My Presbyterian Minister father always started his sermons with a text from the scripture. Today I'd like to follow his example and start my talk to you with a text taken from the words of your Monroe County Tax Study Commission Chairman, Mr. Grasberger, as reported in the Democrat and Chronicle: Said he:

"There is nothing wrong with trying to make Rochester an oasis for business." I couldn't agree with him more and I'm sure he means not only an oasis for investment in business but also an oasis for good jobs in business.

Making Rochester an oasis for business is what I came here to talk to you about today, and I hope my talk will lead to a happy ending for you even though I'm afraid that on the way to that happy ending I'll have to talk about some pretty unhappy problems of yours.

So suppose I start my talk happily by reminding you of some of the tremendous advantages that make Rochester a natural for such an oasis. Some of these advantages were given you by our Maker. Some of them you yourselves and your fathers have created.

Perhaps your biggest advantage is that your city is the birthplace and still the home of four of America's biggest and most progressive skilled labor employers -- the birthplace and home of Eastman Kodak and Xerox Bausch and Lomb and Delco. There isn't a city in the country that does not envy you that advantage.

You enjoy another great advantage as the home of one of the country's biggest and best endowed universities -- a university that is itself one of your three biggest employers, a university that is making its second major contribution as an education center for the high technology your industries need.

You have the enormous God-given advantage of your location on the only short-line water-level route from the Eastern Seaboard to the

Great Lakes and the Middle-West -- right on the thruway, right on the barge canal, right on what must still be one of the two or three busiest freight rail lines in the world.

You have the advantage of your location so near Lake Ontario, an almost unused advantage whose potential value has been doubled by the Seaway that could make Rochester an ocean port, an advantage that has helped Toronto on the opposite shore grow to seven times your size.

Just since World War II you have built yourselves another fine asset -- one of the two or three most up-to-date and compact business centers in the whole country, and your new highways have made your business and shopping center the easiest-to-reach-by-more-people downtown between New York and I don't know where. And in that downtown you have the added advantage of two of the best and best-known locally-founded big department stores in the country.

And you have an abundance of skilled labor.

I find it hard to think of any city that has more advantages, so I'm pretty sure any outsider coming here as I did last month to see how Rochester is faring would be as puzzled as I was to find that instead of being just about the boomingest city in the United States Rochester is getting to be one of the losingest.

Instead of gaining population your city is losing population -- in fact, there are less than a dozen cities from coast to coast that are losing population as fast as you are.

Instead of enjoying a housing boom I'm told that for the past 12 years almost nobody has been willing to put up his own money for any new housing in the city unless he could get a big government subsidy, and perhaps I should add that I think almost any visitor would be as puzzled as I was to find that your redevelopment plans call for making your fine new business center an island almost completely surrounded and cut off by subsidized housing for the poor and almost-poor. That sounds to me like a city planner's nightmare.

Instead of attracting more of the skilled labor for which Rochester used to be famous, almost the only people moving into your city seem to be disemployed farm workers and cotton pickers from the South.

Instead of attracting a lot of new and growing industries you are having almost no success on that front and you are losing far too many of those you already had. Instead of enlarging their operations and creating more jobs a long list of your former employers have closed down or moved clear away from the Rochester area, including, to mention just a few of the better known, A. O. Smith and American Brake Shoe and American Standard and Fanny Farmer and Hunt Foods and American Laundry Machinery and Fashion Park and General Dynamics and Beechnut and McGraw Edison, and at least 15,000 good jobs here have gone away with them.

So once again you can thank your lucky stars for Eastman and Xerox and Delco and the University who have added enough new jobs to make up for much of this job loss - and now, alas, even Xerox has moved its headquarters to Connecticut where the taxes are lower.

What all this seems to add up to is that despite all Rochester's many advantages, God-given or manmade you are making at least as much progress backwards as forward towards making Rochester "an oasis for business." Your present policies are not making Rochester a profitable enough place for new business investment. They are not making Rochester a place where many people want to invest their own money in a new home. Too many businesses are moving out, too many taxpayers are moving out, and too many of the people moving in to take their place will add to your costs and problems instead of helping you to meet them.

