

RSE, "Susan"
212-988-1680

A	L
Loans	Deposits
①	"
Loans	Capital
Δ Loans	Δ deposit
U.S. bonds	Δ deposits

Conference Attendees Learn Market Outlook

On Tuesday, January 10 and Wednesday, January 11, the Office of Real Estate Research presented its third annual series of Real Estate Outlook Days presentations.

The Tuesday program, held at the Oak Brook Hills Hotel and Conference Center, was jointly sponsored by ORER and the Illinois Association of Realtors®.

Speakers were William Bryan, University of Illinois Finance Department Chairman and Director of the Office of Real Estate Research; Alan Reichert, Professor of Finance at Illinois State University; Peter Colwell, ORER Professor of Real Estate at the University of Illinois; and John Tuccillo, Chief Economist for the National Association of Realtors®.

Bryan provided a forecast of the 1989 economy and housing finance environ-

ment. Reichert presented results of housing market research he has conducted.

Colwell discussed non-residential property sales in the Chicago area. Tuccillo's discussion of the housing outlook in various sections of the U.S. included a prediction of upward interest rate movements, while Bryan had forecast a downward trend.

The Wednesday program, held at the Ambassador West Hotel in Chicago, was jointly sponsored by ORER and the Chicago Board of Realtors®. The speakers were William Bryan of the U of I; Alan Reichert of Illinois State University; Charles Hill, Executive Vice President of the Federal Home Loan Bank of Chicago; and Christine Williams and Jacques Gordon, who serve respectively as Vice President and Director of Research for Real

Estate Research Corporation.

Bryan presented the economic forecast that he had provided on the previous day. Reichert again discussed the results of his housing market research. Hill discussed the history of mortgage lending in the U.S., the present state of the market, and expected future developments. Gordon and Williams presented their firm's view of the outlook for various segments of the Chicago area real estate market.

Presentations such as Real Estate Outlook Days contribute to the fulfillment of the public service mission of the Office of Real Estate Research. The Office plans to sponsor additional events similar to Outlook Days. Suggestions from *ORER Letter* readers on locations and topics would be welcome.

✓ Policy on Reprinting Articles

Individuals or organizations wishing to make further use of *ORER Letter* articles may reprint portions of articles, or entire articles, without seeking express permission from the Office of Real Estate Research. However, ORER insists that those who do reprint materials adhere to the following procedures:

- 1) The *ORER Letter* must be named as the original source of publication, and the Office of Real Estate Research at the University of Illinois at Urbana-Champaign must be identified as the original publisher.
- 2) Reprints of articles that have been published under the names of authors must identify the authors. Many *ORER Letter* articles written by the editorial staff do not identify authors; in such cases only the *ORER Letter*, and not specific authors, need be identified.
- 3) The text of reprinted material should not be altered in any way.
- 4) Publications provided to paying subscribers may reprint *ORER Letter* articles if they follow the other restrictions listed herein. However, reprints

of *ORER Letter* articles may not otherwise be sold.

- 5) A partial reprint should be identified as an excerpt from a longer piece, and readers should be informed that the entire text is available from the Office of Real Estate Research or through the reprinting organization.
- 6) A copy of any reprinted material, and information on the publication or other medium in which it has appeared, must be sent to Office of Real Estate Research Director William R. Bryan at the address listed with editorial information on page 11.

The restrictions listed herein may be amended in the future at the discretion of the Director of the Office of Real Estate Research. Any such amendment will be reported in a future issue of the *ORER Letter*. Readers with questions on the policy may contact the Office.

Any individual or organization can regularly receive the quarterly *ORER Letter* without charge, but a photocopied reprint of an out-of-print earlier issue carries a \$3 charge.

JRER Issue Addresses Brokerage Topics

The real estate brokerage industry is the topic of a recent issue of the *Journal of Real Estate Research*. The *Journal's* Summer 1988 issue, a special edition sponsored by the National Association of Realtors®, contains articles on a number of brokerage topics. Among topics addressed are the effect of licensing requirements on complaints against sales agents; commission rates and broker incomes; franchising and other factors affecting selection of real estate agents; agency theory and related liability issues; and new services offered by brokerage firms.

The *Journal of Real Estate Research* is the quarterly publication of the American Real Estate Society (ARES), an association of real estate specialists in academics and industry. Reprints of the issue are available for \$15. Anyone who joins the ARES can receive a complimentary copy of the special Summer 1988 issue; the \$40 annual dues include the cost of a 1989 *Journal* subscription. Send payment for the brokerage issue, or for membership in the ARES, to Dr. Theron Nelson, Department of Finance, University of North Dakota, Grand Forks, ND 58202-8233.

Farmland Price Indexes: Issues and Alternatives

Arnold W. Oltmans, David L. Chicoine, and John T. Scott, Jr.

The third entry in the ORER Letter Series is an abbreviated version of ORER Paper # 65, "Farmland Price Indexes: An Evaluation of Alternatives for Illinois, 1975-1984." Any interested reader can obtain a copy of the longer version of the paper through a written or telephoned request to the Office of Real Estate Research.

Introduction

The last 20 years have produced a "boom and bust" cycle in the U.S. farmland market. The slow but steady appreciation rates of the 1960's gave way to double digit annual rates in the 1970's. Nominal farmland values peaked in 1981 at more than four times their 1971 levels, and then plummeted during the next 6 years by 50% or more. Illinois farmland values appear to have risen faster and to a higher peak, and then to have fallen more rapidly, than values in the U.S. as a whole. Recent evidence indicates a firming of land values in 1987 and modest increases in 1988.

Such rapid change has important public and private policy implications. To assess changes in value, analysts frequently use price indexes. The U.S. Department of Agriculture has published an annual Index of Farmland Values for individual states since 1912. Although the USDA index is widely used, concern exists about its basic nature and statistical reliability. For example, the index is based on a survey of opinions and observations from individuals knowledgeable about farm real estate, rather than on a direct analysis of actual sales price data.

Previous research at the University of Illinois reveals substantial differences between the USDA index and average price indexes based on actual Illinois sales data. Furthermore, there appear to be important differences in price changes over time among regions of the state. These differences could have important implications for researchers who use broad-based statewide indexes in location-specific micro applications.

The research summarized here applies hedonic index modeling techniques to Il-

Table 1										
Yearly Index Measures of Illinois Farmland Prices, 1975 - 1984 (1975 = base year)										
	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
Hedonic	100	121	171	199	222	230	243	229	224	210
USDA	100	125	170	187	220	242	260	239	218	213
Average-A	100	125	181	218	237	247	260	262	197	206
Average-B	100	124	180	214	241	256	269	245	196	223

Figures for years other than 1975 indicate percentage increases over 1975 values. Arithmetic index A includes parcels of 10 or more acres; B includes parcels of 20 or more acres.

linois farmland. Hedonic, or quality adjusted, indexes overcome arithmetic indexes' inability to control for differences in quality characteristics of land parcels sold over time. Little prior work has applied hedonic techniques, long used successfully in urban price analysis, to farmland markets. This study analyzes a representative slice (1975-1984) of the recent "boom and bust" cycle in Illinois farmland to explore the applicability of hedonic models to farmland markets and to more rigorously analyze the issues of regional differences.

The Study

The data include 43,932 sales of farm parcels of 5 or more acres, involving more than 2 million total acres, between 1975 and 1984. The information is available through Real Estate Transfer Declarations submitted, as required by law, to the Illinois Department of Revenue. Annual farmland turnover rates during that period ranged from less than .5% in 1982 to more than 1.5% in 1979. Organization of the data into 9 size-of-parcel categories reveals a definite inverse relationship between price per acre and size of parcel, during both years of price decline and years of price appreciation. While the largest number of sales is of 5-9 acre tracts, the next largest concentration is in the 80-159 acre category, which also accounts for the most acreage (approximately one third of the total). The number of sales peaked in 1979 for all categories, though prices peaked in 1981 for larger tracts and in 1982 for smaller tracts.

Per acre prices for parcels of 5-9 and

10-19 acres, for which the presence of homes and farm buildings and the transition to urban use tend to dominate selling prices, were more erratic over time than prices for larger parcels. Year to year differences in price behavior and in percentages of total acreage sold in the various size categories render an "average price of farmland" figure nearly meaningless. For example, the 1982 average per acre sales price for 20-39 acre tracts was \$2,125, while the average for 160-319 acre tracts was \$1,667. By 1984, the average for the former category had increased to \$2,482, while that for the latter category had fallen to \$1,544. Tract size differences and quality differences reduce the reliability of simple average or weighted average arithmetic price indexes.

Hedonic price index models decompose the value of a complex commodity into the values of quality sub-components. Application to real estate usually involves statistical analysis, in which sales price is explained by measures of quality. The influence of quality measures can be separated from the influence of pure price changes, thereby allowing for a "constant quality" price index, which estimates the price that would prevail if there were no variation over time in characteristics of sold properties. A researcher may test several alternative hedonic models in the search for the one that best measures market performance.

In the present study, four urban real estate hedonic models that seem particularly adaptable to the farmland market are applied to 1975-1984 Illinois sales data.

ORER Letter

Published by the Office of Real Estate Research at the University of Illinois at Urbana-Champaign

In This Issue...

<i>How to Revive a Dying City</i>	1
	5
	5
	6
	8
	12

How to Revive a Dying City Mason Gaffney

Following is an edited text of the 1988 Henry George Lecture, presented in October by Dr. Mason Gaffney at St. John's University in New York City. Gaffney is a Professor of Economics at the University of California at Riverside. Henry George was an economist of the late nineteenth century, whose views still influence debates on property taxation.

Introductory

My grandfathers saw New York City as the center of civilization. It was a livable, optimistic place: a growing, vibrant, trend-setting, prospering, cultural city. A little crooked, sure, and great grandfather was probably no saint, paving streets for Tammany Hall. But it had a present and future, a life and soul, not like the hopeless despair of today's Bronx.

But we are here to talk of the future. I hope to see those good times and better ones come again, preferably without the graft. And we are here to review the ideas of another commuter between New York and California, Henry George, and how his ideas might help to revive dead cities. Henry George was a journalist who taught himself economics. He had a flowing pen and a brilliant mind, and his book, *Progress and Poverty*, remains the

all-time best-seller in economics (except for forced-sale items, like textbooks and the *Thoughts of Chairman Mao*). People remember George, however, not for the volume of his sales, but for his enduring ideas. The reform program he developed combines incentive with justice. It comprises a plan not just to revitalize cities, but to reunify society.

Dead and Dying Cities

Some extreme cases of moribund cities are East St. Louis, Ford Heights, Robbins, and Harvey, IL; Camden, NJ; Benton Harbor, MI; Gary; and Newark. Large parts of many once-vibrant cities are half dead, seriously blighted, and trending downwards. New Yorkers know the South Bronx well enough to avoid knowing any better. In Milwaukee it is the near north side, called locally the "inner core," a galloping blight whose area has tripled in the last 20 years while population has dropped. In Chicago it is South State Street, near the Madison Street crossing which for generations was the most valuable corner in the nation.

Blight is not restricted to stagnant or declining cities. In booming Los Angeles, there is Watts. In nearby Riverside, one of the fastest growing cities in

ORER News

BRYAN DIRECTS BEBR, ORER

ORER Director William R. Bryan has been appointed Director of the University of Illinois Bureau of Economic and Business Research (BEBR). Dean John D. Hogan of the College of Commerce and Business Administration announced the appointment on August .

