is too large for removal on a piece of land that's fairly valuable, and the man next door tears down a smaller house, and you increase the land value, why, you can get an objection from comparison; or if you are on a high-priced piece of land, and your building is valued as an under-improvement, the man that has a similar building that is not an under-improvement can object by comparison. It will require some legislation to allow us to place one total valuation, which I will agree with Professor Gaffney is much more apropos.

Now, in the matter of payrolls, and things like this: From exempt institutions, I will agree the exempt institutions do contribute greatly to the economy; but it's our contention that they contribute to the economy of the metropolitan area, where the inner-city, I think, has a disproportionate share of the costs. Payrolls, for example, were mentioned. Well, the fact is, that in Wisconsin we have income tax-sharing, a tax based on where you live, not where you make it. And the suburbs receive a lot more per capita than the central city of Milwaukee does in order to have money before you levy your property tax. Then, on top of that, the property taxes are largely at cost on a per capita basis with a higher cost per capita in the central city due to the services furnished. Milwaukee has $5500 per capita at full value of assessable property, according to the State Supervisor of Assessments. The suburbans average about $7800 per capita and run as high as $30,000 per capita. So, on the one hand they are receiving more State aid and grants, both in percentage of State taxes paid and in actual dollar amount, and have more assessable property per capita on which to operate than the central city has.

While the criticisms are valid, the circumstances under which we must operate compel many of the things that we do.

MR. LYNN: Thank you, Commissioner Boucha.

This gentleman has been standing by the microphone for an extended period of time.

KENNETH EHRMAN (California): Possibly, this should be addressed to Professor Gaffney. I wonder if you could comment on the Hawaiian statewide zoning and its relation to taxation, in particular, the rates, as I understand it, according to the zone in which the property is located, as being the type of use of planning and taxation to control land use.

PROFESSOR GAFFNEY: I saw Fred Bennion earlier; he may have sneaked out. He would be more able than I to give you the details on that. I do have a colleague who went to Hawaii a Summer ago and did a study on that very subject. And according to him — and that's my only source of information — in the State of Hawaii, zoning and taxation are quite closely linked; and in some cases, too closely linked. In that zoning is a factor obviously in determining land value, but it's not the only factor, and the criticism that has been made in the Hawaiian experience is where the zoning was high-density, but the demand wasn't there yet.

In other words, the zoning was premature; the tax assessment was based on that premature zoning, and was therefore inequitable; and there has been a great cry based on that in Hawaii. I think to the extent that is true, it should be remedied. I think there is a type of common sense solution, that is, where land is unripe for intensification, but has reasonable prospects in the next ten or twenty years. Those reasonable prospects will have a discount of present value which will grow over twenty years along with compound interest to reach the high-density value; and as they do so, the property tax might reasonably follow that valuation curve. This would involve, however, the market value approach, recognizing zoning as a determinant, but not the sole determinant of market value.

MR. LYNN: Yes?

STEPHEN KELLY (Missouri): I would like to address the question to Dean Lynn or his designee. How does an economist justify from an economic standpoint classification laws which seek to assess or give classes of property at different ratios to market value?

MR. LYNN: That's a thrilling question. But I'm just an innocent chairman here today; I'm not supposed to be prepared for any contributions. So, Dick Netzer, would you care to comment on that?

PROFESSOR NETZER: Well, I think there are a number of approaches. First, you can say there is no way of justifying it at all, but we have in effect extra legal classification and in most parts of the country as it is now, simply because the assessment ratios are symptomatic differences among different classes of property; and legal classification is very often no more than ratification in some cases for validation of the extra legal classification which existed prior to that time.

The other thing — another way of looking at it is to say that it is a question of not justifying it on equity grounds, but justifying it on grounds of competitive position, if there is an economic activity within the study for which there is really no — say, iron ore in Minnesota 50 years ago. Then, the State can, with impunity, tax that activity under the property tax very, very heavily and get away with it, until someone discovers a substitute or alternative sources of supply or something like that. And, therefore, it's an exploitation to do taxation, and it's safe to do it, but I don't think there is any rationale.

I would say another step I would take in looking at the whole question of classifications is to say that even if we had a perfectly uniform property tax, the economic consequences of uniform taxation are different for different industries and different sections of the economy. And you can argue that you might conceive of a system of classification which attempted to offset these inevitable differences, in effect of the uniform property tax; but I don't think that's the kind of classification system we get. We get ones that are a mixture of expediency and ratification of existing inequities.

MR. LYNN: Thank you very much.

Lowell Harriss has asked to be recognized.

There's quite a list building up; but Lowell, who stands very tall there in the back, has been waving for quite a while. Lowell Harriss.