So if I were in your shoes I think I would want to take a fresh look at the policies you have been following and give a lot of thought to which of those policies are overdue for change.

Everyone in this room knows many times as much about Rochester as I could possibly learn in the two days I spent here last month exploring the city and talking to some of your civic leaders, but frankly I wish to goodness you in your turn knew more of what you could learn from the experience of other cities that have been facing problems like yours and more about the studies other cities have made and the program changes they have adopted.

I wish I had time to help you take a good outside look at **all** your present policies.

Specifically, I wish I had time to help you take a good outside look at the subsidy programs you seem so happy about. I think I could help you see that it is many times more important for you to make it profitable for private enterprise to do the job without subsidy than to lay your hands on a lot more taxpayer dollars to subsidize construction your present tax policies are doing so much to make ~~xx~~ unprofitable.

And I wish I had time to help you see ~~that~~ with an outsider's eye that your present dedication to making Rochester a better place for poor people ~~and~~ can actually be bad for everybody here including the poor. As a Christian I can only applaud your generosity but as an urbanologist I'm afraid I should warn you by the sad experience of the other cities like New York, Newark, New Haven and Hartford that have tried hardest to do more for the poor that it is many times more important for everybody to make Rochester a better place for peopl who are not poor and a better place for employers. New York City, for example, has done so much to make itself attractive to the poor that 2-million more poor people have been attracted to New York since World War II. The faster the poor moved in the faster the non-poor moved out and the faster jobs moved out, so not-yet-the-end of this unhappy process is that New York now has 90,000 less blue collar jobs than blue collar job-needers, teenage unemployment among non-whites has passed 30%, many of the schools are being resegregated almost all black, the devil is finding so much work for idle hands to do that few of the streets and fewer of the parks are safe after dark and New York has had to put a million New Yorkers on welfare, including almost half of all the non-whites who have moved in.

And in all these cities that have tried to do most for the poor the poor are now unhappier than ever. In Hartford, New Haven and Newark they have made manifest their unhappiness by rioting and burning in the streets. In New York everyone thinks it is wonderful that so far, whatever its other failures, Mayor Lindsay has kept the poor from rioting

But I need every minute of the time I have left to help you take an outside look at what your present tax policies are doing to your city and a good outside look at what some of the changed tax policies recommended by your Monroe County Tax Policy Study Committee would do to and for your city.

Some of this committee's report is excellent and some of its recommendations are fine, but I can assure you without fear of informed contradiction that taking $60-million a year off the property tax and shifting this $60-million burden to a new county income tax and some new taxes on business would be no help at all towards making Rochester an oasis for business and little if any help to the poor people for whose benefit the shift is urged.

First, let's take a good outside look at the county income tax proposal:

I would agree that this might be a very good idea if the Federal government and the State government had not beaten you to it.

But how many of you realize that the Federal tax on individual incomes is already taking four or five times as much money out of Monroe County as all your homeowners combined are paying in property taxes? How many of you realize that since 1939 Federal income tax exactions have multiplied by 71 and New York State income tax exactions have multiplied by 35, whereas nationwide property tax receipts have multiplied by only 8

Your county tax study rightly says that New York is one of the worst states in the union for manufacturers -- mostly because its taxes are so high. Can you really think you would be making Rochester an oasis for industry if you pile a county income tax on top of the state and Federal levies and make the income tax total higher here than anywhere else in the United States?

The income tax is the most obviously disincentive of all disincentive taxes. Even President Nixon says its rates are too high without your making them higher, and even Senator McGovern says their top rate should be cut back from 70% to 48!

Now let's take a good outside look at your tax study's recommendation that the property tax in Monroe County should be reduced by more than a third. This recommendation is based on a long line of very questionable premises, and I'm afraid all of these premises are wrong.