Bryan will continue to serve as a Professor in the Department of Finance and as Director of the Office of Real Estate Research.

ORER Letter is published quarterly by the Office of Real Estate Research at the University of Illinois at Urbana-Champaign. Copyright 1989

William R. Bryan, Director
Peter F. Colwell, Editor
Joseph W. Trefzger, Associate Editor

Address correspondence to:

Brenda L. Bishop
 304-D David Kinley Hall
 1407 W. Gregory Drive
 Urbana, IL 61801
 Phone (217) 244-0951

2217/
 244-
 0951

ORER Advisory Committee

William R. Bryan
 Director, Office of Real Estate Research
 Chairman, Department of Finance, University
 of Illinois at Urbana-Champaign

Gary L. Clayton
 Executive Vice President, Illinois
 Association of Realtors®

Peter F. Colwell
 ORER Professor of Real Estate
 Professor of Finance, University of Illinois at
 Urbana-Champaign

Lydia T. Franz
 Senior Vice President, Koenig & Strey

Charles M. Hill
 Executive Vice President, Federal Home Loan
 Bank of Chicago

Charles M. Linke
 Chairman, Department of Finance,
 University of Illinois at Urbana-
 Champaign

Gerald N. Perlow
 Treasurer, Illinois Association of Realtors®
 President, Gerald Perlow Realtors®

David A. Rittmiller
 Sales Associate, RE/MAX of Peoria

Ronald L. See
 Real Estate Commissioner, State of Illinois

Donald J. Ursin
 President, Illinois Real Estate Educational
 Foundation
 President, Coldwell Banker Residential Real
 Estate Services of Illinois

the nation, the CBD is surrounded by blight which, among other things, frustrates years of subsidies aimed at reviving the moribund CBD itself.

These extreme cases are not anomalies, not simply ghettos and embarrassments; they are symptoms of systemic malfunction. They could be portents and symbols for the rest of the economy. Blight may be defined as failure to maintain, replace, and renew capital inherited from the past. Studies indicate that all of American industry faces this problem, compared with vigorous foreign competitors. In learning to cure blight, we may learn to restore the greatness and pride of this whole troubled nation.

Cities That Have Revived

There is also good news: some cities have risen from the grave. Indeed, all land development is resurrection in a sense: all land has been used before for something. The history of a city lot usually shows that there were several antecedent improvements, layered like the ruins of ancient Troy. The goal should be to make renewal happen faster and more widely, while we are still here to benefit.

Germany and Japan recovered from World War II with breathtaking speed. Atlanta recovered from Sherman, albeit in its own courtly time. Chicago burned in 1871, leaving 90,000 homeless, but recovered without breaking stride. San Francisco and Anchorage recovered from devastating earthquakes. Washington, D.C. recovered from the 14th Street riots and arson. The basics were right; the locations remained good. Disaster may even have forced "instant urban renewal," by demolishing obsolescent capital and releasing land for rebuilding.

Other revivals, while less dramatic and publicized, are more impressive and relevant because they are revivals from normal decay and obsolescence, pushed along by good public policy. Southfield, bordering Detroit, is thriving and flourishing as fast as its parent central city is dying. Rosslyn, VA, across the Potomac from D.C., is a forest of high-rises that rose while Washington was burning and derelict in the 1960s. Sacramento's once-depressing center has found new life.

Pittsburgh, of grimy repute, was recently named the most livable U.S. city. Hong Kong, Singapore, and Taipeh, once best known as fetid ports of call, are three of the "Four Tigers" of southeast Asia.

Local policies in these modern stories of economic success and social revitalization show the hand of Henry George at work. In Taipeh, we hear that they are guided by the philosophy of Dr. Sun Yat-sen, a Georgist convert. In Pittsburgh, we find a "graded tax plan" applied, framed, and supported by the Henry George Foundation. Throughout Pennsylvania today, we see smaller cities emulating Pittsburgh's partial application of George's policies; such cities bear close watching as they bounce back.

Then there are cities with explosive growth after slow periods. These include Sydney and Johannesburg, both notable for their use of Georgist policies. Whatever their social faults, these cities have burgeoned to become the economic capitals of their continents. There are other examples in Africa, like Nairobi; and in the Antipodes, like Brisbane and Auckland. Many cities of western Canada, including Edmonton and Vancouver, grew with partial use of Georgist policies in the early 1900s. Georgist policy was applied more informally (through assessment discrimination) by San Francisco, Seattle, Portland, San Diego, Houston, and other growing western U.S. cities during the same period.

It is comforting to know that degeneration and failure are not our predestined fate. We may choose them, but we may also choose renewal and success. It is a matter of attitude and know-how.

Why Cities Should be Revived

Some cities should be abandoned. Towns around played-out mines are obvious examples. A small farm town becomes redundant when new roads let customers patronize a larger or better town. Salvage what you can and move on.

Some would apply the same logic to all cities. Dead cities aren't lost, they say, but rebuilt elsewhere; they were cash cows that have been milked dry. Their depreciation allowances are reinvested on new frontiers; people and vita-

lity move with the capital. It is an important half-truth, but a half-truth is also half wrong. The basic original site stays put; land cannot move. Public and private social capital cannot move, either.

We can not afford throwaway cities in a finite world. New natural sites are not common. There is only one Hudson Valley with only one mouth, and here New York City has stood for 350 years. We cannot abandon the Bronx and duplicate its environment somewhere; we cannot rebuild the natural setting, and the sunk social capital is too costly. Relocating to suburbs involves commuting cost in terms of money and congestion. And then, when we tire of the new suburbs, where will we go next?

Furthermore, blighted areas have high potential market values. Picture a topographic map of a city where the contour lines represent points not of equal elevation, but of equal market value per square foot. The peaks, the Everests and McKinleys, are in the city retail centers, where just one square foot rises to \$2,000 (about \$90 million per acre). Land just a few miles away from dizzying altitudes can hardly be worthless. Harlem is near Park Avenue; Watts is near Beverly Hills; South State Street is very near the Sears Tower. Newark is 15 minutes by train from Manhattan. Newark office rents are \$25/sf per year. That is less, of course, than in Manhattan, but in Riverside, California we are throwing up offices to get rent of \$12/sf per year, while Newark stagnates.

Capital earning \$25/sf is obviously more productive than that yielding \$12. I do not mean capital in the floor atop a high-rise, which likely costs \$25/sf (in annualized terms) to build and operate; but capital in lower floors, which costs less to build but rents for as much, yielding a surplus. To get more such capital and the corresponding surplus, renew more land in high potential areas, like Newark. Not to renew is to waste potential surpluses. Each year's loss is gone forever; services of land perish with time.

Urban revival works best when healthy pieces remain on which to anchor development. In the worst scenario no such place remains, but even Camden has

Campbell Soup; Newark has a great airport, a new Hartz Mountain Industrial Park, and the Pru. Life is persistent and resilient; seedlings that sprout seek only sunshine, water, and cultivation.

The Urban Surplus

One reason we remember Henry George is his pioneering study of how cities work and the good they do. Previous economists showed limited understanding of location value and its causes. Even von Thunen, father of location theory, approached cities in an antiseptic way that left out what today we call urban linkages and synergy. George was a *mensch*, seeing cities in human, interactive terms.

George saw cities as *foci* of civilization's basic mechanisms. People with mutual access, associating on equal terms, expedite cooperation and specialization through the market. Multivariate interactions are synergistic. Indeed, while each parcel is developed in the stage of decreasing returns, the composite city is generally in a stage of increasing returns, thanks to synergy: the whole is greater than the sum of its parts, and increases to the whole yield more than the sum of increases to the parts. This synergistic surplus, said George, lodges in urban land rents. Thus he explained a phenomenon which other economists overlooked: the unparalleled rise in urban rents and land prices, and in owners' wealth and power.

Building investment exhibits diminishing marginal productivity. For example, the first \$10K spent yields 30%, or \$3K; but \$1K (10%) is paid in interest, leaving a \$2K surplus. To acquire a superior location that confers this surplus, the buyer can spend up to \$2K annually, which means paying up to \$20K for the land (at 10%, \$20K costs \$2K/year). The next \$10K spent may yield more than 10% too, say 20%, conferring more surplus and adding more value to the land. The idea is to invest until the last \$10K unit yields 10%, just enough to pay interest.

To understand ground rents and land prices is to understand cities; not to understand is to remain mired forever in confusion and fallacy. Ground rent continues forever, generally tending to rise; therefore, to buy title to land, people pay price

es that look high relative to current cash flows. In Riverside, a low density city of 208,000, land prices go up to \$18/sf. In San Francisco, with high density and 800,000 people, prices reach \$1,000/sf; in Manhattan they exceed \$2,000. In Tokyo, probably the top of the line, one sale is reported at \$25,000/sf. Urban land prices take your breath away.

Land prices vary extremely from city to city or block to block. The cost to build a square foot of floor space is fairly constant from place to place, but demand varies with location. A small rise in floor rental translates into a large rise in ground rent and land price, because the land owner gets everything above what is required to operate and amortize the building. Thus, in Riverside, neighborhood mall floor space rental of \$12 just pays for the building, with only a little left over, resulting in land prices of perhaps \$5-\$8/sf. In Manhattan, rentals are triple those in Riverside; all surplus accrues to ground rent, resulting in land prices 300 times higher than in Riverside.

At key locations in bigger cities, land prices are not just high per square foot, they are higher per capita than in small cities. They are even higher relative to building values, in spite of the high-rise buildings. Remember that each additional floor adds more ground rent, because floor space rental is more than enough to cover the added cost.

Land prices across cities and neighborhoods are much more differentiated than other measures economists commonly cite. For example, the median income in upper east side Manhattan is about 8 times higher than north of Central Park, while the price of land per square foot is probably 40 times higher.

Urban land is also highly concentrated in ownership; a handful of people and corporations own most of it. A growing share of income property is held by wealthy aliens, who want to diversify and acquire stable, secure wealth they can manage by remote control. Aliens even hold a good deal of residential property in international "jet set" communities.

Sharing the Surplus

Because urban rents are a social surplus,

not a payment for anyone's making or supplying land, parties other than the landowner have a claim. A good deal of American politics deals with how to assert that claim and share in the surplus.

Dividing a big pie seems a pleasant enough task, but Confucius knew better: "It is easier to face a common enemy than to share a surplus." The common ways of sharing surplus are clumsy, divisive, and destructive; they bear some responsibility for dead cities. With too much quarreling over spoils, there are no spoils to dispute. Consider how spoils are shared, and how we might do better.

Rent Control

Rent control, which shares surplus with tenants, is a tempting route that several cities follow. Renters feel abused and neglected by tough managers and anonymous landlords. Supply is inelastic, at least in the short run, so owners can't cut and run. Poetic justice is served. But there are several spots on this policy:

Limited number of beneficiaries. The original tenants carve out an equity in the landlord's estate, but benefits spread no wider. Tenants may sublet to others, becoming landlords themselves. Rent control is at best a zero-sum game among the few, not a social reform.

Lower incentive to maintain supply. It becomes unattractive to build new rental units, which are allowed higher initial rents but are vulnerable to future caps. So rent control is worse than a zero-sum game, it becomes negative-sum. Rent control confiscates land income and building income alike; buildings do not receive needed maintenance if there is no return. Too, land can be reallocated to uncontrolled uses, such as condominiumization. A new wrinkle in Santa Monica is to buy a cheap rent-controlled apartment building and convert it to a single-family residence for the new owner.

