St. Louis

confronting St. Louis." And last week the general manager of the Chamber repeated the same explanation to me in simpler terms: "The major problem in the City of St. Louis," he wrote me, "is that land is not available for expansion."

Now I don't question for a minute that what Mr. Schoon wrote me is true, but it is just plain preposterous that it should be true. Here is a city that has lost nearly a third of its population, a city that has lost hundreds of industrial plants, a city that is described as further down the road to total abandonment than any other city in the country—and still you tell me—and tell me truly, I am sure—that land is not available!

In brief, what you have here in your city is not a shortage of land, but a very costly and unnecessary waste of land.

And that brings me to the second half of the answer—the second half that explains why so much of the land in your city is wasted that you seem to have no land available to grow in.

I found the second half of the answer in the Chamber of Commerce promotion booklet that spelled out proudly how low your real estate tax is. Out of 91 cities covered by this study there are only fourteen cities—most of them very small—whose real estate tax is as low as yours!

You seem to think this low tax is good for your city. On the contrary, as now applied, I am afraid, it has been very bad, for you have been taxing unused, underused, and misused land so lightly that you have harnessed the profit motive to leaving it unused, underused, or misused instead of putting tax pressure on its owners to release it at a reasonable price to someone who would put it to fuller and better use. You have, in effect, been subsidizing blight, decay, slum formation, and land waste by undertaxation. You have made it possible to hold a hundred thousand dollars worth of underused or blighted land off the market for a year for a net tax cost of never more than $1000—and your newspapers have just published one shocking example where the owners got paid more than $500,000 for a blighted block they had been leaving blighted at a gross yearly tax cost of only $350!—a tax cost of 70 cents a year per thousand dollars before income tax, or say 35 cents a year per thousand dollars after income tax!

When you give the owners of unused, misused, and underused land an annual undertaxation subsidy like that is it any wonder the owners of that unused, misused, and underused land have decided they might as well leave it that way hoping that if they hold it long enough they too can get a similarly fancy price for it? The undertaxation subsidy gets capitalized into a higher price per acre, and so far that matter does your comparatively low rate of taxation on improvements, and that is the number 1 reason why so much land here has been left and kept unused, misused, underused or blighted.

Year after year your undertaxation subsidy has been making it profitable for each individual landowner to let his particular property run down, with the result that so many properties have been allowed to decay. When a whole neighborhood decays the surrounding decay was capitalized into a lower value for each property in the decaying neighborhood, so now at last land prices in the city are falling instead of rising and landowners are beginning to abandon their blighted properties instead of continuing to hold out for the fancy prices that have been getting harder to get.

You have been reasonably successful in getting the Federal government to buy up blighted properties for you at three times their reuse value and write the price down to what redevelopers might find it profitable to pay. As St. Louisans this should make you happy, even though as Federal taxpayers it should make you mad.

Profit Motive

Looking ahead the two most constructive suggestions for harnessing the profit motive to a better city have come, not from business leadership, but from City Hall. Your very intelligent City Comptroller, John Poelker, who was on the Urban Finance panel with me at the Mayors Convention in Atlanta last Fall, has proposed asking the legislature to let the city assess and tax the improvement values the property owner has spent his own time and money to create only half as heavily as the location values which derive 99-44/100%, not from anything the owner has spent and done, but from what the community has done and spent and what the taxpayers have done and spent to make the landowners' location desireable.

And now your troubled and thoughtful City Assessor, Joe Sansone, has suggested giving complete or partial exemption to all future improvements whether the neighborhood is blighted or not.

These are all good moves as far as they go, and you should all be grateful to Mr. Poelker and Mr. Sansone for pointing St. Louis in the right direction, even though nothing has yet been done to put the halfway measures they suggested to work. And I don't believe anything much will be done about their suggestions until you of the business community get into the act.

And when you do get into the act—and I hope you will get into the act before it is too late—I hope you will want to go a lot further and push through a tax reform program that will really harness the profit motive to what you want for your city.

Old Remedy Won't Cure Housing Ills

by Dr. Pegasus

"The response of government to the housing needs of low and moderate income families has been primarily to build relatively expensive new units while many thousands of older, good-quality apartments have suffered various degrees of neglect.

"Despite their massive scale, public and publicly-assisted housing programs can satisfy only a small fraction of the overall need.

Use Existing Houses

"It becomes apparent that the use of available housing is a more sensible expedient than the slow and costly process of new construction."

This reasonable assessment of one of the major problems that plagues our cities was made in the August issue of the monthly economic letter issued by New York's National City Bank. The bank suggested that improving the quality and use of available inventory will bring many benefits in addition to better housing.

Bank's Recommendation

"Arresting the deterioration of neighborhoods is crucial for the economic and sociological health of the city," the bank said. "It is even more important to stop the spread of this malaise through the prevention therapy of upgrading apartment housing in neighborhoods threatened by the spreading blight."

What did this financial institution recommend in this situation? The bank's economists recognized that privately owned and operated apartments in a restored and well-maintained building would require higher rents than most families can afford. So the bank would fall back on that old reliable remedy—government subsidy. It recommended development of a system "to expand rent-supplement programs for eligible families" so that the rent they could afford would be beefed up by government money. This would give the apartment house owner sufficient rental income to provide incentive for refurbishing old dwellings and maintaining them. Then, the bank commented, it would be unnecessary for public programs to build new units on a scale requiring an enormous superstructure.

How Effective

"Limited public monies spent on low and moderate income housing would be used more effectively," the bank continued, "if the program's emphasis were shifted to the promotion of better maintenance of existing buildings rather than construction of new projects."