The first of these questionable premises is that your property tax imposes much too heavy a burden on homeowners hereabouts and some way must be found to give them property tax relief. Such relief would certainly be good politics for I realize that for some mysterious reason the voters are more belligerent about rising property taxes than about any other levy even though property taxes have, in fact, climbed much slower than any other major levy -- less than 1/8 as fast as the Federal income tax, less than 1/4 as fast as the New York State income tax, less than 1/4 as fast as sales taxes, and only 2/3 as fast as the cost of local government. Your property tax in Rochester is high, but how many of you realize that with the single exception of Yonkers the property tax in Rochester is lower than in any other city in the state above the size of Dunkirk, and Watertown, and Ithica. And how many of you realize that homeowners in Rochester are already getting an added break by having their homes assessed at a much smaller percentage of true value than commercial and industrial properties?

Furthermore, I think I should tell you that in California the Statewide Homeowners Association led the successful fight against cutting the property tax there in half because they found that such a statewide property tax reduction would necessitate either tripling the state sales tax or doubling the state income tax to make up for the revenue loss, so the Homeowners rightly figured that what was being sold to them as a tax reduction would actually make most homeowners end up paying more taxes instead of less. Said the Homeowners Association: "The only people whose tax total would actually be reduced by such a property tax reduction would be land speculators and slum owners."

Finally, I think I should warn you that on the basis of experience elsewhere that any sizable reduction in the property tax would be capitalized overnight into an enormous increase in land prices, and I hope you will agree with me that land prices have been going up much too fast without such an added stimulant. Nationwide, the Douglas Commission found that land prices have been going up 6.19 times as fast as the rest of the cost of living. Land costs have gone up more than all other homebuilding costs combined and as far back as 1960 the homebuilders were voting that land was already their biggest problem.

The most questionable premise -- a premise that finds unquestioned expression on page after page of the tax study only to be challenged on the very last page -- is that what we call the property tax is just one tax -one and indivisible. That premise is so questionable that I think I had better take a minute to read you these paragraphs from the report of a round table of urban experts I moderated for (among others) the Council of State Governments, the National League of Cities, the Conference of Mayors, and the National Association of Counties. On this point their finding was unanimous:

"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 to improve it. And it must be obvious to anyone that heavy taxes on improvements are bound to discourage, inhibit, and often prevent improvements.

...m o r e...

The other levy confused in the property tax is the land tax--the tax on the location value of the site, the tax on what the property would be worth if the owners had never done anything or spent anything to improve it, the tax on the value that derives mostly from an enormous investment of other peoples' money and other taxpayers' money to create the community around it and make the location accessible, livable, and richly saleable. And it must be obvious to anyone that heavy taxes on location 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.

"All this is so obvious," said the round table, "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 (including Rochester, I should stop to say) collects two or three times as much money from taxes on improvements as from taxes on land. In fact, many cities (including, alas, Rochester) tax improvements more heavily than the combined local, state, and federal taxes on any other product of American industry, except hard liquor, cigarettes, and perhaps gasoline."

The round table goes on to detail at some length just how foolishly owner-paid-for improvement values ~~everywhere~~ are overtaxed everywhere and just how foolishly community-created and community-paid-for location values are undertaxed.

On the overtaxation of improvements the round table said:

" The enormity of the improvement tax becomes self-evident when we restate it in income tax, in sales tax, and in consumer tax terms:

"First in income tax terms:

"A 3-per-cent-of-true-value tax on improvements is apt to tax away 75 per cent of the net income a new building would otherwise earn.

"And now in sales tax terms:

"A 3-per-cent-of-true-value tax on improvements is the instalment plan equivalent of a 52 per cent sales tax; i.e., it will cost the improver as much as a 52 per cent lump sum sales tax would cost him if he could finance it at 5 per cent interest over the 60-year life of the improvement.

"And finally in consumer tax terms:

"A 3-per-cent-of-true-value tax on improvements will cost the consumer more than a 25 per cent consumption tax; i.e., it will add more than 25 per cent to the rent a tenant must pay or more than 25 per cent to the carrying costs an owner must meet. "

And please note that three examples of quote "the enormity of the improvement tax" stopped with the enormity of a 3%-of-true-value levy. The State Board of Equalization tells me your Rochester tax rate is not 3%, but 4.2% of-true-value overall, and land in your city is assessed and taxed so much lower than improvements that your Rochester tax on improvements must be very close to 5%-of-true-value a year. In the face of such a tax deterrent is it any wonder so few people want to invest their own money in Rochester improvements?