Wasted space. Tenants lose incentives to economize on space that is underpriced to them. In the extreme, tenants move away, but retain their apartments to use a few weeks of the year.

New class society. Old renters become a privileged class. A lower new supply, and wasted space, force uncontrolled rents

on new buildings above market levels.

Owner-tenant clashes. An owner's main goal under rent control is to evict and repossess. Nastiness and intimidation have become routine, and the war stories legendary. In Tokyo, outright extortion and violence are frequent.

Aborted incentive to maintain and improve. Landlords, and tenants retaining precarious tenures, lose all economic motivation to maintain or improve property.

Dogged obstructionism. Sitting tenants, who cannot gain by site renewal, fight it every way they can. Obstructionists have a vested interest in the status quo, however obsolescent, however decayed, however inappropriate to the site.

Undertaxation. Equity that tenants carve out of landlords' estates has no market value, because it is inalienable (at least legally). Assessed values and tax yields drop. The privileged class pays low rent and avoids supporting public services. Higher tax burdens are dumped on others, and worsened public services are suffered by all. By way of analogy, I am a small farmer with canal company shares that allow me to buy water below the market price, but no right to sell my water. So I and my fellow shareholders waste water and create a chronic, artificial southern California water shortage.

The rationale is that housing or water is too important to leave to the market, and must be price-controlled. The result is regulation much worse than anything a market could accomplish. Around 1973 there were shortages of coffee, raisins, and even toilet paper. These were too unimportant to regulate, so their prices rose, demand fell, supply rose, and the crises quickly disappeared. Rent control ensures that we will not overcome the housing crisis so simply, if at all.

"French Equity" (Equity in Kind) Under the Code Napoleon, a French testator must divide real estate equally among all children. Money cannot substitute for land; the Code requires equity in kind. The resulting fine subdivision is called *morcellement*, and the Code demands it without regard for efficiency. Each heir, in fact, must get an equal share of land of each quality: meadow, woodland, etc.

Today we approach French Equity indirectly, and expensively. We distribute land haphazardly, but then seek to make every parcel as good as every other by extending utilities and roads to all parcels on the same terms, regardless of cost or location.

Economists call such schemes "postage stamp pricing," because postal rates do not vary with delivery costs. Manhattan has 64,000 residents per square mile; Montana has 5.4. It costs a lot more to collect or deliver mail in Montana. The reason postal rates rise is that the U.S. urban population is spreading out more like Montana and less like Manhattan (which once had over 100,000 per square mile). Here are five other examples:

The British Columbia Ferry Service. This socialized system has two urban lines that make money, but the whole system hardly breaks even, because lesser lines serve remote areas. The worst costs \$12 for every dollar of revenue.

British Columbia Hydro. This socialized power system charges uniform rates throughout the Province. Users living in high-density Vancouver are cheap to serve. A few live on the Yukon border, where (I surmise) it costs hundreds of dollars to earn a dollar of revenue.

Water and sewer service in Milwaukee County, Wisconsin. City investments have been captured, controlled, and milked by suburban land development interests, helped by state legislators.

State university campuses. The legislative ethic demands a prize, such as a university campus, in every electoral district. Most of the eight UC campuses have excess land; some have excess floor space. Sacramento solves rising enrollment not with more intensive use of existing campuses, but with the costly creation of new ones, each to enrich influential land speculators.

Water supply in California. The high real cost of serving new settlements is passed on to older settled areas through an accounting device called "melding," stirring all the accounts in the same pot. Melding passes through several levels: a state wholesaler serves the metropolitan district, which serves local districts, which serve cities. At the end of the

line, in Riverside, it costs society \$1800 to serve the marginal acre-foot (a unit of water) selling for \$20. This subsidy is worth fortunes to developers; the cost is spread so others won't notice.

Problems with French Equity

There are two problems with these subsidies as an approach to equity: they are not equitable, and they are wasteful. Equity achieved by regional cross-subsidy is not interpersonal, but interregional. It is like U.S. "foreign aid" programs, which tax the poor in rich countries to aid the rich in poor countries. Some of those who hold speculative land and enjoy subsidies are among the world's richest people and corporations. Equity is not served by milking middle-class neighborhoods to further enrich wealthy owners. "Public works for private gain" is bad enough, but worse when profiteers are already rich.

How about waste? Subsidy creates waste in the amount of the subsidy, almost by definition. The New York Regional Plan Association estimates the social cost of creating a new lot on the urban fringe at four times the price of the lot (probably an underestimate). Why develop a lot worth only one quarter of its cost? Because other people pay the other three quarters. This process does transfer ground rent from areas of overcharge to areas of undercharge, but it destroys much of the ground rent. To spread the surplus, we lose much of it.

Has French Equity any merit? It passed for a way to create jobs when Keynes actually urged waste as a route to full employment. Those ideas are now dormant, but we still do not understand the problem. If we had to fire teachers or policemen each time a city extended utilities to a campaign donor's raw acres, we would better sense the true cost of public works for private profit.

George's Constructive Program

The key to renewing cities is shifting from *obstructive* ways of sharing rent, like rent control; and *destructive* ways, like looting and subsidies; to *constructive* ways. Henry George showed us how equity and efficiency go hand in hand, how the magic of justice combines with

the magic of incentive.

First, by George, equity need not be in kind. The monetary mechanism overcomes the clumsiness of in-kind equity. If four families inherit a one-family house, all four don't crowd in; they sell and divide the money, or one buys out the others. There is equity in money as well as in real estate. Money is often better; the reinvestment opportunity puts the house on a magic carpet to follow you anywhere. Money is wonderful!

Second, by George, use the tax mechanism. Do not divide land into unusable morsels, or shackle the market with rent controls, or dissipate rent in subsidies. Give land to the highest bidder, and tax ground rents to support government.

Power to Destroy or to Redeem

But we've always heard that taxes destroy incentives. The news in Henry George is that we can tax all the rent out of land, and not one square foot will walk away, nor will God switch off the Creation. Man creates capital by saving; some Other Force created land, and sustains and serves it every day, undeterred by taxes.

Nor will Georgist taxes leave owners sulking on their land, but the contrary. A 1983 *Fortune* magazine article calls them "Higher Taxes that Promote Development." The fixed tax is levied on land value, based on opportunity cost. The owner uses land harder and improves it more to meet a fixed tax, or sells, releasing surplus land to those needing more space. Taxes stifle enterprise only if they increase with enterprise. Land tax increases only with opportunity cost, which is independent of the enterprise of the owner. The only activity this tax impairs is withholding land from use.

George's land tax promotes equity toward the landless in at least four ways: it relieves them of taxes, to the extent that landowners pay more; it supplies them with more goods and services, as land is used better; it offers them jobs producing those goods and services; and it offers them a better chance to acquire land, as surpluses are released to the market.

This is supply-side economics with a kick. It works through tax transformation rather than tax reduction; total tax

revenue may rise or fall, as a separate issue. We can raise taxes and stimulate supply together; there is no hard choice between them. At the same time, it is demand side economics: untaxing investment raises the marginal after-tax return, which, to demand-siders, is the motor that drives the macro-economy.

So George's program not only reconciles efficiency and equity, it squares taxes and incentives. What more can we ask of economic policy than to resolve stand-offs that have confused us, and deadlocked constructive action, for generations? It is an achievement on a par with resolving Evolution and Creation, except George's program is something we can do something about. We can implement it as quickly as we unclog the cerebral arteries and follow thought with action.

Many people are comforted to think justice must be sacrificed for efficiency, and schools starved or libraries closed to free up incentives, so nothing, really, can ever be done. We all feel compassion, but, to stay whole in this world of beggars and bandits, learn to harden our hearts. We screen out evidence of injustice and rationalize what we cannot deny. This mindset, while understandable, is unaffordable in a period of dangerous national decline and of growing division between haves and have-nots. Corking in feelings is difficult; there is satisfaction in venting compassion via support of constructive public policies.

Camden has the highest tax rate in New Jersey, causing a vicious circle as high rates drive away capital and further erode the tax base. What if only land value were taxed? The depressant would become a stimulant by the simple magic of converting a variable charge into a fixed, unavoidable one. So it is with most depressed cities, which today look vainly to Washington for salvation. They need enabling legislation from their states, on the Pennsylvania model, but given this power can save themselves.

The Doubling Effect

The counterpart of sharing rent through taxation is to untax things, like buildings, that involve human endeavor. This doubles the incentive effect. *If land tax*

is the stick, untaxing buildings is the corresponding carrot, and George's program makes both larger. Every lot with an old "Defender" building has a potential replacement, the "Challenger." Taxing buildings rigs the fight against the Challenger. Say the lot-cum-Defender is worth \$100K, and the Challenger would cost \$500K to build. Challenger cash flow must exceed Defender cash flow by enough to pay \$500K, plus added taxes based on it.

Georgist tax, by contrast, is impartial between Defender and Challenger; the market decides. In 1965, after a detailed Milwaukee study, I found that switching to the George program would allow 30% of the city to be renewed immediately, simply by untaxing Challengers vis-a-vis Defenders. (Sadly, Mayor Maier went the other way, so Milwaukee lost 20% of its people and much of its wealth.)

The Tripling Effect

New buildings face liquidity crises; almost all are built on credit and need time to yield cash. The timing of tax on a building maximizes the damage during the crisis period, for any given tax yield over time. Of course, every building uses public services, but new buildings in older cities pay for more than they receive, while old ones receive more than they pay for. Think of building tax as a forced loan to the Treasury, to be recovered when the building is older. What could be more counterproductive than forcing a loan from a builder passing through a credit crisis? *The Georgist tax is low when the builder's cash needs are pressing, and rises slowly over time as the site ripens to its next best use.*

The Quadrupling Effect

Urban blight is cumulative and self-reinforcing: blighted buildings cast a pall on land around them, discourage upkeep, and stifle renewal. Whatever slows renewal of one site slows the neighborhood in a vicious, downward spiral. Conversely, new buildings stimulate renewal. There are exceptions; some new buildings sterilize blocks with blank walls. But the exception is not the rule, and abuse is not the precept. The rule is that new build-

ings draw tenants from old and weaken other Defenders, so that other owners also renew. When they do, where better than next to the newest building? Renewal, like blight, is cumulative, but in a benign, upward spiral.

Competition for sites raises the tax base if land values are derived from ground rents. *The higher base allows the city to improve public services without taxing buildings or scaring away generators of fiscal surpluses.* In this scenario, buildings raise the tax base indirectly, by raising the value of land around them.

The Quintupling Effect

Riverside built a downtown pedestrian mall when they were in vogue, and has been sorry ever since. It did not work; retailers deserted, and half the stores are empty. I asked the developer of a successful mall why he thought downtown failed, and got a two word answer: "absentee ownership." I should have known, having preached it for years.

Farm advisers say, "The best dressing for soil is the owner's shadow, applied daily." In town they ask, "Who's keeping the store?" Absentees aren't the only negligent owners, nor are they all bad. Torpid owners are the problem, and they come in many forms. A city wants to be rid of owners who see real estate as a cash cow for their retirement, and to replace them with owners who see it as a vehicle for enterprise and who apply their shadows daily. The shadows follow them to local civic clubs and to enterprising downtown or neighborhood associations for making joint improvements.

