

## FORTUNE REBUTS CRITICS OF PROPERTY TAX

One more prestigious publication has added its voice to the growing public debate over the property tax. *Fortune* (May 1972), the big business magazine, devoted its "Viewpoint" column to "A Word for the Property Tax."

In essence, author Dan Cordtz says the property tax is just too much a part of the American fiscal fabric, is too fruitful a source of revenue, too economical to be abolished. Along the way, he pays considerable attention to the advisability of shifting the incidence of the tax from improvements to the site.

Citing the recent court decisions that would bar use of the property tax for local school support and President Nixon's criticism of this levy, the article calls "the idea of shifting an important share of the property tax burden to other revenue sources... unrealistic, misleading, and potentially dangerous."

Mason Gaffney's argument is repeated — the concentration of property ownership is even greater than that of income in this country and, therefore, the property tax is not regressive, "If property were assessed correctly and taxed equitably, the burden would fall heavily on those with wealth."

"Viewpoint" also makes reference to Prof. Dick Netzer's work and sums up: "Not only are the property tax's purported flaws exaggerated, but its virtues are too often slighted. Properly applied, it can help a free real-estate market function in a way that maximizes the benefits to society."

Commenting on Allen Manvel's study for the National Commission on Urban

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## "Tax Law Favors Homeowner"

By LESTER O. BUMAS

*Associate Professor of Economics, Polytechnic Institute of Brooklyn*

Once upon a time there lived in the Land of Politics twin brothers. Each had one wife and two children, and had jobs that paid them \$25,000 a year.

They lived in new identical \$40,000 homes, and were equally generous (or at least claimed to be) with respect to contributions to tax deductible charities and the medical profession. To the myopic observer they were virtually one and the same person—but not so to the sharp-eyed Internal Revenue Service.

The service saw them as two fundamentally different people. It knew that one rented his \$40,000 home, which was owned by a bank. The other was a "homeowner"—that is, he was starting the 30-year process of buying a palace. Actually, the same bank that owned Brother Tenant's home also owned that of Brother "Homeowner."

Real estate taxes were high on the block where the brothers lived, being \$2,000 a year on homes valued at \$40,000. Moreover, the bank felt that it should make 8 per cent on its invest-

(continued on next page)

## City Ignores Housing Agency Scandal

Beleaguered by mismanagement and corruption, New York City's Housing and Development Administration was up for dismantling after a thorough going over by a special committee of the City Council.

That was early in the year. Now the City Fathers are going to rehabilitate the agency by adding another department to the already existing multitude. A Housing and Development Corporation, previously authorized by the state legislature to administer public aid to private housing, was voted into existence with pocket money of \$700 million in bonds.

The chairman of the same committee which denounced HDA urged passage of the bond issue because "the well has run dry — there will be no more subsidized middle-income housing built in this city unless this passes. We cannot let housing construction come to a dead halt." He explained that the Council would create a new HDA structure, and that the corporation would be the first step in a "thorough house-cleaning" by the Council.

Other councilmen were not so sanguine about house-cleaning by first tacking on a new room. One declared the housing program a "blueprint for disaster," to be administered by "the same incompetent officials" who "mismanaged HDA." Another called it a "wolf in sheep's clothing." Two councilmen voted against the bond issue on the grounds that it would not benefit middle-income families, but rather called for tearing down low and middle-income housing and replacing it with upper-income housing.

Nevertheless, the City Council debate on the issue lasted only an hour and a half, with the final vote 26-6.

The board of the new Housing and Development Corporation consists of the senior vice-president of an investment bank, the assistant vice-president of a savings bank, the Director of HDA, and the Finance and Budget Directors of the City.

Public programs never die, public wells never run dry.

# "Tax Law Favors Homeowner"

ments. Thus, Brother Tenant paid \$5,200 in rent, \$2,000 of which was to cover real estate taxes the bank had to pay and \$3,200 of which was to give the bank an 8 per cent return on its \$40,000 investment. Brother "Homeowner" had precisely the same relevant costs, \$2,000 in real estate taxes and \$3,200 in interest payments to the bank.