And now lets take another minute to consider what the urban experts at the round table said about how foolish it is to underassess and undertax land as you underassess and undertax it in Rochester and almost everywhere in Monroe County -- and every assessor I talked to here confirmed and deplored this underassessment and undertaxation and wished he could do something to correct it.

Here are some of the reasons the round table listed for multiplying the tax on location values instead of reducing them:

"1) To slow down the pace of land price inflation.

"2) To exert heavy pressure on the owners of underused and misused land to put it to better use. With land prices for building soaring

8 to 15 per cent a year, millions of idle acres are now so underassessed and undertaxed that the owner can hold $1 million worth off the market for a net property tax cost of as low as $5,000 a year.

"3) To let our cities expand in an orderly manner instead of disintegrating in suburban sprawl and premature subdivision, with millions of close-in acres held off the market for speculation, thereby forcing homebuilders to leapfrog further and further out into the countryside to get land they can afford to build on and forcing industry to move away from urban employment (and unemployment) centers to find enough land they can afford on which to build new plants.

"4) To save the tax waste of sprawl, which multiplies the cost of roads to reach sprawl-scattered homes, multiplies the cost of water distribution, multiplies the cost of sewage collection, multiplies the cost of mass transportation, inflates the cost of police and fire protection, and doubles the cost of getting children to and from school.

"5) To stop and perhaps reverse the futile spiral in which the multibillion-dollar urban renewal subsidies are being capitalized into higher urban renewal land costs calling for bigger urban renewal subsidies that will in turn be capitalized into higher land costs requiring still bigger subsidies (land write-down subsidies, below-market-interest subsidies, tax exemption subsidies, or perhaps some new kind of subsidy).

"6) To offset the revenue local governments would lose by untaxing or downtaxing improvements.

On the very last page of its report your tax study committee finally gets round to recognizing that the property tax is not one tax but two very different taxes and does a very good job of spelling out in two sentences the arguments for taxing land values more and taxing improvements less. But then, alas, instead of recommending that you should proceed with all deliberate speed to make such a tax shift the committee just recommends the need for further study.

I am happy to tell you that there is no such need for waiting. The study has been made in many cities and the finding is always the same. The best of these studies was done by Dr. Gaffney in Milwaukee, and I wish I had time to read you at least a summary of his report.

So much for the difference between the two taxes combined and confused in the property tax and why it is just as important to tax location values more as it is to tax improvement values less.

Now for another questionable premise in the tax study -- the whole idea that 62% of the services of local government are not "property related" and should not be charged to the property owners at all. I can't think of any local government service that is not in some way property related (except welfare, which is not a local responsibility and should not be charged to any kind of local taxation). Maybe what the tax study committee had in mind as a cost that is not property-related is the cost of schools, so perhaps I should remind you that without good schools nobody would want to live in Monroe County, no one would want to buy property in Monroe County, and land in Monroe County would command only a small fraction of its present price.

On the basis of all these premises, some more and some less questionable, the tax study report concludes that the property tax is such a bad tax and ~~that~~ it is too bad you can't reduce its exactions in Monroe County from the present $250,000,000 a year to $140,000,000 a year. Now I couldn't agree more with everything bad the study report has to say about the folly of overtaxing improvements if you want anyone to invest money in improvements, but I devoutly hope some of the things I have told you will help persuade you to agree with Professor Lowell Harriss of Columbia, the economist of the Tax Foundation and upcoming President of the National Tax Association. Says he: "The property tax as now applied with its weight on the improvement is a bad tax, but properly applied with its weight on the community-created value of the location it could be a very good tax."