The surplus to land attracts outside buyers. Absentees, redundant parties in production, are often top bidders for pure ownership, which is the legal right to receive land rent plus unearned increments that accrue over time. *Georgist taxation cuts directly into rents and unearned increments, which attract absentee owners; it spares the rewards of enterprise.* It thereby effects a market transfer of ownership from absentees to occupants, with the community benefits that follow. In a period of rising concern over alien takeovers of U.S. real estate, these points merit focused attention.

The Sextupling Effect

Untaxing buildings attracts outside capital to an area, but does not result in new capital formation for the economy. In Keynesian models, however, reducing taxes on new capital raises the rate of return after taxes (marginal efficiency of capital) and creates new capital. In supply-side models, increasing saving is more important. Land taxation helps here, too.

Land taxation, if vigorously applied, tends to reduce the investment value of land, through a process called "tax capitalization." With land devalued, those needing wealth acquire substitute assets by saving more, and investing the savings in real new capital rather than land.

The Septupling Effect

Georgist taxation tends to reduce the need for public spending in two obvious ways. One is to increase job opportunity, which in turn reduces welfare spending. More productive job opportunities should reduce pressure for military spending of a boondoggling, make-jobs nature as well. The other is to eliminate urban sprawl and its wasteful cross-subsidies.

Renewal & Housing for the Poor

"Slum clearance" in the 1950s had a negative caste, with a name catered solely for middle class consumption. Reuse of cleared land was often at lower density, inevitably throwing unhoused people on the private market. Federal "urban renewal" in the 1960s, while better named, emphasized clearing, not rebuilding. The inventory of cleared, unrebuilt land under the program grew each year. Cynics' cracks of "bombing out" and "Negro removal" were on the mark, though blacks were not the only evictees. Any talk of demolition and renewal evokes the specters of those cruel, wasteful programs.

But George's program begins with fostering renewal and intensive use. Clearance is involved only to serve renewal, never as a goal in itself. The first land taken would generally be vacant or with boarded-up buildings. New buildings would draw renters and buyers from old ones, releasing more space. The idea and impact are to increase rentable, salable floor space. There would also be more

firms to compete in selling and hiring.

How do we know there would be an aggregate increase in supply? Higher density is one test. Untaxing buildings fosters higher density because density, exemplified by high buildings, substitutes capital for land. Untaxing capital obviously makes it more economical.

Higher quality is the other test. The richer the new tenants or buyers, the more space is released when they move. This is the hardest point for advocates of the poor to accept. There will always be specific cases where the rich bump the poor, leading to contemptuous names like "trickle-down" that dismiss effects on the market. But the aggregate is what should concern us. If tenants mobilize against new construction, a minority with a vested interest harms everyone else, including the poor. Building new homes for the rich, who can afford them, releases usable space for everyone else.

There are three kinds of slums. Only the narrowest kind, the slum on high-value land, causes eviction of the poor to benefit the rich. Owners in these uncommon areas neglect their buildings, expecting to demolish them for expanding commerce or high-rise apartments. The second kind is on bad land which will stay bad. The third, and most common, kind is on good land with old buildings that have filtered down to people who generate bad neighborhood effects. Units go vacant; land value is low. The market renews these slums not in a stroke, but by nibbling at the fringes. Yet as it nibbles incrementally in, it unavoidably creates more space than it consumes, raising aggregate supply.

The poor also must fear gentrification, in which new gentry displace the poor in the same old buildings. This is one result of not renewing; renewal as such is innocent. It seems carping, too, to criticize people for restoring old buildings. The alternative may be seen in ungentrified neighborhoods, where buildings simply go out of use, sheltering no one.

But the ultimate end of Georgist policy is viewed in terms of the nation, pitting cities against each other to attract people. Nothing is better for people than to be competed for. It raises their bargaining

power as tenants, buyers, and workers.

Social Justice

With all that talk of capital and efficiency, remember that we began with a quest for justice in sharing rent surplus. Justice and efficiency are not at odds; we can have both. The trade-off expounded by many economists is to enervate us so we won't do anything. Yet we have shown not just that we can have both, but more; we cannot have either one without the other. If we do not share rents in the efficient Georgist manner, social and political pressures will cause inefficient sharing and eventual dissipation.

We now see what economic policy can do. The basic impulses, however, the striving for justice and brotherhood, and the sense of personal ethics, come from within, and from family, community, schools, and religion. So does the sense of workmanship, the striving for excellence without which no system works.

There are city councils and councilpersons who can corrupt the best system ever blueprinted. The Georgist program may even help to straighten them out. Lincoln Steffens taught us that the villain in Eden was neither Eve nor the serpent, but the apple! The apples of discord that corrupt city councils are unearned increments to land value, which they create or deny with every decision on extending sewers or changing zoning. Georgist taxation dehydrates those apples by attaching higher tax to each unearned increment.

A Summary of Reconciliations

Georgist policy has been shown as a means to revive dying cities, and in the process to reconcile equity and efficiency; to reconcile supply-side economics with taxation; to reconcile capital formation with taxation of the rich. It can be seen as a means of harmonizing collectivism and individualism, in the most constructive ways possible. I know of no other program whose proponents can even make such claims, let alone substantiate them. In a world that has already priced younger people out of the real estate market, we should find George's program worth our intense study and support.

DHSC JR Thursday, June 30, 1988

Poverty, crime plaguing suburbs

By ALEX KOTLOWITZ
The Wall Street Journal

Filthy. Menacing. Dirt-poor and abandoned. Communities such as East St. Louis, Ill., Camden, N.J., and Benton Harbor, Mich.

They are the forgotten cities.

In 1960, East St. Louis was featured as one of Look magazine's all-American towns. Today, it is so poor it can't afford to pick up its garbage. During a recent six-month suspension in trash collection, residents piled up refuse on their rooftops, away from dogs and rats.

In Camden, thieves literally are taking the city apart piece by piece. At a local scrap yard, hustlers walk in off the street hauling aluminum doors on their backs. Others have been unbolting lamp-posts and selling them for 70 cents a pound.

Benton Harbor's recently elected mayor, William Wolf, inherited a city where 60 percent of the residents are on public aid and nearly two-thirds of the housing is substandard. When a major street collapsed two years ago, the city could afford to fill it in only with dirt. As Benton Harbor continues sliding, frustrated citizens are trying to oust Wolf after just six months on the job.

Across the U.S., there are two dozen or so of these forgotten cities — small, sickly urban areas whose problems go unnoticed because they are so isolated from mainstream America.

In them, crime has reached perverse heights and living conditions have sunk to unthinkable lows. "These places are our nightmares," says Gary Orfield, a University of Chicago political science professor.

Ghettos from border to border, they have no middle class and little industry to provide a tax base, making them worse off than the ghettos of New York, Chicago and Los Angeles.

At \$5,731, per-capita income is lower in Camden than in some of the country's most depressed urban areas — 25 percent lower than in the Bronx. Its crime rate is even higher than Detroit's.

Highways slice right through many of these places to the wealthier, prettier suburbs. Residents of Benton Harbor, which is situated amid a cluster of small

"Because they're not part of a city, they're almost completely invisible. We're just writing them off.

They're America's form of apartheid."

**Political scientist Gary Orfield
and urban official Alex Little**

towns on the western edge of Michigan, say they often feel they are treated like a leper colony by surrounding communities.

Municipal governments in these cities are typically beset with turmoil. With little money to go around, political bickering over finances often turns into political free-for-alls. And with local officials lacking the resources to improve conditions, voters quickly become disillusioned with them. The mayor of East St. Louis insists on round-the-clock bodyguards because of what his office calls "constant" death threats.

The forgotten cities began declining 15 to 20 years ago, victims of white flight and industrial desertion. Most are now predominantly black. Federal financing cutbacks in recent years have accelerated their fall, and experts worry that many more bantam-weight cities will begin tumbling, too.

Chicago's inner ring of southern suburbs has already begun that plunge. Ford Heights, Ill., with unemployment estimated at 52 percent, was termed the nation's poorest suburb by a recent Roosevelt University study. Nearby Robbins couldn't pay its 70 city employees for three weeks last year. And neighboring Harvey, where unemployment has been in double digits since the beginning of the decade, is wrestling with a 5 percent shortfall in its budget.

"Because they're not part of a city, they're almost completely invisible," Orfield says. "We're just writing them off." Adds Alex Little, Benton Harbor's economic-development director and former administrative assistant to East St. Louis's first black mayor: "They're America's form of apartheid."

East St. Louis, 96 percent of whose 49,000 residents are black, is probably the sickest of the lot. It recently flirted with bankrupt-

cy. And services have deteriorated severely, with a \$1 million shortfall in the city's \$6.8 million budget. That results from \$1.2 million in lost annual revenue-sharing and a recent \$4 million judgment against the city in a lawsuit brought by a prisoner beaten by another prisoner in the local jail. In April, municipal employees' paychecks were three days late because the city didn't have the money. Vendors, knowing of the city's precarious finan-

cial plight, demand all payments in cash. Earlier this year, a city fire truck was held captive by a repair shop for two months before East St. Louis could come up with the funds to free it.

From her bedroom window, Linetta Robinson can see the shimmering arch just across the Mississippi River in St. Louis, a testament to prosperity and ingenuity. Robinson's three-room wood shanty, the shingles half gone and two-by-fours hanging precariously from the roof, stands in stark contrast, a testament to poverty and neglect.

For three years, the 25-year-old Robinson and her four children have lived in this rental unit, a not-untypical structure in the city. She has stuffed newspaper into six holes in the seven-foot-high roof to keep out the rain and birds. She can see grass through

(See SUBURBS, Page C-8)

DRINKING WATER FROM THE TAP



FRESH, CLEAR, DELICIOUS

• AFFORDABLE • CONVENIENT • LESS EXPENSIVE



Layton Water

Serving Orange And Riverside Counties Since 1946

**FREE Basic Installation
First Month FREE!**

CALL TODAY! 369-6500

Suburbs . . .

(From Page C-1)

cracks in the bathroom floor. The windows are nailed shut — even during the hot, humid summer — to foil burglars. And plastic trash bags are piled on the roof, the rotting food scattered by rats and crows.

On a recent spring day, the woodshed and the accumulated garbage caught fire; 20-foot flames licked at the back porch. "I'm scared," she murmured under her breath as she paced nervously, holding her youngest child to her breast. After three phone calls, the fire department finally arrived and doused the flames before they reached her home. She was lucky; last month, this fire crew's truck wouldn't start.

The East St. Louis police have similar problems. Many police radios don't work properly. So the officers have had to stop chases to call headquarters from a pay phone. Because the force has been nearly halved over the past 12 years, the police often answer pleas for help slowly. In May, they took 48 minutes to respond to a fight between neighbors. By the time they arrived, a seven-year-old boy had been shot and killed, and his mother wounded.

"I'd call our neighbor with his shotgun before I'd call the police," says Sister Julia Huiskamp, who runs a community-based program in the city. When the state troopers arrived two

years ago to assist the police, they were treated as heroes. Residents waved at them from their windows. It was like the liberation of France during World War II, one officer says.

With money so short, politicians angle for what they can get, for their cities and sometimes for themselves. Benton Harbor has weathered such vicious political combat that embattled Chicago nearby seems like a model of political stability.

The boarded-up Liberty Theater's marquee welcomes visitors to this tired city. As if mocking its own town, the marquee reads:

WE---ME TO THE NEW
B---ON HARBOR

Abandoned downtown stores have imploded, their innards piled high and some of the debris — bricks and twisted furniture — hanging half in, half out of the glassless display windows.

