

If you will pardon a brief digression from this afternoon's subject, I'd like to devote the first 81 seconds of what I have to tell you to the sad fate of King Louis XIII of France, who died at the age of 41 on December 4, 1642, moaning that he was much too young to die and angrily (and quite correctly, I suspect) protesting that he was being killed by his doctors. Within a year they had bled him 47 times, purged him 215 times, and dosed him with 212 different remedies from a pharmacopia which included the left foot of a tortoise, the urine of a lizard, some elephant's dung, a mole's liver, blood drawn from the right wing of a white pigeon, exilir of arsenic, and elixir of quicksilver. The doctors don't seem to have had any idea what the King's ailment was, so lacking a diagnosis they tried everything, and if a mild dose didn't work they tried a stiffer dose, and if that didn't work they tried something else - until at last the King died and it was too late to try on him the other 1748 potions in their pharmacopia.

Now I realize that you did not come here to listen to such sad stories of the death of Kings, so let's forget for a while how the doctors killed the King of France 330 years ago and get straight to the point of what we today are doing to cure or not to cure today's housing problems and today's urban problems.

First, I'd like to express my own thanks and I'm sure the thanks of everyone else here to Secretary Romney and Secretary Shultz and Secretary Hodgson and Undersecretary Walker and Home Loan Bank Board Chairman Martin and Ginny May President Oakley Hunter and Economic Advisor Stein and above and beyond them to President Nixon and everyone else in the Nixon administration for all the effort they have devoted to the solution of these problems and all the billions of dollars they have poured into housing and urban renewal. No one could question the

obvious truth that they have all tried harder and worked harder on our problems than anyone in any previous administration, and as for money they have poured in more money than all previous administrations from the beginning of time. They have poured in so many billions of dollars--some of it inside the present budget, some of it committed for future budgets, and some of it completely outside the budget--that I don't believe George Romney or George Shultz or anyone else knows within \$5 billion a year and perhaps not within \$10 billion a year how many present and future tax dollars it will end up costing.

The Nixon administration took over the housing problem in the wake of the Douglas report, and if any of you waded through the 391 typewritten pages of that report as I did you know that the Douglas Commission devoted page after page to spelling out the failure or inadequacy of all the subsidy programs tried up to that time. It branded public housing quote "a failure." It said the government had quote "destroyed far more housing for the poor than it had created." And then, perhaps surprisingly, it called for more and bigger subsidies, but I doubt if even the Douglas Commission ever dreamed that any administration would ever pour in subsidies on a scale even approaching what this administration has poured in.

There is no doubt about one thing--all this spending has built a lot more housing. On the other hand there is also no doubt about it that all this spending that was supposed to do so much to meet the housing needs of the poor has brought with it such an increase in housing costs and most particularly and I guess scandalously such an increase in land prices that the average price of an FHA house has shot up 40%. Far from enabling private enterprise to meet the housing needs of the poor with good housing the poor could afford, all levels of government are finding that bigger and bigger subsidies are now needed to meet the needs not only of the poor, but also of middle-income and even upper-middle-income families,

and New York City and New York state are actually getting set to put up \$225 a month in subsidies and tax abatements to hold the rents in one new renewal project down to \$450 a month instead of \$675 for a 4-1/2 room two-bedroom apartment!

This afternoon no purpose could be served by our getting into the growing argument over whether or not all this increased spending has succeeded when all smaller spending programs had failed. Maybe the New York Times was wrong when it front-paged a housing subsidy report that called the subsidy program - quote - "a classic failure." Maybe our Moderator was wrong when he headlined his housing report in Fortune - quote - "Housing subsidies are a grand delusion--they aggravate the problems they are supposed to cure." Maybe Secretary Romney has changed his mind since he called the program a \$100 billion dollar failure and told a Congressional Committee that - quote - "The intentions of urban renewal were wonderful but the results are not." Maybe the Joint Economic Committee of Congress was wrong two weeks ago when it released what its chairman called - quote - "a damning indictment of our present housing programs" that have - quote - "put the Federal government in hock for an estimated \$100 billion."

