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A PROPOSAL

to Get the City of St. Louis

Going Again

A Talk Before the

Chamber of Commerce of Metropolitan

ST. LOUIS

July 22, 1 9 7 1

by

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I'm here today to talk to you about free enterprise and the profit motive and to ask you why you don't let the profit motive help you reverse the decline of your city.

I am here speaking mostly for myself as a believer that you can accomplish a lot more by harnessing the profit motive to what you want instead of what you don't want than you can accomplish through more and bigger subsidies. But perhaps I should add that my credentials to address the St. Louis Chamber of Commerce include my three-year service on the Task Force on Economic Growth and Opportunity of the United States Chamber of Commerce and my present service on the National Chamber's Urban and Regional Affairs Committee.

Now I know that your county is booming. I've read your Chamber of Commerce reports on what the soaring sixties have done for the county. I've read that these soaring sixties - quote - "saw one of the most progressive and productive surges in the 200-year plus history of this midwest metropolis - unquote -". I've read that value added by manufacturing increased by 78%, employment by 30.5%, Metropolitan population by 14% and I've read that - quote - "the simplest explanation of this phenomenal growth is that St. Louis has everything going for it - unquote - ".

But what about your City of St. Louis? If St. Louis has everything going for it why is your central city in so much trouble? Why did your soaring sixties give St. Louis the unhappy distinction of losing population faster than any other central city in the United States? Why have taxpayers been moving out four times as fast as relief prospects are moving in? Why did the last census of manufacturers show a net loss of 260 industrial plants? Why have your booming employment growth centers moved miles away from the in-city unemployment centers where jobs are most needed? Why has there been so little new construction in your city without at least one big government subsidy and sometimes two--the double subsidy of 10-year tax exemptions by the city on top of the Federal subsidy to write the land cost down to a third of what the landowner actually got for his land? Was it just hyperbole for a seven-city study by the Center for Communi ty Change to report that - quote -"St. Louis is further down the road toward total abandonment of the central city than any other city in our sample and probably than any other city in the country - unquote -".

Why in the words of this same report is your - quote "central district rapidly being surrounded by a ring of vacant buildings and empty lots creating an urban ghost town running for blocks - unquote - ?" Is there some good enough reason that I don't know for letting an - quote - "urban ghost town - unquote - " preempt what amy well be one of the two or three most desirable, most accessible, and potentially most profitable locations between the Alleghenies and the Rockies?

And now for some $64-million questions:

As I read your glowing promotion about how everything is coming up roses in the county I can't help wondering how many of you are really as concerned as I think you should be over the way your city is going backward?

How many of you have stopped to realize that a good central city to subtend is the first and most essential requirement for a good suburb, and without a good City of St. Louis to subtend the suburbs about whose growth you seem so happy would just be a huddle of country towns, none of them big enough to offer their people the choice and variety of social contacts, job opportunities, cultural opportunities, and recreation opportunities that only nearness to a sizable city can provide and none of them big enough to provide business with the variety of labor skills, supply sources, and supporting services that are a prime necessity for all but the biggest and most self-contained corporations?

How many of you are worried over the way your city's tax base and your city's job base are both being eroded by the exodus of business and the exodus of taxpayers to the county?

How many of you realize the enormous cost of sprawl? All urban and suburban costs are multiplied by distance. How many of you realize how big these costs are bound to be without your making them still worse by sprawl? Around New York the Regional Plan Association found that it costs $16,850 of 1966 purchasing power, or, say, twenty thousand of today's dollars ju to pay the proportionate capital cost of the added community facilities--new roads, new streets, new water supplies, new sewer lines, new schools and colleges, new hospitals, new police and fire facilities,etc.,etc.,etc.--needed to make one added residence reachable, livable and saleable. Across the country the Southern California Research Council came up with a figure only $1,000 or so less for Los Angeles, so your added community costs per added residence in the St. Louis area must be somewhere in that same range. Are you prepared to face all these added costs out in the country instead of taking maximum advantage of the enormous community investment you have already made inside your city?

And this brings me back to the question of why are you letting what the Center for Community Change calls an urban ghost town preempt the very heart of what must be one of the two or three most accessible and therefore most desirable and potentially most valuable urban locations between the Alleghenies and the Rockies--the easiest square mile to get to by car,truck, bus, rail, or water on the whole length of the Mississippi, our country's second busiest freight and trucking center and the busiest river port of all

I've been asking that question ever since I agreed to come here to talk to you about harnessing the profit motive to what you want your city to be, and I've been given two half-answers that nobody I've spoken to here seems to have put together to make a whole.