Benton Harbor's leaders have toppled like Humpty Dumpty. Its first black mayor was recalled in 1976. His successor was indicted on charges of misappropriating public money, although the charges were eventually dropped. Now, a move is under way to recall the current mayor, whom opponents accuse of carpetbagging and pandering to developers.

Five years ago, Mayor Wolf moved to Benton Harbor, which is 72 percent black and Hispanic, from neighboring St. Joseph, which is everything Benton Harbor isn't. Clean. Prosperous. And 98 percent white. Moreover, Wolf, who is white, is by his own admission a booster for outside develop-

ers. The town's major hope for climbing out of its abyss, almost everyone agrees, lies with development along the St. Joseph River, a fisherman's paradise. But the mayor's critics worry that the developers will take advantage of the city.

Understandably, suspicion toward the surrounding, blossoming communities runs deep. The hospital's in-patient facilities, the YMCA and the newspaper have all moved out of Benton Harbor. County officials have occasionally made insensitive, if not racist, comments about the city. One county commissioner suggested that the airport — which is in Benton Harbor — was hurting because most whites driving through the city didn't have electronic locks on their car doors.

Fights on the city council have become so intense that last year one city councilman was floored by a roundhouse punch from the then-head of the Downtown Development Authority. Another council member, who alleges that the mayor has his own secret agenda, refused to attend the weekly council workshops for two months. In April, the mayor abruptly adjourned a council meeting when the shouting and name-calling got out of control. One council member suggested that cable television's weekly coverage of council sessions omit the citizens' comments, usually a raucous portion of the meetings.

"Would you bring a business to this town, knowing what's going on?" Commissioner Steven Wood- en asks rhetorically.

Probably not. And that seems to hurt many of these communities. In East St. Louis, political infighting has so discouraged John Bolden that he plans to sell, at a \$1,000 loss, an abandoned grocery store that he had hoped to renovate. "All of Rome is on fire here," he says. "It demoralizes me."

Like many distressed cities, Camden is banking on development of its waterfront — it sits across the Delaware River from Philadelphia — and neighborhood gentrification. With the lack of much state and federal money — the city's federal aid has dwindled from \$9.8 million in 1981 to \$25,000 today — that may be its only hope.

Mayor Melvin R. Primas Jr. and others insist that things are looking up for this city of 83,000. After all, the state plans to build an aquarium in it. Campbell Soup Co., which has been in the city since its founding in 1869, has promised to build its new international headquarters along the river. A New York radio real-estate adviser has been touting Camden's proximity to Philadelphia, and a busload of speculators drove through the city recently to examine homes.

But many doubt that a city so down can find its way back up. So many housing units are abandoned that North Camden resembles Germany after World War II. Gutted, charred row houses line the streets, with garbage spilling out windows and door frames.

Camden's crime rate is more than double the national average,

according to the Justice Department. Suburbanites in Volvos and Subarus drive these mean streets to buy drugs and women. In just one day, this reporter was propositioned by three prostitutes and offered crack and marijuana.

"It's not a dying city, it's a dead city," says John Young, 64, who keeps one loaded and cocked .22-caliber rifle by his front door and another by his back door. "If you have anything of value in your house, it's a constant vigil."

The city has become a dumping ground for everything no one else wants. A countywide sewage-treatment plant recently began operations here; the smell in a nearby neighborhood is so awful that one teen-age girl says she can't eat at home. A recently completed state prison sits at one end of North Camden, leading a resident to snicker that it's the safest area in the neighborhood. And surrounding bedroom communities even send their homeless to Camden, which has a shelter.

What may most discourage real-estate speculators, however, is the city's steep property-tax rates, a problem plaguing most such ailing cities. With decaying buildings and a relatively low collection rate — only 83.7 percent of taxes due were collected in Camden last year — homeowners are hit by the highest property taxes in New Jersey. Cynthia Taylor, a kindergarten teacher who bought a three-bedroom row house three years ago for \$10,000, pays \$1,000 a year in taxes.

But Camden's children, who

make up an astonishing 42 percent of the population, may suffer the worst burdens. The schools have deteriorated so much that the state threatened to take them over last year. With unemployment as high as 20 percent, the young have little hope for eventual jobs even if they do stay in school. There aren't even any movie theaters for them to go to.

Kenyatta Byrd, 14, says it "hurts" to live in such a city. "I won't tell anybody I'm from Camden," she confides. "I'm embarrassed about the way it is."

Asserts Patrick Keating, the city's business administrator: "I'm not ready to give up just yet." But he moved his own family out nine years ago.

Still, most of those living in the forgotten cities consider them home, no matter how blighted. Aided by a nonprofit housing group, Lallois Davis bought a \$5,000 brick row house in Camden three years ago. It could be nicer. It's just a block from the sewage plant. To protect her family — three daughters and a son — from robbers, she keeps a Little League baseball bat by the front door and a machete in the kitchen.

Nonetheless, she plans to stick it out. She and a teen-age daughter stuccoed the living-room and dining-room ceilings and put in new kitchen cabinets. Now, they are paneling an upstairs bedroom.

What has happened to Camden is "heartbreaking," Davis says. "But I'd love to see Camden come back."

Community Record

Marriage Licenses

(From Page C-6)

Miguel Andrade, 39, Banning and Gloria Flores, 43, Banning
Gary Lambert, 40, Banning and Deborah Partridge, 35, Banning
Francis Gallington, 54, Riverside and Joyce Baker, 49, Riverside

Mathew Godfrey, 23, Riverside and Heidi Nielsen, 21, Riverside
Todd Fisher, 26, Moreno Valley and Melody Moore, 21, Moreno Valley
Raul Robles, 29, Colton and Tracy Hutchinson, 29, Colton
Cameron Pittman, 26, Warner and Joanne Davider, 21, Corona
Gary Halstead, 36, Aguanga and Sondra Treadwell, 31, Aguanga
Marvin Dodge, 22, Provo, Utah and Leslie Hudgens, 25, Riverside

Peter Michalowski, 34, Lake Elsinore and Sondra Bass, 29, Lake Elsinore
David Murphy, 29, Banning and Deanna Cash, 25, Banning

Ronald Slack, 27, Riverside and Gaylene Shepherd, 25, Riverside

Dean Zanone, 34, Norco and Valerie Nickoley, 33, Norco

Richard Siu, 25, Moreno Valley and Sandra Barton, 22, Moreno Valley

George Kramer, 59, Bellflower and Linda Kramer, 43, Moreno Valley

Edward Starbuck, 47, Corona and Rosemary Hinko, 41, El Toro

Dan Bostick, 35, Riverside and Debbie Leavitt, 26, Riverside

Jaime Jordan, 22, San Jacinto and Maribel Tarango, 20, Hemet

Daniel Suarez, 28, Hemet and Olivia Velgara, 19, Hemet

Dillard Couch, 20, Riverside and Melinda Hughes, 20, Riverside

James Anelle, 24, Moreno Valley and Lanette Knighten, 23, Moreno Valley

Michael Valdez, 21, Moreno Valley and Kolene Knighten, 22, Moreno Valley

Glenn Stanfill, 33, Moreno Valley and Charlina Wright, 37, Moreno Valley

Daniel Laliberte, 25, Corona and Sheri Pullen, 23, Corona

David Martinez, 56, Hemet and Joyce Coelho, 48, Hemet

Chris Nemeth, 18, Perris and Shawna Doyle, 17, Perris

Farran Helmick Jr., 63, Riverside and Lois Matthews, 63, Riverside

Marcel Lemieux, 55, Rialto and Anna Holt, 50, Rialto

Allen Woodruff, 29, Riverside and Suzanne Spires, 29, Riverside

Charles McCall, 50, Hemet and Elva Lothringer, 34, Hemet

Daniel Hase-Evans, 19, Perris and Cari Harris, 18, Romoland

Frederick Ricciardi Jr., 20, Hemet and Sheryl Hill, 20, Hemet

Edwin Singleton Jr., 32, Perris and Stephanie Willis, 31, Compton

David Hall, 27, Pomona and Susan Lamens, 23, Moreno Valley

Jorge Santiago, 23, Loma Linda and Paula Flores, 21, Loma Linda

Leon Kerr, 83, Oregon City, Ore. and Mildred Pendleton, 78, Corona

Thursday, June 30, 1988

C-7

Billy Davis, 38, Riverside and Charlotte Douglas, 33, Riverside

Stacy Fort, 21, Riverside and Alice Stubblefield, 20, Riverside

Paul Nix, 27, Norco and DeVonna Shimp, 31, Corona

Gary Coslett, 31, Corona and Jill DeVassie, 32, Corona

Timothy Klock, 26, Riverside and Terri Kinsey, 24, Riverside

Kevin Davis, 33, Riverside and Ella Joseph, 26, Riverside

Michele Falsetti, 23, Riverside and Tara Sparks, 23, Riverside

Michael Gordon, 29, Lake Elsinore and Shanilee Staples, 23, Lake Elsinore

Eric Hoke, 35, Mira Loma and Cynthia Mellott, 30, Moreno Valley

OUR MONTHLY
BROADWAY
CHARGE PAYMENT

BEEN DOWN SO LONG IT LOOKS LIKE UP IN NEWARK

But after years of decline, the race to recovery won't be easy

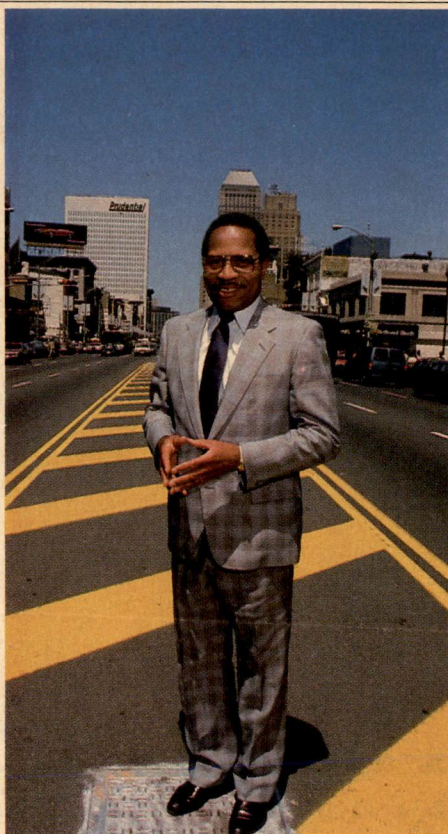
Sharpe James reached the finals in the U.S. Olympic trials for the 800-meter run back in 1960. He didn't make it to that year's games in Rome, but he did have lots of practice getting out of the blocks fast. It obviously stuck. For even before James began a four-year term as mayor of Newark in July, 1986, he had hired Coopers & Lybrand to scrutinize the city's operations and finances.

That James would enlist business consultants fits, too. He says he decided to run Newark "like a business, not like a kaffeeklatsch"—a pointed jab at his four-term predecessor, Kenneth Gibson, whose administration had frustrated industry. Newark's business leaders had griped that Gibson couldn't even take care of the small stuff—such as getting the phones answered at city hall.

But now, after nearly 20 years of decline, Newark is slowly coming back. And James is guiding its advance in ways both big and small. Following one of Coopers & Lybrand's recommendations, the city has collected \$15 million in back water taxes. Newark's \$338 million budget has also been balanced by raising taxes and attracting new business.