Maybe you manufacturers are happy over how things are going, though. I noted that as late as two weeks ago building material stocks were off nearly three times as much as the Dow Jones index from the 1968 peak. Maybe the Homebuilders are right in their enthusiasm for the program, in which case we should all thank them for their success in persuading Congress to continue it for another year and thank them for employing Tony Downs to work out a better and if not bigger subsidy program for future years.

Good, bad, or indifferent, one thing seems pretty obvious: The Federal government can't go on year after year pouring uncounted

billions into housing. I'm pretty sure that one lesson to be learned from the election is that the voters are in no mood to have their taxes increased, and almost all observers seem agreed that Mr. Nixon intends to be a lot more thrifty with the taxpayers' money in his second term. So I hope we can all agree with what Mr. Romney said in his speech last month: - quote - "The time has come to face up to hard choices and critical constraints. We have to find a better way."

In Mr. Romney's speech he suggested five possible choices for such a better way, all of them calling for the continuance of big Federal subsidies, but pouring out the subsidies through different channels.

Today I'd like to suggest a sixth quote - "better way"--a better way that should require far less subsidy money and perhaps no subsidy at all--a better way that would come much closer than any of Mr. Romney's five in meeting his requirement that from now on - quote - "There must be maximum reliance on private enterprise."

And that brings us back to where we started--the sad fate of the King of France whose doctors could not diagnose what was causing his sickness, so he just got sicker and sicker despite all the 212 costly remedies they tried on him.

With today's medical knowledge we can feel pretty superior as we read about all the quack cures vainly tried on the King of France by doctors who had no idea what disease they are trying to cure.

But I hope none of you will take it amiss now if I suggest that this 330-year old study in futility finds something close to a present day parallel in the way today's urban doctors have been rushing to apply a long list of subsidy treatments to our housing and our cities without first making sure they know what disease is causing today's housing pains and fevers.

What is the disease that is eating the heart out of our cities and disintegrating them in sprawl? What is the disease that has made the shortage of good-enough housing chronic and almost ubiquitous?

Or, to ask the same question in business terms instead of medical terms, why has our vaunted private enterprise system that has given us so much of everything else--so much food that government feels it must pay farmers to raise less, so many cars that government can't build roads fast enough to keep them moving, so much of everything that just getting rid of what we throw away is fast giving government a new multi-billion dollar problem--why has private enterprise failed to provide a decent home for every family needing to be housed and why has private enterprise failed to give us, to quote Urban America's Past Chairman: "even one good city."

When we put the question that way I think the answer becomes almost obvious.

The answer is another question: "How can anyone expect private enterprise and the profit motive to meet our unmet urban needs and unmet housing needs, as long as our governments harness the profit motive backwards instead of forward, making what we don't want more profitable than what we do want?"

All levels of our government now seem to be harnessing the profit motive to what we don't want in more ways than I can take time to spell out here. They harness the profit motive to traffic congestion by letting cars and trucks park on the street where they block traffic for far less than it costs to park off the street where they would not. They harness the profit motive to air pollution and water pollution by letting polluters pour their pollution into the air and into our streams free for nothing for other people to pay for cleaning it up. The Federal government harnesses the profit motive to slum formation by letting

the owners of aging buildings take tax depreciation on the same decaying improvement over and over again as often as the relic is sold to a new owner. No subsidy would have been needed to clear away hundreds of thousands of today's junkers years ago if the capitalization of their redepreciation exemption did not give them a fictitious value, and I wish I could get Charly Walker to tell me whether or not this redepreciation racket is costing the Federal Treasury more money in taxes not collected than any previous administration has spent for urban renewal.