The first half-answer was spelled out 19 years ago in the Chamber of Commerce magazine by the then chairman of your Industrial-Commercial Redevelopment Committee: said he, "Industry and commerce find themselves land-locked in the city without the means of acquiring land at a reasonable cost to permit expansion. "Such," said he, "is the crisis 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!

This is the paradox to end all paradoxes.

At a density much lower than the density New York is now subsidizing for urban renewal and much lower than the density at which the people who can best afford to live as they choose, choose to live on New York's Park Avenue and Chicago's Gold Coast there is room enough in your city for nearly ten times your city's present population to live and work and shop and enjoy almost every indoor and outdoor recreation except hunting and par-4 golf. I would be the last to suggest that you should now replan and restructure your city for anything like that many people, but I can assure you without fear of informed contradiction that if you would take advantage of today's new tools and capacities to start planning forward for tomorrow instead of planning backward for yesterday all the people who now live sprawled over 564 miles of your county could find plenty of room to live pleasantly, economically, and spaciously inside the city line and walk to work past plenty of greenery in less time than it takes them now to get to work by car or bus.

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, and I got that second half of the answer confirmed in detail in Roy Wenzlick's research. Out of 91 cities covered by his 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, I am afraid that as now applied it has been very bad, for you have been taxing unused, underused, and misused land so lightly that you have harnesse 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 for that matter does your comparativel low rate of taxation in improvements, and that is the number 1 reason why so much land here has been left and kept unused, misused, underused or blighted, that is why way back eighteen years ago the chairman of your development committee could blame "theunavailability of land at a reasonable cost" for the crisis he said was then confronting your city, and that is why still today Mr. Schoon has to report that - quote - "the major problem in the City of St. Louis is that land is not available for expansion"- unquote - .

The last time I spoke in St. Louis back in 1962 I took as my text the words of the great classical economist David Ricardo, who laid it on the line 170 years ago that - quote - "The interest of the landowner is directly opposed to the interest of every other element in the economy - unquote -", or, to put the same thought in simpler words, - quote - "What is good for the landowner is bad for everybody else - unquote." And after listing how Fred Kemp had told me he was having to pay 240% more for building sites than in 1952 and John Fischer had told me he was having to pay 120% more to get land in a less desirable location, I took more time than I have left today to go down the line spelling out how the undertaxation that was then making landowners hereabouts rich in their sleep was bad for land developers bad for homebuilders, bad for mortgage lenders, bad for building product suppliers, bad for homebuyers, and bad for the community. But now this undertaxation has come full cycle inside the city and is beginning to be bad even for landowners. Year after year your undertaxation subsidy has been making it seem profitable for each individual landowner to let his particular property run down, with the result that so many properties have been allowed to decay that whole neighborhoods have decayed and when the whole neighborhood decayed 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.

I don't suppose any speaker has ever before tried to spell out to you this very complicated relation between undertaxation and urban decay that

I've been trying to make clear to you, but with or without understanding I am happy to see that St. Louis has at least taken the first steps towards correcting what is wrong. Specifically:

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. You have taken advantage of a state law that lets the city give ten-year tax exemption and twenty-five-year tax abatement to new improvements in blighted areas, and your Board of Aldermen has just taken the extraordinary step of officially declaring all downtown St. Louis blighted so as to let every redeveloper get in on this tax reduction subsidy. This could be a fine step towards harnessing the profit motive to urban betterment except that the same law that permits the tax abatement specifically forbids making more than a minimum profit.

Looking ahead, the two most constructive suggestions for harnessing the profit motive to a better city have come, not from the business leadership, but from City Hall. Your very intelligent City Comptroller, John Poelker, who was on the Urban Finance panel with me at the Mayor's 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 or done, but from what the community has done and spent and what the taxpayers have done and spent to make the landowners' location desirable.

And now your troubled and thoughtful City Assessor, Joe Sansone, has suggested giving complete or partial tax 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.

And I hope you will not think it too presumptuous of me as an outsider who, alas, knows a lot more about property taxation than I know about St. Louis, if I take it upon myself now to suggest the first ten steps needed to harness the profit motive to a better future for your city.

Step No. 1 - Pressure the state legislature to recognize that the property tax is not just one tax. On the contrary, it combines and confuses two taxes whose consequences could not be more different--the tax on the improvement value created by the property owners' own investment and the tax on the location value on which the owner is getting an almost free ride on other people's investment.

Step No. 2 - Pressure the legislature to let St. Louis be the first city in America whose tax rate on the location values created by the community is not tied in any way to the tax rate on the improvement values created by the owners' investment. There is no more reason for taxing land and improvements alike than there is for taxing cigarettes and cigars alike or for taxing hard liquor and beer at the same rates.