ON THE HORN. The city boasts that it has lured \$1.5 billion in new investment since 1986. For example, Hartz Mountain Industries is putting up a 1.5 million-square-foot industrial park near Newark International Airport. Now, city hall is not just picking up the phone, it's making the calls. "Sharpe James is a doer," says Joseph Morris, whose Morris Co., a Secaucus (N.J.) developer, will build a \$100 million industrial plant on city land. "James talked me into coming into Newark and putting up the bucks."

That's something, given Newark's history. A riot back in 1967 took 27 lives and destroyed many businesses. From there it was all downhill, with the population thinning by nearly 20%, to about 310,000, and property assessments eroding by a like amount. Big employers, including General Electric Corp. and Westinghouse Electric Corp., closed shop. But, notes Robert C. Winters, chairman of Newark-based Prudential Insurance Co.: "Even in Newark's dark-



MAYOR JAMES: THE NEW NEWARK HAS LURED \$1.5 BILLION IN INVESTMENT SINCE 1986

est days, there were those who had faith that it would one day come back." Trouble was, few of the faithful were willing to put money on it.

After 1967, less than a dozen privately financed homes went up in Newark. Then this year, Vogue Housing Connection, a private builder based in the city, began selling 40 units at market prices. K. Hovnanian Companies, a big, publicly held developer, is putting up 168 town-

'Even in Newark's darkest days, there were those who had faith that it would one day come back'

houses, ticketed to go for \$73,000 to \$103,000. All told, plans for 70 residential developments envision more than 4,000 new units, most at market prices. Vogue President Donald L. Harris credits James with cutting red tape. He says: "The mayor initiated one-stop processing" for building permits and such.

Born in Florida, the 52-year-old James was raised in Newark, where he attended local schools, taught social studies at Essex County College for 18 years, and served on the city council since 1970. In the nonpartisan mayoral election, James, a Democrat, swept all five of the city's wards to defeat Gibson handily.

James also has benefited from good luck and timing. New Jersey's unemployment rate has dropped to 3.9% from 9% in 1982, and the state began enjoying renewed prosperity as part of the general Northeastern resurgence that has boosted land values and rents. In Manhattan, office rents typically run \$39 a square foot. In Newark, which is only 15 minutes away by train, space can be had for \$25 a square foot. Promoters are working to exploit the difference.

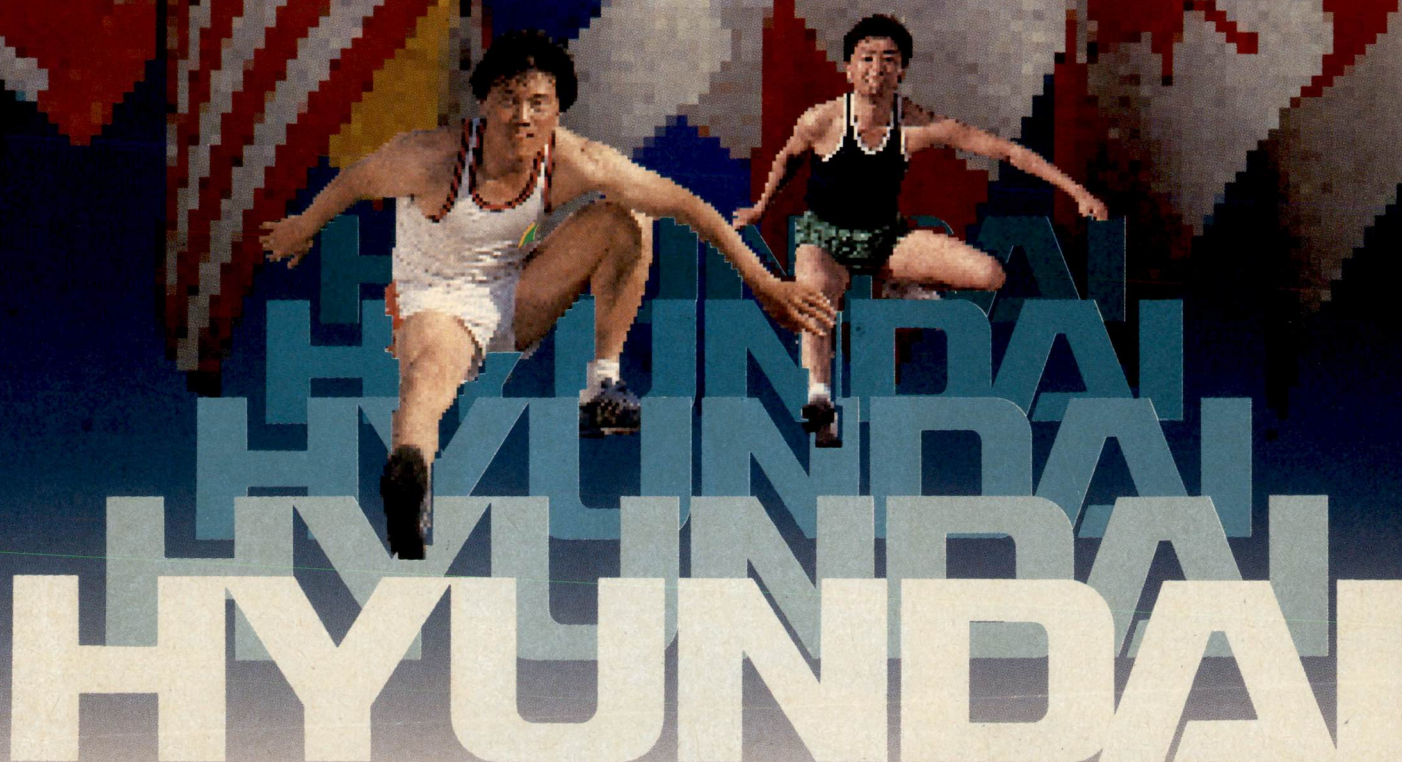
MANY WOES. Newark has by no means cured all its ills. Among the many: alarming numbers of pregnant teens, a welfare population that makes up fully one-third of the city, and a school system that the state is threatening to take over because students' test scores are so low. Joblessness in Newark has dropped a couple of points since 1986, but at 8.7%, it remains well above the national rate.

Housing the city's poor is an even more difficult problem. Newark has more than 6,000 people waiting for public housing and an estimated 10,000 homeless. But the city council appoints Newark Housing Authority commissioners, and James says he can only move the NHA by "cooperative persuasion."

James's private-sector approach doesn't appeal to all quarters. One critic is Monsignor William J. Linder, who runs the nonprofit New Community Corp., which owns 2,270 Newark apartments. The city's revival, he complains, "is driving up real estate values" and tends to develop white-collar jobs "that do not go to the local people."

But James is hoping that he can keep voters such as Vernon Faith, 37, on his side. A Newarker who works as a chef at St. Elizabeth Hospital in nearby Elizabeth, Faith says development is worth the price. Figuring that higher taxes and rents are worth it if they help to bring jobs, Faith says, "I don't mind paying the freight." With teammates like Faith, James says that Newark is "in the race now." If so, it'll be a marathon.

By Frank McCoy in Newark



Catch The Olympic Spirit

For us at Hyundai, the Olympic Games are something special.

Special because the Games call for the same dedication, vision, and outstanding performance that Hyundai does.

The spirit of achievement and the quest for excellence brings life to the Olympics, and it's at the heart of what guides the Hyundai Business Group.

As a corporate athlete in our own ranks, Hyundai has triumphed around the world in key industrial sectors from automobiles and ships to steel and construction.

And because our quest never ends, Hyundai is working towards Olympic-class achievements in electronics, telecommunications, robotics, and other high technology fields.

So look for Hyundai - a leader in progress now and in the 21st century.

Hyundai, Olympians in Business.



140-2 Kye-dong, Chongro-ku, Seoul, Korea.

TEL: 741-2111/20, 741-4141/70

TLX: HYUNDAI K23111/5, K23175/7HD CORP.



F: St John's talk

NEWSLETTER

Transit Riders in Pursuit is a non-profit research organization committed to the improvement of this city's public transportation system. Membership is open to any transit user for \$1.00 per year.

VOLUME 5 NUMBER 2

SUMMER 1988

New York City's Buses in Decline

Much fuss has been made over the so-called "comeback" of New York City's subway system but the steady decline of the city's vast bus network has been virtually ignored by the press, transit professionals and public officeholders. It is increasingly apparent to New Yorkers that the waits at bus stops are becoming longer and longer.

At a community meeting of Board 8 on the Upper East Side several months ago, the transit authority representative admitted that the authority was cutting several hundred buses from the fleet. The spokesman added that more buses would be cut and accounted for these actions by citing declining bus ridership figures. When the audience shouted its protest to these cutbacks, the agency rep said that it was customary to cut back when a business is losing revenue. One of the Board members angrily shouted that when a business is failing, one should look for better managers.

The transit authority justifies these bus cuts by reporting results of studies that show lower ridership figures.

Yet, the authority refuses to allow independent groups such as the Committee for Better Transit and the MTA's Permanent Citizens Advisory Committee to assess the data of these studies.

All New Yorkers suffer from the deterioration of bus service but the most bus-dependent—women, elderly, children and the disabled—have been inconvenienced even more. Senior citizens and the disabled especially depend on buses because of greater distances to subway stations and subway stairs.

Buses and subways are *both* needed in this town and the transit authority must recognize that the two must function in a coordinated fashion and not treat them as competitors.

We must begin to think more of exclusive bus lanes, introducing bus to subway transfers at certain junctions, and treating the bus system as an equal partner to the rapid transit system.

Arline L. Bronzaf, Ph.D.
Lehman College, CUNY

Closing The Williamsburg Bridge: A Commuter's Nightmare

The Williamsburg Bridge (on Delancy Street) was closed on April 12, 1988 for safety reasons. The discovery of extensive corrosion in the 85 year old structure has extended the temporary shutdown. The inspections in 1984 and 1985 identified several corroded areas which were not corrected because of plans to reconstruct the bridge in 1987. Without service on the M and J lines between Manhattan and Brooklyn, the 84,000 subway riders can use the L line, the ferry (from Division Street, Brooklyn to South Ferry Manhattan, free to Manhattan, 25¢ to Brooklyn) or walk or bicycle across the bridge. The 160,000 auto commuters must use other already congested East River crossings.

The closing of the Williamsburg Bridge makes two things perfectly clear: (1) the city is not providing the resources necessary to adequately maintain its infra-structure (bridges, tunnels, highways, streets, subways, water and sewage lines): (2) New York City is at or near its limit for automobile traffic.

If the infra-structure is allowed to deteriorate without repair or substitution everyone suffers and the city goes further into decline. The city spends only \$8 million annually on bridge maintenance when \$140 million is needed. Even if one doesn't drive, one depends on people, goods and services that do use cars and trucks. We feel the city *must* support and maintain the existing bridges, roads and subways with adequate funds.

If New York City is choking on its own traffic, then progress lies with supporting and maintaining the subways and buses as an alternative to driving. The subways which currently handle 3.6 million daily trips, handled over 6.5 million trips each day in the 1930's and 1940's. The city must allocate more resources to improve subway/bus service and to increase its capacity. The City/MTA should then take the bold step necessary to bring riders back to mass transit, LOWER OR ELIMINATE the fare!

If people insist on driving in daily traffic jams and are willing to pay exorbitant parking fees and tickets, maybe they are saying that service underground is just not worth the hassle. If the fare was lowered or eliminated drivers would be enticed back to mass transit. It would then be up to the MTA to increase the systems capacity to where we were 50 years ago.