But all these backward harnessings are small potatoes compared to the way most local governments harness the profit motive backwards by so misapplying the property tax that too often it is more profitable to let buildings decay than to improve them, more profitable not to build than to build, more profitable to hold land off the market idle or almost idle than to put it to good use. Says America's No. 1 land economist Dr. Mason Gaffney, now of Resources for the Future but formerly chairman of the Economics Department of the University of Wisconsin in Milwaukee: ~~"The only reason big subsidies seem to be needed for urban renewal is to provide a partial offset to the enormous penalty local governments impose on improvements by overtaxation and a partial~~  
 "Our six-year study of every land sale in Milwaukee shows that shifting the weight of the property tax off improvements onto land would so change the arithmetic of property ownership that no subsidies at all should be needed to make it profitable for the owners of almost all the parking lots and decaying, obsolete, or inadequate buildings that now preempt nearly three-quarters of the valuable land near the heart of Milwaukee and most of the cities to erect new buildings that would make better use of the site--and this better use would include providing a lot more unsubsidized housing."

In other words, the only reason big subsidies seem to be needed for urban renewal is to provide a partial offset to the enormous penalty local governments impose on improvements by overtaxation and a partial

offset to the enormous subsidy local governments give land speculation and the non-use, underuse, or misuse of land by undertaxation."

The property tax is the tax almost nobody seems to understand. Not one businessman in a hundred seems to understand it and not one taxpayer in a thousand. Even the president of the United States betrayed his need of a better understanding by proposing to give homeowners property tax relief by shifting local school costs off the property tax onto a hidden Federal sales tax. He might better have listened to the advice of the California Statewide Homeowners Association, who led the 1968 fight against a 50% property tax cut there when they found that such a reduction would necessitate either tripling the state sales tax or doubling the state income tax; either way most homeowners would have ended up paying more taxes instead of less.

Any such property tax reduction as the president proposed would be capitalized overnight into inflating land prices to heights that would make our housing and urban renewal problems still more difficult and still more costly.

If even the president does not understand the property tax, perhaps we should take a minute to make sure everyone here does understand and does realize the importance of property tax reform if we are to harness the profit motive to better housing and better cities.

To that end, instead of using my own words, I'd like to read you a few paragraphs from the consensus of a round table of urban experts that was cosponsored by our magazines and the Council of State Governments, the Conference of Mayors, the National Association of Counties, and the National League of Cities. Said these urban experts: "Too few tax levyers seem to understand that the property tax is not just one tax; on the contrary, it combines and confuses two completely opposite and

conflicting taxes, and it would be hard to imagine two taxes whose consequences for urban renewal and urban development would be more different.

"One of the two conflicting taxes fused and confused in the property tax is the tax on the improvement--the tax on what past, present, and future owners of the property have spent or will spend of their own money to improve it." And, said the round table, "It should be obvious to anyone that heavy taxes on improvements are bound to discourage, inhibit, and often prevent improvements."

"The other levy confused in the property tax is the land tax--the tax on the location value of the site." And, said this round table, "It should be obvious to anyone that heavy taxes on the location cannot discourage or inhibit improvements; on the contrary, heavy taxes on locations could put effective pressure on the owners to put their sites to better use so as to bring in enough income to earn a good profit after paying the heavier tax." So, said the round table:

"All this is so obvious that you would think every city would try to tax land heavily and tax improvements lightly if at all; but just the opposite is the case. Almost every city collects two or three times as much money from taxes on improvements as from taxes on land."



No one in his right mind would suggest that property tax reform is a panacea to cure all our urban ills, any more than anyone would suggest that penicillin can cure a broken arm or surgery can cure pneumonia. Property tax reform can do nothing to correct the failures of an educational system whose cost per pupil has tripled without providing any demonstrable improvement in the educational achievement of its pupils. Property tax reform can do nothing to halt the runaway rise in municipal labor costs that have been soaring far faster than wages in private enterprise despite a big negative gain in municipal productivity. Property tax reform cannot end the drug menace; that menace will go on getting worse until we stop thinking of heroin addicts as poor sick boys and begin recognizing them for what they are; criminals on their way to commit six more crimes each day to get the money needed for another fix. Property tax reform cannot make the streets safe by night and by day; that will have to wait for court reform and police reform. Property tax reform cannot create new jobs back on the farm for all the farm hands forced off the land by the mechanization of agriculture. Property tax reform cannot create in-city jobs for the millions of workers now disemployed because their unskilled labor is not worth the minimum wage.