LOWELL HARRISS (New York): This is perhaps more of a sermon than a question, but I would like to have any comments, maybe from Professor Browning or others.

One thing that society can try to do is learn by experience. It seems to me that we have had in our agricultural program evidence of a substantial portion of government subsidies being — overtime being converted into increasing land prices. As the talk now gains force, the talk for doing something about cities, and there seems to be projects that there will be Federal Government direct or indirect aid to cities for very specific projects — now, it seems to me that there is a danger that some of this spending will be frustrated by increasing land prices that will give capital gains to present owners and be of very little permanent benefit. Now, do any of you have any suggestions about whether the property tax or other devices can be used today rather than 20 years from now — for the horse that's been stolen — in trying to make whatever subsidies there are for urban development more productive?

MR. LYNN: Professor Browning, would you want to comment on that, since Lowell mentioned your name in that connection?

PROFESSOR BROWNING: Perhaps somebody else would have something more direct to say.

MR. LYNN: Panel? Well, let's leave that as a sermon to be taken care of at a later time, perhaps by a program session or a study committee since Lowell does seem to have Pandora's box ajar!

MORRIS BECK (New Jersey): I was hoping that when Dick Netzer came to the microphone before, he would respond to Mr. Gaffney's statement during discussion, with respect to the distribution of resources between the central city and the suburbs.

I would recommend highly to anyone who has not seen it, Dick Netzer's paper on the property tax, the one he prepared for the Douglas Commission during the past year, which contains, I think, some of the most comprehensive data on the uneven distribution of resources. But the particular point that I'd like to make with respect to Mr. Gaffney's comments is this: that while it may have been true 150 years ago in Wisconsin and perhaps a thousand years ago in Rome that the property tax — that the taxing resources were adequate for the needs of the period, we've reached the point where the central cities have the problems the requirements, whereas the resources are very heavily weighted in favor of the outlying jurisdictions, as Mr. Boucha's statistics on Milwaukee showed a moment ago.

The question, if Professor Gaffney feels he can answer it, is: How can we rearrange or reallocate the functions performed by all levels of government, so that this mismatch of needs and resources can be eliminated.

MR. LYNN: Could you speak in favor of congruence and governmental redesign?

PROFESSOR GAFFNEY: That's a real blockbuster for a man who came to speak seven minutes as a discussant.

In the first place, my heart bleeds along with everyone else for the plight of certain central cities, but not all central cities. The City of San Francisco, for example, has managed to maintain its tax base in very good shape and enjoy the other tax rates in the suburbs surrounding it.

In the second place, you still find higher values of land per square foot in most central cities than in most outlying areas, which constitutes a potential base.

Now, as to how I would reshape this sorry scheme of things and make it closer to the heart's desire in two or three minutes: It does seem to me there is room for a great deal of improvement in this work, and one policy which would help would have to do with school costs. I am increasingly of the opinion that it would be a good idea to allocate school funds on a per capita basis or attendance basis, rather than an income basis, or something of this sort. This would be regarded as a kind of social dividend, which would be enjoyed by citizens, regardless of location. The social dividend would attach to the citizen as such, rather than to a location as such. Thus, it would be a reward for being born and would not prejudice vocational decisions.

This, I think, would go a long way toward changing the attitude of suburbs who now suffer from fear of children — as the fear that made Milwaukee famous, you might say — sorry about that — which shows up in its zoning ordinances and the other restrictive devices employed to keep out small children.

Now, another thing I think that needs to be said about the sorry plight of the central cities is that a considerable amount of it is owing to the stage of historical evolution in which we find ourselves, in which the average age of buildings in the central cities is much greater than the average age of buildings elsewhere, where to some extent this is a cyclical phenomena and is encouraged to some extent by the cities themselves through their tax policies, to the extent they have control over their local tax policies. There is a great deal of latitude in the assessment process, as everyone knows, and this latitude can be exercised by central cities, if they so desire, to encourage renewal at a considerably faster rate than is now taking place, through a movement in the direction of that device whose name I dare not utter because of Mr. Browning's scathing comments about my devotion to it. But it might be worth thinking about.

MR. LYNN: John Hogan would like to comment.

DR. HOGAN: Let me take a moment to describe something here. I thought that when we talked about education, we had hold of a device which could, under halfway decent circumstances, deliver us from a great deal of this.

I had a full year with the State of New York Government Finances almost without limit to investigate — if there was anything lacking, it was only ingenuity — we started asking what is the device by which you might create a political boundary that would enclose people's shopping, commuting, and recreational habits; and I think you very quickly come to the conclusion there is only one political boundary line which had any success in moving, and that's the school districts. Every State has looked to a 90, 95 percent reduction in the number of these kinds of tax jurisdictions.