CHANGES COMING — The NYCTA is planning to change #1 IRT service above 96th St. by having skip-stop service. They are adding a #9 train that will stop at certain stations while the #1 will stop at all other stations. At several stops, namely 103, 110, 116, 137, 168, 191 and 231, both the #1 and #9 will stop. *What happened to 181st St.? Isn't it busy enough?*

FREE T-SHIRT!! - IF YOU SIGN UP 4 NEW MEMBERS



TRANSIT NEWSLETTER

published by:

TRANSIT RIDERS IN PURSUIT, INC.
P.O. Box 310, NY 10032 • 212-923-6767

Executive Director: **Felice Gruskin**

Editor: **Jay Howard**

Production Manager: **Diana Levine**

BOARD OF DIRECTORS

Dr. Arline Bronzaft	Mary Kaplowitz
Dr. Stephen Dobrow	Hon. Kenneth L. Shorter
Felice Gruskin	

ADVISORY COMMITTEE

Isaac Asimov	Douglas A. Kellner
Hon. Rick Braun	Hon. Franz S. Leichter
Sydney Bridgeman	Trudy L. Mason
Dr. Paul J. Burke	Lloyd McAulay
Perry Bruskin	Rev. Elias Miner
Dr. Steve Cord	Lawrence C. Moss
Hon. David N. Dinkins	Hon. Brian Murtaugh
Hon. Herman D. Farrell	Hon. Jerrold Nadler
Joe Franklin	Eric Neuwirth
Hon. Kathryn E. Freed	Hon. Basil Paterson
Henry A. Freedman	Alfred J. Perlen
Prof. Mason Gaffney	Hon. Peter J. Philip
Hon. Ludwig Gelobter	Stephanie Rogall
Lillian Gish	Joseph B. Rosenblatt
Hon. Brenda J. Goodman	Rhoda Lee Rubin
Paul J. Groncki	Hon. Norman C. Ryp
Rev. Donald Harrington	Joel Serebin
Prof. C. Lowell Harriss	Hon. Elizabeth Shollenberger
Charles Haseloff	Marion Stone
Min Herskowitz	Dr. William Vickrey
Gladys Hayman	Vincent Vitale
Reggie Jackson	Samuel Weinbaum

Across the Country

Other areas in the U.S. have applied some of the ideas proposed by TRIP. Seattle has already appeared on these pages because of its NO-FARE mass transit in the central business district.

Thomas L. Johnson, Congressman and then Mayor of Cleveland around the turn of the century, fought for free transit and did get it reduced to 3¢. Los Angeles will get 11% of the cost of its new subway line from "benefit" charges on land near the subway line. The "benefit" charges are being proposed in a complicated manner and might not be as efficient as a true land-value tax.

NYC Applied Modified LVT in '20's

Yes, NYC experienced the largest construction boom in the '20's by applying what amounts to a tax only on land value. In that era, hundreds of thousands of apartment units were constructed. What happened was that the City allowed a 10-year tax abatement for any residential builders, as of right. For a period of ten years the land owner would have to pay the tax only on the land value. After ten years the landlord paid taxes on the land value and the building. However, this ten-year abatement caused the greatest construction boom in New York City's history.

MTA Caters to the Yuppie Rider

The MTA began a \$1 million promotion campaign to sell midtown IRT service (lines 1, 2, 3, 4, 5 and 6) claiming 3-5 minute headway during midday hours.

The full page ads appear in the *New York Times* and are targeted toward 25 to 44 year olds making over \$50,000. Subway service is even euphemistically called "MIDTOWN BUSINESS SERVICE". One can hardly fault the MTA in its publicity effort to attract more riders. However, there are other people using "business service" on other lines and in other boroughs still facing inordinate delays and cattle-car rides from the Bronx, Queens and Brooklyn at rush hour.

TRIP feels the problems of the average "business service" user should be addressed as well as the upscale user. When service for the other parts of the system is up to par, then the MTA can mount a publicity campaign for average New Yorkers and even take out ads in the *New York Post* or *Daily News*.

On the Right PATH

PATH, Port Authority Trans-Hudson, trains provide 24 hour subway service between Newark, Hoboken and Jersey City to downtown Manhattan. Wouldn't it be wonderful to get the kind of rush hour service that PATH gets. Their morning rush hour starts at 6:24 A.M. and the evening rush hour at 3:30 P.M. and extends to 6:50 P.M. Their headway is from 3 to 5 minutes. When will it happen here?

From the Editor

TRIP has been active for five years, working for improved mass transit through improvement of services and for a NO-FARE transit system. Richard Kiley and David Gunn have also been working to "improve" the system—purchasing new subway cars, achieving improved station appearance, reducing derailments, etc. However, Kiley and Gunn have also been responsible for reduced bus routes, closed newsstands and closed or reduced hours at token booths. Nevertheless, the present system is plagued with the same problems when TRIP started. The problems simply stated are depressing conditions, frequent breakdowns and delays and a prohibitive fare for the average worker. People don't like to ride the subways, they have to! New York's mass transit system, with the emphasis on cosmetics, cutbacks and fare increases, is slowly becoming an elitist system which will charge \$2 or more to ride the subway which will go to far fewer places.

The goals of TRIP are even more appropriate now than ever. The ridership should be treated as an asset and not as a workhorse to pay ever-increasing fares. The costs of the system should be paid for in a way that does not decrease ridership! *FARES MUST BE REDUCED* so that everyone can ride. The system should be paid for by the landowners through a tax on land values.

Why landowners? The land is valuable just because of the easy access to mass transit and a free fare will make the land even more valuable.

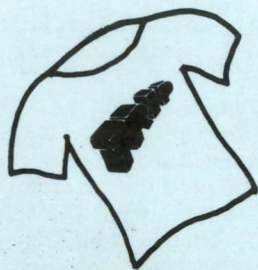
Why a land-value tax? Taxing land value will not reduce the amount or utility of the land as a tax on improvements or a tax on people (i.e. the fare) will. The amount of land is fixed and taxing land value cannot reduce the amount of land. This will not increase the tax on improvements (buildings, stores, theatres), so it will not hinder economic development of the land. Taxing the land value will cause the landowner to try to make the most money from the land by developing it to its full productive potential. Thus, vacant lots should disappear and abandoned buildings will be rehabilitated or replaced by more modern structures. If the landlord cannot pay the tax then he will sell the land to someone who will be able to pay the land value tax by developing the property. A LAND VALUE TAX is a tax whose time has come. (See article on Henry George and LVT, page 4.)

Automatic Fare Collection: Still a Long Way Off

Automatic Fare Collection (AFC) is another pet MTA program several years off. An AFC card will allow multiple use and eliminate the need to wait on token booth lines. The AFC system is being evaluated in 40 stations equipped with AFC-turnstiles with transit employees and other selected riders receiving the cards. But if successful it won't be implemented until the mid-1990's!! Unfortunately, there is little likelihood of a simultaneous collapse of all token booths which would give the MTA the push needed to get AFC set up in a reasonable time (6 months to 1 year).

Lost In Transit

The MTA is on the right track when trying to get more people to use the subways. However, TRIP feels enough is enough. By mass closing of subway exits the MTA is making it harder to leave the subway system. Some people spend hours looking for an exit to the street, while others go to the next stop where they're fairly sure the exit hasn't been blockaded, yet. Last month 8 people got completely lost at Penn Station and turned up hours later in Newark, New Jersey. C'mon Mr. Kiley and Mr. Gunn, let's leave the exits and entrances to the system open all the time. New York City should have a friendly system that doesn't gain ridership by unjustly imprisoning them.



FREE T-SHIRT!!

- if you SIGN UP 4 NEW MEMBERS:
Fill out coupons below and send your membership dues
(\$1 for each member) to:
TRANSIT RIDERS IN PURSUIT, INC.
P.O. BOX 310
NEW YORK, NY 10032



NAME _____
ADDRESS _____
CITY _____ STATE _____ ZIP _____
PLEASE CHECK ONE: ☐ \$1 Annual Dues ☐ Donation _____
I ride: ☐ Buses ☐ Frequently ☐ Occasionally ☐ Never
☐ Subways ☐ Frequently ☐ Occasionally ☐ Never
My most serious complaint is: _____

NAME _____
ADDRESS _____
CITY _____ STATE _____ ZIP _____
PLEASE CHECK ONE: ☐ \$1 Annual Dues ☐ Donation _____
I ride: ☐ Buses ☐ Frequently ☐ Occasionally ☐ Never
☐ Subways ☐ Frequently ☐ Occasionally ☐ Never
My most serious complaint is: _____

NAME _____
ADDRESS _____
CITY _____ STATE _____ ZIP _____
PLEASE CHECK ONE: ☐ \$1 Annual Dues ☐ Donation _____
I ride: ☐ Buses ☐ Frequently ☐ Occasionally ☐ Never
☐ Subways ☐ Frequently ☐ Occasionally ☐ Never
My most serious complaint is: _____

NAME _____
ADDRESS _____
CITY _____ STATE _____ ZIP _____
PLEASE CHECK ONE: ☐ \$1 Annual Dues ☐ Donation _____
I ride: ☐ Buses ☐ Frequently ☐ Occasionally ☐ Never
☐ Subways ☐ Frequently ☐ Occasionally ☐ Never
My most serious complaint is: _____

TRIP t-shirts (white with green logo) may be purchased by sending \$8 each (postage included) to
TRIP, P.O. Box 310, NYC, NY 10032. Be sure to give us your size - S, M, L, XL.

TRIP Would Like to:

1. Propose a stable source of income for mass transit through a land value tax surcharge that will pay for improved capital and expense operations and will allow a zero or reduced fare transit system.
2. Improve bus and subway service making it safer, cleaner and more reliable. This will increase ridership, reduce auto congestion and air pollution and improve the quality of life in New York.
3. Make the MTA accountable to the riding public by communicating the needs of bus and subway riders to management of the MTA and NYCTA.
4. Increase TRIP membership (eventually to all mass transit users) to increase its voice.

Recent TRIP Activities

TRIP has been active lately pursuing its goals and trying to increase its membership. TRIP sponsored a half hour panel discussion shown on Channel J (23) on April 14, 1988. TRIP now has an attractive Tee-Shirt with the TRIP logo for sale or for FREE with four new members. Our Executive Director has attended several meetings and public hearings on transit matters and taxation.

Felice Gruskin appeared on a radio talk show, Community Concern, in January. The Advisory Committee and Board of Directors of TRIP held a board meeting on April 13, 1988 where future strategies were planned. TRIP has a new secretary, Moira Reid and also a publicity specialist, Toby Sanchez.

TRIP on TV

A half hour panel discussion on transit issues was shown on April 14, 1988. Five members of TRIP were on the panel (Nan Braman, Bob Clancy, Brenda Goodman, Kevin Lynch and Steven Strauss) moderated by Felice Gruskin. The panel discussed how to improve mass transit and how a land-value tax can help reduce the fare. The discussion can be seen again in July/August on channel J (23). The videotape (VHS) is available for \$24.95 (postage included) from TRIP, P.O. Box 310, New York, N.Y. 10032.

London Subway Fire - Could it Happen Here?

We extolled the London subway system in the last issue of our NEWSLETTER. As chance would have it the most catastrophic fire in the history of London's subway occurred while our Newsletter was at the printers.

The fire occurred on November 9, 1987 at a wooden escalator in the busiest station (King's Cross) at the end of the rush hour. The wooden escalator became engulfed in flames and filled the station and tunnels with smoke which trapped people and hampered fire-fighting. Thirty-

two perished and eighty people were injured.