But in what way did the Internal Revenue Service see these seemingly identical twins as different? The difference was that Brother "Homeowner," who paid his interest and real estate taxes directly rather than indirectly as did Brother Tenant, was allowed to deduct these payments of \$5,200 from the amount on which he had to pay taxes.

Assuming that such income would have been taxed at a 25 per cent rate, Brother "Homeowner," identical in all income and expense considerations, pays \$1,300 a year less in taxes than does Brother Tenant. In effect then, Brother Tenant can be considered as paying \$2,000 in real estate taxes while Brother "Homeowner" only pays \$700.

Let us quickly move the calendar ahead 30 years. Brother "Homeowner" —in quotes—has now become Brother Homeowner. The quotation marks are off because now he really owns his \$40,000 palace, whereas Brother Tenant, who had to be more parsimonious, owns \$40,000 in 8 per cent blue chip corporate bonds. In other words each had investments valued at \$40,000.

Looking at the tax side of things Brother Tenant still pays the \$2,000 in

real estate taxes, albeit indirectly, as well as, at a 25 per cent rate, \$800 on the \$3,200 he earned from his bond. These taxes total \$2,800.

Brother Homeowner still pays \$2,000 in real estate taxes but by deducting this at the 25 per cent rate, he saves \$500 on his Federal income tax. Thus the taxes for our almost identical twins are now \$2,800 and \$1,500, again a tax advantage of \$1,300 for Brother Homeowner, two-thirds of the amount of the real estate tax.

Do these hypothetical figures exaggerate the tax advantage given to homeowners? Not at all. For 1966, the last year for which comprehensive analyses have been made, Henry Aaron of the Brookings Institution estimates the tax savings advantage granted to homeowners to be in the range of \$7-billion to \$9-billion. Dick Netzer, dean of the Graduate School of Public Administration at New York University, estimates that the total tax on owner-occupied housing was then \$8.8-billion. Thus, tax gimmickery in effect reduced the real estate tax burden on homeowners to very close to zero.

This is not to say that discriminatory income tax deductions and omissions wiped out the burden of the tax in the case of each individual homeowner. Things are in fact far less fair even than that. Poor homeowners benefit little from the tax favoritism. The rich benefit handsomely and even by amounts substantially in excess of their real estate taxes.

That this is so can be seen by considering Brother "Homeowner" to have an income of sufficient size to put him in the 70 per cent tax bracket. Since he can deduct in effect \$5,200 from taxable earnings, which Brother Tenant cannot, he pays \$3,640 less in taxes. And his real estate tax was only \$2,000.

Why is it that in this important area our tax system so strongly favors the rich over the poor? The answer is implied in the opening line of our parable. Recall that it takes place in the Land of Politics. The name of the game is political clout. The rich have it; the poor do not.

One final note. The tax relief given homeowners is almost identical in magnitude to the total expenditure for all Federal, state and local welfare programs. But how little handwringing accompanies relief to our fortunate; how much accompanies relief to those whose needs are many times greater. What a disgrace.

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## news briefs

Secretary of the Treasury John Connally is against heavier capital gains taxation — "I don't want to destroy the real estate industry and the securities industry — I don't want to see the Dow Jones average hit 500." Mr. Connally denounced Democratic presidential aspirants who seek tax reform as having a combined 100 years of service without ever producing a tax bill. The candidates attack provisions Mr. Connally does not regard as "loopholes." He is of the opinion that criticism of national institutions has gone "too far."

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The eyes of Texas are on the Supreme Court, which will rule this month on whether local property taxation is a constitutional means of financing public education. The attorneys general of 30 states filed a friend-of-the-court brief stating that an estimated \$8 billion increase would be required to raise educational spending to the level in the wealthiest districts. Counties in Indiana, Maryland, and Michigan also signed the brief. A separate appeal was submitted by 4 Texas banks and the Securities Industry Association, who want the court to ensure payment on school bonds, whatever the financing decision.



"I say if we can't squelch dissent, let's figure out how we can tax it."