~~goodxtaxx~~ I think I would go even further than Dr. Harriss. My minister father used to tell me that if there were no God we would have to invent one, for our civilization won't work without a God. In like vein, I think I would say that even if local governments did not need the revenue the property tax brings in we'd have to invent a good reason for continuing it, because the experience of every country that does not have a fairly heavy property tax shows that this undertaxation gets capitalized into absolutely crazy land prices. In Switzerland, for example, a bare 60'x100' lot in a quite ordinary suburb of Bern is priced at 220,000 Swiss francs or say $60,000, compared with $6,000 or so for a comparable lot here. In Holland it would cost $70,000. In England, before the floating-pound started an inflation scare that is redoubling all land prices there, land zoned residential on the fringe of London was selling for $120,000 an acre in Hendon, $168,000 an acre in Hampstead, $183,000 an acre in Ealing, and $192,000 in Wimbledon. And these crazy land prices made possible by undertaxation are the No. 1 reason why more than 80% of all the new homes in Europe today are in high-rise apartments that crowd people onto too little land and the No. 1 reason why private enterprise has been forced out of from 45% to 80% of the housing market.

So once again we find that it is just as important to increase the tax on location values as to lower the tax on improvements.

So where does all this get us?

It seems to me the answer is pretty obvious and it brings me to the happy ending I promised you at the beginning of this not always happy talk It brings me to a tax proposal that I am quite sure would be an enormous help in your efforts to make Rochester an oasis for business with good jobs and good homes for everybody:

Instead of asking the state legislature to let you shift as much as possible of your property tax burden to a new county income tax and thereby give Monroe County the not too happy distinction of being the county where incomes are being taxed more heavily than anywhere else in the United States...

Why don't you ask the state legislature to free Rochester and Monroe County from the really quite foolish state requirement that land and improvements must be taxed at the same rate?

Why don't you ask the state legislature to let you proceed with all deliberate speed to shift the burden of your property tax off the improvements in which the owner must invest his own money onto the location values that are created and paid for not by the owner but by an enormous nearby investment of other peoples' money and other taxpayers' money?

Why don't you ask the state legislature to let you make Rochester the first city and Monroe County the first county in the United States where improvements are not taxed at all?

Why don't you ask the state legislature to let you make the tax shift that could make them, taxwise, the most profitable place in the United States for investment in property improvements?

As Dr. Gaffney said in his Brookings Institution Conference talk here last month; "you can raise the same amount of tax revenue by taxing land alone as you can raise by taxing both land and improvements. The only difference is that landowners who misuse or underuse their land as indicated by a lower improvement value to land value appraisal would be penalized by a bigger tax bill; landowners who put their land to better than average good use as indicated by a high improvement value to land value appraisal would pay less; a great majority of property owners whose improvement value to location value ratio is close to the citywide average of 3 to 1 would pay just about the same tax as they pay now, for multiplying 1x4 gives you the same answer as multiplying 4x1, so four times as heavy a tax on the land quarter of the assessment would bring in the same tax as the present levy on all four quarters of the assessment.

I am happy to be able to tell you that such a tax shift should result in a substantial reduction in the tax burden on the owners of all good homes. The people who would be hit hardest would be the owners of idle land and slums whose tax bill would be so increased that they would be under strong tax pressure to put their land to better use. Says Dr. Gaffney on the basis of his exhaustive Milwaukee study instigated by the Urban Land Institute, "the tax shift 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 vacant land and obsolete, decaying, or inadequate buildings that now preempt nearly 3/4 of the valuable land near the heart of most big cities to replace them with new buildings that would put the site to good use."

Dr. Gaffney continues: "This should provide such a stimulant to new construction and redevelopment that it would create just the opposite of your present problem. The old problem has been how to end the construction stagnation that results in slums and decay; the new problem would be how to avoid stimulating more construction than the market could quickly absorb, and more construction than your labor and financing resources could provide.

"The tax shift would, in fact, be such strong medicine for what ails our cities that it would have to be given in small doses spread over a period of perhaps five or even ten years."

So much for Dr. Gaffney.

And now because this is a Chamber of Commerce meeting let me close by reassuring you that what I have been urging is not just an idea of mine or an idea of Dr. Gaffney's. It also reflects the unanimous property tax reform recommendation of the Urban and Regional Affairs Committee of the Chamber of Commerce of the United States. Said the Committee:

"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.

"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."