But this much I can say without fear of informed contradiction:

Our cities just plain are not going to halt and reverse either urban blight, decay, and slum formation, or suburban sprawl and premature subdivision as long as so many of them continue to subsidize the underuse and misuse of land by underassessment and undertaxation. In recent years land speculators have typically been able to hold \$1 million worth of land off the market at a net yearly tax cost seldom if ever exceeding \$10,000 while its price has been soaring \$60,000. And....

Our cities just plain aren't going to get the new improvements they

need as long as so many of them continue their present property tax practice of taxing new construction more heavily than the combined Federal, State and local tax burden on any other major product of American industry except hard liquor, cigarettes, and now perhaps gasoline.

A 3%-of-true-value tax on new construction--a tax rate that is exceeded in many cities--may not sound big compared with a Federal income tax that runs up to 70% and actually taxes away about 11-1/4% of all consumer income, but it sounds small only because the 3% it taxes <sup>away</sup> ~~is~~ 3% of the entire capital value, whereas the income tax, as its name makes clear, applies only to the income on that capital value.

Perhaps the enormity and folly of this 3%-of-true-capital-value tax on new improvements will become clear if we restate it in sales tax, in ~~an~~ income tax, and in consumption tax terms.

First in sales tax terms:

A 3%-of-true-value tax on new improvements is the installment plan equivalent of a 51% sales tax, i.e., it will cost the improver as much each year as a 68% single payment sales tax would cost him if he could arrange to pay off that 51% sales tax on the installment plan at 5% interest spread over the 60-year life of the improvement.

And now in income tax terms:

A 3%-of-true-value tax on new improvements is likely to cost the improver much more than 50% of the income the improvement could otherwise earn on the equity investment.

And finally in consumption tax terms:

New York's 3%-of-true-value tax on new improvements is roughly the equivalent of a 25% consumption tax, i.e., it adds roughly 25% to the rent or 25% to the carrying cost of a home.

Said the Douglas Commission's report: "It seems inconceivable that we would knowingly place such a tax burden on such a necessity as shelter, but we have."

Land is the only taxable <sup>resource</sup> that can't leave town to escape taxation, so the only revenue source the city could turn to to make up for the revenue lost by untaxing improvements would be to increase the tax on the ~~x~~ unimproved location value of land in the city.

And very fortunately, the result of doubling or tripling the tax on unimproved location values should be at least as good as the results you could expect from untaxing improvements. In fact, some cities like St. Louis where the property tax is now too low are in even worse trouble than cities like Buffalo and Boston where the property tax is too high. Up to a ceiling of perhaps 8% it can be argued that the higher land tax the better, for the higher the land tax the bigger the tax pressure on its owners to put it to good use.

Untaxing improvements would provide the carrot; uptaxing location values would provide the stick needed to prod the owners of underused and misused land to put it to better use in order to bring in enough more income to pay the higher tax. This carrot-and-stick combination would be such strong medicine for what ails our cities that it would have to be given in small doses to avoid creating chaos in the real estate market by starting an overnight building boom that would overtax the city's mortgage money and building labor resources, and induce more new construction than the market is ready to absorb.

They are all spelled out in the Tax Institute Magazine by the Chairman of the Property Tax Committee of the National Tax Association, and if you want the last I'll be glad to send them to you.

More important to you here today is what it would do to help cure your own problems, so I'll try to spell out your interest in property tax reform in two short paragraphs:

First to you men in Government -

Property tax reform to harness the Profit Motive to what we want for our cities and our housing could save the Federal government billions of dollars now needed for subsidies.

And now to you builders and suppliers -

Property tax reform uptaxing land and downtaxing improvements would make it impossible for land speculators to hold their land for ransom and get rich in their sleep at the expense of the homebuilding industry and its customers. It would ease if not end the artificial shortage-of-available-land that the homebuilders have voted 4-to-1 is their most urgent problem. It would reduce the property tax burden on the homes you sell by something over 30%, and it would release the billions of dollars a year the homebuilders must now waste on exorbitant land prices to build far more quality and far more sales appeal into the homes they sell.