Property Taxes and Municipal Economies

To the Editor of THE AMERICAN CITY:

In THE AMERICAN CITY for October, Prof. Edwin H. Spengler suggests "the abandonment of the tax on capital values of real estate and the introduction of a series of local taxes adjusted to the changing patterns of urban life."

Prof. Harry Gunnison Brown in his comments on the Treasury Department's Committee report on "Municipal Financial Problems and the General Property Tax," which was the subject of Professor Spengler's article, says:

"If the expenses of our governments are necessarily greater than can be provided for by the absolutely most desirable taxes, we may at least strive to use the less desirable ones as little as possible and the least desirable not at all. The tax on buildings is indeed likely to be burdensome. But the tax on site values could yield much more than it now yields; and if it were so used we could abolish or at least greatly reduce the burden on real estate improvements of all kinds without resorting to the more undesirable taxes to anything like the degree often assumed.

"A site-value tax does not penalize efficiency in serving the community. It does not discourage the accumulation of capital or drive capital to other jurisdictions."

I think Professor Brown is right in his conclusions. It seems that most of the complaint against the tax on real estate arises from excessive spending and because of unequal assessments. When a tax is very light, great inequalities in assessing attract little attention; but when the tax is heavy, assessors are slow to reduce excessive assessments and inequalities become too grievous to be borne.

There is another complaint, not referred to by Dr. Brown or Dr. Spengler, which is common. It is assumed that assessments on capital value are not and cannot be based on income, actual or potential. This belief is erroneous. It may be true that some assessors are copyists, not appraisers.

Every competent appraiser considers actual present income when he can ascertain it, and in any event potential income. A parcel of real estate is worth the capitalized value of what it can be made to earn. There may be reason to believe that in the near future it can earn more than now. If so it may be worth more than its present earnings would justify. On the other hand earnings may be likely to decline, and its present value may be less than if earnings are deemed stable.

In any event the value of land improved or unimproved depends on earning power, present or potential.

If more people knew this, fewer would buy vacant lots that have no chance of earning a cent in fifty years.

Excessive spending calls for the best possible assessing. Limitations in tax rates cause pressure on assessors to make excessive assessments. Excessive spending should be curbed.

Many persons who demand more money for purposes they deem worthy, refuse to consider that cities, like men, should live within their means. Cities and towns differ in wealth to a degree few realize.

The State Tax Commission of New York publishes an excellent report. From the report for 1939, I give as examples two poor counties and two rich ones, stating the assessed value of real estate and the full value per capita.

PER CAPITA AVERAGES

County—	Assessed Value	Full Value	Tax Levy
Washington	$ 660	$ 940	$ 38
Ulster	793	1,586	38
Nassau	3,730	4,700	102
Westchester	3,107	3,610	105

The difference between towns is greater than between counties. The richest town is Scarsdale with $8,100 of real estate per capita. The tax levy of Scarsdale is $184 per capita. That is less of a burden than Washington County bears with a tax levy of $38.

In general the State of New York and its municipalities have had delusions of grandeur in the last thirty years.

The cost per pupil for education in the whole state in 1910 was $45, and in 1939, $175. Note that the increase had nothing to do with increase of population. Population of the state from 1910 to 1939 increased from 9,113,000 to 12,588,000. That is a little more than one-third. The general property tax levies increased from 278 millions to 823 millions. Total state and local taxes increased from 334 millions in 1913 to 1,317 millions in 1939.

The federal governments must take an enormous sum. It is time for state and local government to spend according to their means and not according to their appetite.

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MOPEY DICK AND THE DUKE
"Don't bother to improve our property, Duke—we'll only have to pay higher taxes."

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