Step No. 3 - Activate Assessor Sansone's plan for limited tax abatement on all future improvements, but go a long step further. Make the tax exemption for future improvements complete and permanent, to give potential improvers the maximum profit-motive incentive to put money into improvements in your city.

Step No. 4 - Proceed with what the supreme court calls all deliberate speed to untax your existing improvements, for you can't permanently justify a tax differential that imposes a property tax on pre-1971 improvements and no property tax at all on post-1971 improvements. As a first step in that direction, activate Comptroller Poelker's proposal that all improvement values in your city should be taxed only half as heavily as their location values, or, to put the same proposal the other way around, make your tax on the land in St. Louis twice as heavy as the tax on improvements here.

Step No. 5 - Proceed with all deliberate speed towards the goal of no tax on any improvement and a 6%-of-true-value tax on location values. This would combine the carrot of tax exemption on improvements with the stick of a fairly heavy tax on the land. You can't make this complete shift overnight without stimulating a lot more improvements than the long-term market would support. Pittsburgh allowed fifteen years for its halfway tax shift when it adopted its graded tax plan fifty years ago to tax land twice as heavily as improvements, and you would probably be wise to allow at least five years to make the change-over here.

Step No. 6 - Hire Roy Wenzlick to make a complete reassessment of every property in St. Louis reflecting the enormous change in property values that the impending tax shift would entail. This suggestion that you employ a top flight outside assessor is no reflection on Assessor Sansone. It is just a recognition that no assessor's office can be expected to handle overnight the enormous reassessment job the tax shift would require.

Step No. 7 - Give Roy Wenzlick specific instructions to reassess your location values as if the location was being put to good use whether it is or not, and don't let anyone tell you it is impossible to assess land independently of the improvement. They've been doing it for more than eighty years in Australia, in much of which continent it is unconstitutional to put any property tax at all on improvements, and assessments in Australia are many times better and more accurate than assessments in this country.

Step No. 8 - Increase Assessor Sansone's budget to at least 1% of the taxes he is expected to bring in. The assessor's job can't be done right for less.

Step No. 9 - Adopt the Minneapolis plan of neighborhood assessments for neighborhood public improvements, so you won't have to ask taxpayers in one part of your city to pay for neighborhood improvements that will increase land values in some other part of the city. Under the Minneapolis plan property owners pay only for neighborhood improvements that will increase the value of their own property.

This neighborhood assessment plan has given Minneapolis the finest neighborhood park system in the world, with each neighborhood park paid for by the taxpayers whose neighborhood values the park increased, and now it is being used to finance the most ambitious and most successful downtown improvement program, beginning with the enormously successful Nicolet Mall in the center of the city.

Step No. 10 - Relax and enjoy watching what this harnessing the profit motive to what you want for your city can do.

And now, lest you think that what I have been trying to suggest is just some strange dream of mine that no one shares, let me read to you the unanimous resolution that the Urban and Regional Affairs Committee of the United States Chamber of Commerce addressed to the Chamber's Board of Directors last February--a resolution that was followed a month later by a similar resolution adopted with only two dissenting votes by the Chamber's Construction Committee:

RESOLUTION ON

PROPERTY TAX REFORM

adopted by

THE URBAN AND REGIONAL AFFAIRS COMMITTEE

CHAMBER OF COMMERCE OF THE UNITED STATES

February 17, 1971

The policy statement of the Chamber of Commerce of the United States says clearly and unequivocally that:

"Disincentives that inhibit private enterprise from helping to solve social and economic problems should be eliminated."

To implement this Chamber policy and give it specific application to encouraging private enterprise to take a more active part in urban development and so lessen the need and pressure for costly subsidies, the Urban and Regional Affairs Committee recommends that the Chamber should take this same strong and unequivocal stand for reforming the administration of the local property tax. Such reform should include shifting the principal weight of property taxation off the owner-created value of the improvement onto the community-created value of the location, i.e., to what land in that location would be worth if its past and present owners had never done or spent anything to improve it.

We believe it obvious that heavy taxes on improvements inhibit and often prevent private investment in improvements. Conversely we believe heavier taxation of location values could put effective pressure on the owners of underused or misused locations to put their property to better use or sell it to someone who will.

We believe that many businessmen have insufficient understanding of the harm today's widespread misadministration of the property tax may be doing in their communities.

Therefore, the Urban and Regional Affairs Committee urges that the National Chamber devote all feasible resources to developing and using information materials to inform its membership of the costs and the alternatives to ineffective property tax systems.