Indeed it might. But would such a program, involving the subsidy of present ills really accomplish very much, or would it instead do further damage to the marketplace? Investors will put their savings into buildings when and if the market-determined return is forthcoming.

In New York City—the area of greatest interest to the bank—apartment house owners are caught between the vestiges of anachronistic rent control and an irrational tax system that imposes penalties on the improvement of real estate. The state legislature has moved to phase out the crippling rent control laws. But until the incidence of the property tax is shifted to the land and lifted from the structure, little progress can be made in relieving undesirable housing conditions. Certainly, the bank's suggestion to subsidize the irrational won't help.

Hong Kong

Nearby Hong Kong, for instance, is suffering from an astounding inflationary spiral, with rents soaring 50% to 150%. With choice sites on the Hong Kong water front selling for up to $800 per square foot, many factories are forced to shut down, fail, or are being abandoned. Naturally, the consequences for the residents—many of whom are locked into the island—are devestating.

Water Supply Threatened

In Kowloon, the story is a little different, but not much better. Industry is attracted to this area for the same reasons that American and Japanese manufacturers invaded Hong Kong: a plentiful supply of cheap labor. Forced out of Hong Kong by the rent increases, business turns to Kowloon. The mainland people could conceivably benefit from the industrial influx, but for the uncertainty of their tenure.

Under present conditions, the Chinese could, at any moment, cut off the water supply to Kowloon. As a result, factories constructed there are financed on the basis of all capital to be repayed in 40 months at 30% annual interest. Optimists maintain that Kowloon will go unmolested, rationalizing that China obtains approximately $500-600 million a year in foreign currency through this one avenue of trade. However, the insecurity in the knowledge the lease will run out, combined with the astronomical costs of capital outlay, does not bode well for Kowloon residents who do not enjoy a laudable degree of affluence.

A site value tax, Greene says, would reduce the land costs on Hong Kong, and stimulate the construction of much-needed housing in Kowloon. No city, he says, needs the saving grace of this tax more than Hong Kong or its satellite Kowloon.

from the editor's notebook

WHO OWNS WHAT ?

The reason I have never accompanied friends to Shea Stadium to see the Mets play the Cardinals is that my loyalty is divided. To date, I have yet to decide whether I should cheer for the Cardinals (whose hometown bred me) or the Mets (whose hometown has bled me for the past three years).

Now I don't know which city to moan for.

Although I remain, for reasons uncertain, optimistic about the future of them both, I am told by reliable sources that the two cities are in their death throes.

Perry Prentice informs me and the St. Louis Chamber of Commerce, that St. Louis is "futher down the road to total abandonment than any other city in the country." Now to my knowledge, this is a fact Mayor Cervantes has never proclaimed. In point of fact, the last time I visited St. Louis I was convinced that the nifty Gateway Arch on the riverfront, the new hotels and restaurants, the new Pet Milk Company skyscraper signaled the city's rebirth. The Dresden-1945-looking shells of the public housing projects, and the still vacant fields lining Market Street (once slums and warehouses, now suitable for planting to blighted corn), I considered unfortunate and uncultivated, respectively. Mr. Prentice explodes my belief that it is as easy to move residents as building materials into a city.

Fifth Grade Economics

One down, and Forbes gets the rest.

Based on knowledge imparted to me by my fifth grade teacher—knowledge nurtured by vocal cab drivers—I was of the firm, but erroneous, belief that the Archdiocese of New York was Manhattan's greatest landowner. Exactly what it was doing with all of the pizza parlors and laundromats puzzled me. But it was, for the sake of mere iconoclasm, somehow delightful to see such a merger of Church, and literally, state.

Then along comes the Forbes feature, *Who Owns New York?*, by Frank Lalli and Judy Koblentz, to inform me that it's neither the Archdiocese, the English Crown, the Astors, or Peter Max (whose name I've even seen in Yonkers). Truth is the City Fathers own New York. The city government itself owns Central Park and has fallen heir to 13,000 abandoned properties making it its own worst slumlord. The city has tried to sell the blighted buildings, but they remain unbought for the same reason they were abandoned. It's too expensive to maintain them.

My fifth grade teacher also claimed Pawnee ancestry and was extremely bitter about the shoddy deal Peter Minuit put over the Manhattoes in 1626 by buying their little island for $24 in cocktail jewelry . . . sans agent's fee or security, and before rents were decontrolled. Reports are that had the Indians reinvested the money in securities at 6% compounded, they would today have $13 billion. Enough to buy back Manhattan and restore the abandoned buildings. What teacher didn't know—and therefore didn't hurt her—was that the Indians were the one who took the wily Dutch. The Manhattoes didn't even live on the Island; they were merely passing through.

With these myths exploded, I am inclined to think that if the urge to own anything stationary ever overtakes me I will resist temptation to buy a brownstone or a corn field. Instead I'll bid on right field at Busch Stadium and center field at Shea.

Greene Presents '71 George Award to Prentice

The following presentation of the Henry George Distinguished Service Award to Perry Prentice was made by Lancaster M. Greene on July 10 at the School's San Francisco conference:

We all draw circles around ourselves. Some of us to exclude others, and some of us to bring others closer into our orbits.

To draw many people of influence into the Henry George educational orbit required outstanding leadership and ability to communicate.

One man's determined efforts through recent years have brought to the attention of the American public the merits of Location Value Taxation, winning its acceptance in influential circles. Thus, he has been laying the groundwork for greater accomplishment.

Such success merits special recognition. The Trustees of the Henry George School, in making their 1971 Henry George Distinguished Service Award, are most appreciative of the remarkable achievements of the recipient, Pierrepont Isham Prentice, known affectionately as Perry.