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## The Rebuttal of Fortune (continued from p.1)

Problems, which showed land prices rising seven times faster than commodity prices and four times faster than consumer prices between 1956 and '66, *Fortune* acknowledges this to be the effect of economic growth pressing against the inelastic supply of land and "society's investment in infrastructure and services." "Realistic property taxation," the magazine asserts, "would compel the owners of undeveloped and underdeveloped property to pay a fair share of the cost of services from which their land derived its additional value."

The point is well made. The property tax's unpopularity stems in part from its high visibility. Payroll levies and excise imports, while they may be more harmful, are less painful because they are less obtrusive. "Taxes *ought* to be visible, not concealed," *Fortune* states. Moreover, the burden of the property tax is falling with increasing weight on individuals, the politically potent middle-income group. Individuals paid 60c of every property tax dollar in 1967 vs. 55c in 1957, the article notes.

An important reform, according to "Viewpoint", would be "to end the steady erosion of the underlying base on which the tax is levied." This is the familiar but often politically tricky idea of denying exception to religious and other non-profit organizations on property they own but do not use for their direct operations.

The article canvases the arguments for using location value taxation as a spur to urban renewal and suggests the use of zoning or public acquisition of land as a more effective means of city development than "the random decisions of real estate speculators." It cites Southfield, Mich. and Rosslyn, Va. as having "transformed in a few years from run-down, moribund areas with little economic activity into booming commercial centers" as a consequence of having assessed land and improvements in more realistic ratio.

Most interesting is the account of an owner of a 5-acre commercial site in Rosslyn who complained about an increase in assessment from \$3,000 an acre to \$196,000, but was silenced by the chief assessor's offer to buy the land for that figure.

"The agenda for property-tax reform is a lengthy one," *Fortune* says, concluding, "Reform may turn out to be the best way of attaining the goal of those calling for relief."

# from the editor's notebook

New York State Senator John Marchi introduced a Staten Island land use bill as a political duty (he's not enthusiastic about city planning or the city's plan), only to find his seat challenged and himself the unintended champion of planned development over unplanned development.

The Staten Island Development Area, the first "new town" proposed for an already urban setting, is mostly owned by the city. But some privately held land is slated for acquisition, and this issue caused both a rift between the Republican and Conservative parties, traditionally allies, and the splendid isolation of Senator Marchi.

Senator Marchi, a Republican, is being challenged by a real estate broker named Daniel Master, who asserts that the residents of Staten Island's tract housing like it that way. The Conservatives disowned Marchi despite his revision of the bill so as to limit condemnation of existing housing, the ostensible point of conflict. According to Marchi, it is not preserving homes that worries the Conservative group, but hanging on to substantial acreage of obviously high speculative value.

Senator Marchi has reservation about the obsolete planning concepts embodied in the bill, but prefers it to seeing the last large tract of open land in New York subjected to instant urban blight by land developers.

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How does the land problem of Rhodesia wind up in the Vermont tax commissioner's office?

In Rhodesia, about 50% of the land is reserved for whites, who number less than 10% of the population. In order to preserve their monopoly in land and government, white Rhodesians unilaterally declared independence from Britain in 1965. The United Nations supported Britain's efforts on behalf of the black majority with a trade embargo. Rhodesia's economy did not stagger under the impact.

Because of widespread violations of the U.N. sanctions, President Johnson in 1967 issued an executive order prohibiting the export of arms and ammunition to Rhodesia and the import of chrome, among other things. In 1968, all trade with Rhodesia was banned, again by

executive order.

In 1970, an indictment for importing Rhodesian chrome was settled out of court for a fine, and Congress very little later exempted chrome from the trade ban. Rhodesia is the largest producer of chrome in the "free" world.

Last month the federal government successfully prosecuted its first case for violation of the ban against two corporations and three men on 18 counts of conspiracy and violation of the sanctions. Their scheme boiled down to \$5 million of ammonia to be shipped to a \$50 million fertilizer plant.

The plot has all the hallmarks of the classic international conspiracy: a Swiss bank account, the smuggling of construction plans into Rhodesia, and concealing the identity of the principals through a string of corporations in Rhodesia, South Africa, Mozambique, Belgium, Bermuda, the Bahamas, Panama, the United States, and, of course, Lichtenstein. In fact, the Assistant U.S. Attorney in charge of the case uncovered the plot while investigating a dummy corporation in Bermuda.