I think the next point we should come to is, in education there have been uniquely demonstrated that there are things best done at arms length or neighborhood basis, as enriching a curricula; and, I think, souping up of salary schedules, so as to reward your teachers. But there are things that are demonstrably not done best on a neighborhood level of which imposing a tax and collecting it is one; certainly, the borrowing of money is another; and I think the third is probably deciding on the site location of where a physical facility should be.

Now, we can determine what the periphery is of a metropolitan area, as the studies of the New York Highway Department have done, by so simple a device as highway density, so that you can come to and establish a band area, within which it might be desirable to try to federate school districts, that is, that you require nothing more than the binding of school districts together in a federation, strictly for fiscal purposes, give it the power to impose a high-yield, low-rate tax on either consumption or income. And as we demonstrated in New York on a 1960 base and with the total school expenditure doubling in six years and tripling in ten, which everybody thought was laughable at that time — it doubled in five years and tripled in eight — that we could maintain a tax on full valuation at its then 1960 level, so large was the growth that took place in the base.

Now, since education is the most expensive single function that local governments undertake, then it seems to me that it makes a lot of sense to get that function organized on what are sensible criteria, and look to a sort of modification of a concept and the bringing of other functions into the same kind of federation. In Northern New York State almost all social functions these days are organized along central school lines, and that has everything to do with service clubs, through everything — you do this from School District No. 1, or something of this sort. That is the frame of reference geographically, if these things are organized. I think the idea, eight or nine years old, is still worth a try somewhere to try to get it on.

MR. LYNN: Les Carbert.

MR. CARBERT (California): I think we've rather hinted at some interesting solutions, but really haven't gotten down to stating the central issue, it seems to me, in terms of the problems of central cities, if there are indeed such problems, and that is the question of governmental organization structure. It seems to me that you are not going to solve the problem with special kinds of subsidies, the invention of special kinds of taxation, taxation by which the milking process can work from the city to the suburbs, or vice versa.

We really have talked about a meaningful form of governmental organization, and I think it was hinted at a moment ago in the discussion about school districts, but not really focused on in terms of the development of a meaningful regional organization. I think these are difficult political decisions, but I am not at all sure that they are more difficult than property tax reform politically.

We have in California, for example, invented a curious set of civic boundaries. We have in fact cities called "Dairy", "Commerce", "Industry" — these are the cities' titles; and they describe the economic endeavor of the community itself. And we have successfully insulated, by process of developing political boundaries, to identify economic ingredients and therefore prevented the sharing of the variegated tax base.

Now, it seems to me that this is the central issue that we are really talking about, and I think that we ought to get terribly busy about reinventing political boundaries and making the property tax a meaningful system, not for just central city support, not just suburban support, but for the support of a sensible political entity.

The other thing I wanted to comment on was just my element of skepticism about the use of property taxes as a tool of planning; and, essentially, that comes from the fact that planners want to do many things that have very specific qualities. They want to preserve green belts; therefore, they want to exempt land from the property tax. They want to clear slums from the central cities; therefore, they want to exempt improvements from the property tax. They want to assist developing industry; therefore, they choose to exempt inventories and perhaps even business machinery from the property tax.

So, really, the only use of the property tax, as a tool of planning, is the abolition of property tax; and ultimately — this may be desirable, of course — but then we must go about inventing new tax sources to accomplish the same purpose.

I would appreciate some comments on these two issues.

MR. LYNN: One must like the Carbert classification proposal. Are there comments from the panel?

PROFESSOR GAFFNEY: I've taken more than my share of time, so my comments will be very brief. But I think the abolition of the property tax now is being seriously considered in the State of California, maybe re-evaluated by close scrutiny of Latin America, which has practically no property tax. Now, we sometimes think it would be a great world if there were no taxes, or at least no property taxes; and that enterprise would flourish, capital would be attracted, and so on and so forth; but when we look at Latin America, we find the opposite of all that to be the case.

Now, obviously, this is the result of many factors, but one factor which all students of the area agree upon is that the use of land in Latin America is exceedingly careless and that the economists' concept of opportunity cost, taken by itself, is not proven to be adequate incentive to have land developed.

Property taxation, the part that falls on land, has served that role and quite prominently so in the State of California in many cases. So, I would hate to see the property tax abolished.

MR. LYNN: Mr. Dickinson.

L. R. DICKINSON (Minnesota): I didn't want to come up to the mike to make a speech; I just wanted to ask a question.

Now, what I'd like to know: In Milwaukee, with these 159 parcels that you mentioned you took off the tax exempt list, I wondered if you would clarify somewhat what they were, explain briefly what they amounted to. If you could tell us what portion of these items may have been in the 159 that you say you successfully took off the list, which I'm satisfied you did justifiably, I would like to know what some of them may have been.