Sentence will be passed in June — the maximum prison sentence is one year and the maximum fine \$10,000 on each count.

One of the men named in the indictment said he was surprised that the Executive Branch should prosecute for trading in one commodity and not others (referring to chrome). "This kind of enforcement raises fundamental questions of fairness as well as constitutionality."

He ought to know. He's Edward H. Bartlett, the Vermont tax commissioner.

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According to Representative Shirley Chisholm (D., N.Y.), the Federal Housing Administration "has knowingly tolerated the development of Federal financed slums, the perpetuation and acceleration of segregated housing patterns and the gouging of the poor by speculators, builders and bankers who all pocket Federal dollars for violating Federal laws."

"In short," says Senator Charles Percy, "builders and developers are making quick profits, high-income investors are getting lucrative write-offs, the consumer is receiving poorly constructed housing at inflated costs and the taxpayer is footing the bill."

## Planner Scores Private Land

If Napoleon III could cut boulevards through the medieval tangle that was Paris in the 1850's and Juscelino Kubitschek could will into being a new state capital in the Brazilian boondocks, why is there such a place as Newark, New Jersey?

Edgaro Contini, engineer and planner, writes in the February issue of *The Futurist* that autocratic government is not a prerequisite for decent cities. Democratic government and sound planning are not incompatible — witness England and Scandinavia. What is required is the exercise of public will, strong in the United States concerning educational and space programs, but weak when it comes to transforming community values into land use realities.

Recent legislation working toward the preservation of open space and the rationalization of urban patterns is the beginning of the democratic will, not the result of normal market forces. Mr. Contini attributes this trend to a youth-oriented redefinition of the "pursuit of happiness" from "the pursuit of material goods" to the "pursuit of enrichment of human experience."

Four breakthroughs are possible. The first is a reappraisal of our commitment to the private ownership of land, which has become a "cover for extracting speculative profits from the pressure of urbanization," and no longer signifies the social

revolution upon which the nation was founded.

The short life of buildings compared with the permanence of the urban infrastructure justifies differentiating between ownership of land and ownership of facilities. To view urban land as a public utility — owned and administered by the community — would put a halt to the "tug-of-war" between greedy land developers and greedy tax assessors, who prematurely raise the assessment on land ripe for development and thus encourage haphazard growth.

Mr. Contini would tax land according to its present use, rather than its presumed potential. All land destined for urban use would be owned by the community and leased to private developers at a price that reflects the "total value increase that growth and improved standard of living generate, as well as the value increase that the specific development use allowed will justify." In sum, such leases would take the place of taxation.

The advantages of this scheme include community control of development, timely introduction of public services, timed release of new areas so as to prevent scatterization and fragmentation, and control of recycling the city — now disruptive and expensive. Moreover, open land would not incur the penalty of value increase. "The only casualty of this process would be speculation in land." The

developer can continue in his role, relieved of the risky burden of stockpiling land. Contini admits, however, that land speculation, despite its long-lasting, harmful effects on the community, is so firmly entrenched that this approach may be confined to entirely new areas.

Shibboleth number two is "home rule" — appropriate enough for many municipal functions, but too frequently used as a device of social and racial discrimination and of avoiding participation in the larger regional and national problems communities themselves create.

Breakthrough number three would be realizing that transportation not only serves the city, but makes it. The freeways started 20 years ago formed Los Angeles into a sprawl of 150 miles of continuous urbanization, "the prototype of the city built by and for the automobile." Also, "We must recognize the value increases that a transportation system creates in the community, and use the value increases to finance the system itself."

Finally, breakthrough 4 is an end to the idea of buildings that are "monumental" as to design and "permanent" as to economy. Technology and architectural taste now make possible buildings that are shorter-lived and more suited to the rapidly changing needs of a highly mobile population. Semi-permanence is a concept permitting the re-cycling of the city, rather than its "renewal."

Changing attitudes, says Mr. Contini, is the key to urban sanity, not new technologies or forms.

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JACOB KIMMELSTEIN  
SYCAMORE COURT APED.  
MERRION, PA. 19066