MR. BOUCHA: They covered a variety of properties. I'll mention a few especially. We had a quite large benevolent-oriented nursing home, in which it cost $12,000 to $15,000 minimum to enter and $300 or $400 a month to stay there, that had their own separate dining room and other special facilities.

We had people with very large taxable incomes living there; and one recent resident from the suburbs who died there left an estate of over one million dollars. We succeeded in having this property placed back on the assessment roll.

We had Legion Posts also in which their activity was not limited to legion business; they served dinners; the bar was open to the public. We also were successful in having these assessments sustained by our Circuit Court.

We have also gone into things like the large central YMCA. It has several hundred rooms, bowling alleys, dining rooms, which compete with the commercial hotels and bid for meetings and bowling leagues which compete with others that pay taxes.

We have a number of residences that were occupied by different employees of hospitals. We have lost some of these cases but we have also won some of them.

We also had the property of an Engineers' Society, which was why the educational question was raised. They did give some lectures there and used the Society for cultural purposes in that way but they also have social functions and promote other activities to help themselves.

We've had various private business groups that were organized for the advancement of their own particular group. We've taken those off also. Many of these were not appealed.

We've got one that's now in litigation called "TOPS." It's a group of ladies that have a national organization and a national headquarters in Milwaukee, who get together and have health and reduction exercises; and whether that's an exempt activity or not, is something to be determined.

But, in general, these are the types of properties we have taken off. Thank you.

MR. DICKINSON: Thank you very much. I'm glad to get the explanation.

MR. LYNN: I think time is upon us, we have time for only one or two more questions.

Gerald Witherspoon (Vermont): I have a question about users charges, in view of the charges in connection with the cost of highway construction and maintenance.

In the past we've assigned these costs to highway users, automobiles, and so forth, through gasoline taxes and the like; and yet, the highway construction and maintenance is obviously benefiting abutting property owners. I wonder, if in proper allocation of these costs, some part should be allocated to abutting property owners or are they paying this in the ad valorem tax?

Mr. Lynn: Professor Netzer.

Professor Netzer: Well, suppose we had a system in which the highway users' charges were assessed by government not so as to recover their costs, but at a level designed to recoup the great bulk of benefits that users receive, that is, that highway improvement presumably lowers transportation cost for users; and as long as there is some advantage to them, they will use that highway. But going back — there would be no increase in the value of property whatsoever if this occurred, that is, there is no reason for abutting property to pay — for anyone to pay for abutting property if he can reach that property only by paying a very stiff highway charge, which makes up for all the reduction in transportation cost occasioned by the highway.

Well, now, if you are going to approach the problem of highway users charges from the standpoint of saying it's sensible to recover the benefits in full or a large part, I think you can do it without the ad valorem tax; you can do it without special charges; you can do it through highway users charges.

If, on the other hand, you approach highway users charges from another standpoint, to use the approach that was advocated very persuasively by Professor Vickrey, that users charges ought to be an attempt to apportion costs appropriately, rather than look at benefits, then you get a very different set of charges, a very different structure of charges, and a very different effect. And in that case, if there are very substantial extra benefits, of course, a general tax on land would tend to recover some of those benefits, because there would be some increase in land values.

Mr. Lynn: Thank you, Dick.

Robert Kilmer (New York): A very quick question to John Hogan: In New York State, we sample industrial property under a very highly complicated statistical model and attempt to stratify. We suspect, and I wonder if it occurred to you, that really what we are trying to do is determine the motivation and influences that operate in the assessor's mind. We seem to find that if such factors as the mobility of industry — can they move out, whether the industry is based in the locality, that management is located there, not whether it's a foreign-type of operation in the community. Did you discover any type of patterns in this area at all in connection with your study?

DR. HOGAN: I'm pretty much confined to the things I can measure, and I've made reference in here to the past history of some litigation, I think incidents of mobility of industry — it might get mad and leave.

I don't know how you would get at this. I was in the business of counting things; whatever contempt I have for that. It was the research realm to which I was confined. I am sure you're right. Obviously, 79 percent of the variants, I believe, was "unexplained"; but I am persuaded you might get a half-dozen more points of explained variants, for whatever worth that would be, by maybe some indices of profit. I may re-run that thing again on that basis; but how I'd scale the mobility of industry — perhaps if one could get fixed and movable capital here, you could look at this and scale it on the basis of just industrial type. Maybe you could do it. In any case, I didn't do it.

MR. LYNN: Time is upon us and I think we have evidence that we have ample material for an additional program ranging from redesign of the property tax and the reorganization of local government to the psycho-dynamics of the appraiser.

I want to take this occasion to thank all members of the Panel and all of you who remained with us.

We are adjourned.