Could such a tragedy happen in New York? Fortunately there are no wooden escalators in our subways. However, dangerous conditions do exist and we feel the MTA should address them immediately to prevent a similar tragedy in New York:

1. Doors on some lines (e.g. A, E and F lines) are locked preventing evacuation through the train.
2. Inadequate emergency exits.

3. Lack of smoke detectors.
4. Emergency communications (phones) are inadequate and are not tested or checked routinely.
5. Emergency plans are insufficient or non-existent.

To quote one transit official "When a train catches fire, you get inky black smoke...you have to get people out of there and fire fighters in there. Making these things happen is not so easy and we aren't as good at it as we should be."

Mason Gaffney
3040 Tyler St.
Riverside, CA 92503



Address Correction Requested

Transit Riders in Pursuit, Inc.
P.O. Box 310
New York, NY 10032

NON-PROFIT ORG.
U.S. POSTAGE
PAID
Permit No. 1856
New York, NY 10001

Comments, Please

TRIP would like to hear from other members. Do you have a comment, or story or a pet peeve that you would like to share with other trip members. Write TRIP Newsletter, P.O. Box 310, New York, NY 10032.

Newsstand Closings

Anyone who regularly rides the subways may have noticed that the platforms and stations are a little emptier lately. You see, within the last seven (7) months, David Gunn, President of NYCTA closed 43 subway newsstands. Shame on David Gunn. These newsstands have provided riders with safety, jobs and convenience. We think they should be re-opened immediately and not for the exorbitant price of \$40,000 *plus* an annual rent of \$43,000.

Member Questions MTA

One of our Life Members, David Middleton, Jr. has written to the Chairman of the MTA, Robert Kiley, about the cost of a new subway car. Mr. Middleton questions the \$1.2 million purchase price of a 40-ton subway car, when a 200-ton diesel/electric locomotive is also priced at \$1.2 million. Mr. Kiley responds with form letters but has yet to give a satisfactory explanation for this cost.

Henry George and Land Value Taxation

Born in Philadelphia in 1839, Henry George sailed around the world and settled in San Francisco where, as a newspaper editor, he addressed the social problems of his day. On a visit to New York, he was moved to find a solution to the shocking contrast between the wealth and poverty he found there. The fruit of his search, *Progress and Poverty*, was published in 1879, became a best seller on economics, and has sold several million copies in 18 languages.

George's popularity nearly got him elected mayor of New York in 1886.

Rising land rents are caused by the growth of society, and speculation in land rents aggravates the tendency to benefit some and impoverish others. The solution George proposes is the public appropriation of land rent, taking the incentive out of holding more land than one can productively use. More land would come on the market, lowering land rents and prices, thus giving labor and capital more opportunity to create and keep more of the wealth produced. Finally, using land rents to fund public services would render unnecessary taxes on labor and capital, which reduce the incentive to produce. Freed from the burden of taxation, labor and capital would be able to produce and keep that part of the wealth that is now taxed.

Comments from Members

We hear many complaints about service on the subways and buses. People ask "What good are new subway cars when service is still so unreliable?" "Why, when a station is reconditioned, are the benches put back only in the middle of the platform, and eliminated at both ends?" Why can't I buy a newspaper like I used to from a vendor in the subway?" "Why are so many more entrances closed now?" "Why do I have to wait 25 minutes for a bus and then 4 come in a bunch?" Why does the MTA give such a high priority to graffiti removal and Midtown Business Service at the expense of these other passenger conveniences? The MTA talks of revitalization but we haven't seen it yet in as many areas as we should.

Complaint Number of the New York City Transit Authority is 1-718-330-3322, but they may be slow to answer.

TRIP T-shirts are available for \$8 or FREE to members who sign up 4 new members (see page 3 for details)

TRIP needs help. Can you give us your time and attention to keep spreading the word. If you can or know someone who can, please call Felice Gruskin at 212-923-6976.

Henry George's remedy for poverty - "to abolish all taxation save that upon land values" - soon became known as the Single Tax. Though a tax in name, it is not an arbitrary levy upon labor and wealth, as is the case with most taxation. Rather, it is a payment to the community for the use of a site, whose market value is determined by community activities around the site.

Today, George's remedy has achieved some partial applications but not as a *single* tax. Land Value Taxation (or LVT) is an increase of local taxes on land value with a corresponding decrease of taxes on buildings, improvements, and other sources of revenue. This reliance upon community-created site-values rewards those communities that provide the best public services. It also rewards landowners who put their sites to their best uses (creating improvements and employment). These benefits which flow from a modest application of the Single Tax principle have been documented - and are attracting increasing attention to it. Many economists are favorable to LVT.

(For more information on the ideas of Henry George or activities at the Henry George School, call or write: Henry George School of Social Science, 121 East 30th St., New York, NY 10016. Phone 212-697-9880).

F: HTRDL, Wskp

~~Call~~ N. Buechner

212 927 0129 res.

Wants to publish, but not republish.

Ask IL man if he'll wait.

Peter Colwell

"Noteworthy Papers" - First paper.

Att

Nort. is not sure how circulated it will be, to what audience. Will check & call back.

8/5 -
217 - 333-~~0100~~ 1000 luf
- 2110 Dept. of Econ.
- 1185
351-3007 home

Mason Gaffney
3040 Tyler Street
Riverside, CA 92503

27 June 89

Prof. Peter Colwell
ORER Professor of Real Estate
Department of Finance
U of Ill
1407 West Gregory Drive - 304B DKH
Urbana IL 61801

Dear Peter:

Thank you for appearing at the WEA Conference last week, and performing so splendidly. It was a pleasure meeting you, and having you join us. I only regret you disappeared so quickly, I was hoping we might have some time to chat and conspire.

I hope you will submit your paper to the Editors of CPI, Contemporary Policy Issues, % Professor Darwin Hall, Economics, Cal State U Long Beach, 90840. You may or may not want to revise it after hearing the discussion at Tahoe, that is up to your judgment. CPI will send it out for review.

There is some previous literature you may want to consult. One is my chapter on "Adequacy of Land as a Tax Base" in Dan Holland's volume, The Assessment of Land Value, UW Press, ca. 1969. There is a later chapter on the same subject by Marvin Johnson of Madison, and Shauna Grosskopf of SIU, which you could locate by calling either of them. Neither of us, as best I recall, treated the effects of elasticity of demand for land, as you do so skillfully. That has not only been neglected by us before, it is especially relevant and timely today when entry barriers into the land market are such an issue.

On another topic I surely appreciate your suggestion about distributing the talk I gave at St. Johns, and I gratefully accept. As we discussed, I enclose a new page One, with minor emendations. You may want to edit out some of that introductory warm-up anyway, which may be too personal, but some think gives it a more human touch.

Cordially,

St. John's University
GRAND CENTRAL AND UTOPIA PARKWAYS
JAMAICA, NEW YORK 11439

COLLEGES OF BUSINESS ADMINISTRATION

TELEPHONE:
(718) 990-6161

The Henry George Program
May 11, 1988

Professor Mason M. Gaffney
3040 Tyler Street
Riverside, CA 92503

Dear Professor Gaffney:

This letter is to confirm our telephone conversation last week. I am sorry that it has taken me a little longer to write than I anticipated when I spoke to you. I did realize that I did not have your address, and I had to find it in the 1985 Survey of Members of the AEA.

Everyone here is delighted that you have accepted our invitation to give the Fall 1988 Lecture in The Henry George Lecture Series at St. John's University. Your speech, "How To Revive a Dead City," is scheduled for Wednesday, October 26, 1988, from 1:30 to 3:30 p.m. We will pay you an honorarium of \$500 plus all your expenses, including round trip air fare from California to New York, one night's lodging and meals in New York City, plus any other expenses you may incur.

The lecture should be directed to a general audience consisting primarily of students who have no background knowledge in economics. Since this is a Henry George Lecture, some reference to Henry George should be included. We ask our speakers to lecture for about 60 minutes and then to take questions from the audience for about 30 minutes. The last 30 minutes is for refreshments and informal conversation.

We will be undertaking an extensive promotion and publicity campaign for your lecture. To that end, I would be grateful for a copy of your resume and two photographs for our school publications.

I will be in touch with you again several times before your lecture. I will be looking forward to receiving your resume and photographs, and to meeting you in October. Thank you again for accepting our invitation.

Sincerely,

M. Northrup Buechner

M. Northrup Buechner
Henry George Chair

xc Dean Mary F. Maloney
Dean Joseph A. Giacalone

FRITZ FINANCIAL CONSULTING

Economic Consultants To Financial Institutions

32 BAKER HILL ROAD

GREAT NECK, N.Y. 11023

(516) 466-4182

DAVID FRITZ
President

February 24, 1989

Dr. Mason M. Gaffney
Professor of Economics
University of California
Riverside, California

Dear Prof. Gaffney,

I am sorry that I was unable to attend your lecture, "How to Revive a Dead City" given at St. John's University on October 26, 1988. I would like to get a copy of your talk since I am interested in knowing your view of the impact of rent control.

Sincerely,

David Fritz

2 like y44.

INTRODUCTION

a. I am a New Yorker

b. White Plains

My family even has a St. Johns connection. "Me sainted grandfaather - the Oirish wan - sent to St. Johns College, Fordham, N.Y., to become a priest, lead the celibate life. I am the living proof he was not up to the calling. His obit tactfully says "after leaving college he enlisted in the U.S. Navy", but Aunt Fan wrote privately, "papa left Fordham before finishing, and went to California where he taught school. Required mostly brawn, he said."

evidently took him a long time to recover from celibate life.

We go way back, Not so many generations, but they were long ones. Grandfather fought in the Big War: the Civil War. He was up to that, and also to invading Canada afterwards, in hopes of setting old Oireland free. A true Mick. Buried his dad, an old Tammany hand, in Calvary cemetery, Brooklyn.

My othah Grandfathah, the Yankee, was a Presbyterian preachah from Brooklyn Hts. Sent his girls to Packer Collegiate Inst. on Joralemon St. In my family we've unified the Emerald Isle long since, and have much to teach those quarrelsome Ulstermen.

So in my family the past ^{of NY} is only yesterday, and I recall my parents talking of when NYC was not only the center of the world, it was livable and optimistic. But we're here to talk about the future: I'd like to see those good times come again.

1. We're here to look at the ideas of another commuter between NY and Calif., HG, and how they might go to work to revive dead cities. HG was a journalist who taught himself economics. He had a flowing pen, and a brilliant mind, and the book he wrote was and remains the all-time best-seller in economics: P&P.

People remember him today not for the volume of his sales, but the enduring value of his ideas. The formula he worked out ~~there~~ combines the magic of incentive with the magic of justice, and comprises a scheme not just to renew cities, but revitalize society.

Is some irony that HG never made it to the Hall of Fame. Not that he would have cared, he cared for the living, not a stone face. The irony is that the Hall of Fame is now decaying, in a decaying Borough, for failure to use ^{his} the formula ~~he had~~ to keep cities healthy.

2. Dead cities

p. 2

Cities given up for dead.

E. St. Louis
Camden
Benton Harbor, MI
Ford Hts, IL
also Robbins, Harvey
Gary; Newark; Baldwin Park, CA

More common, parts of cities half dead:

S. Bronx
Milwaukee "inner core", *galloping*

*also in growing
regions*

Watts
Riverside, CA, one of fastest growing cities in U.S., has
dead area around CBD, plus CBD itself.

Chicago, S. State St. -- a few blocks from 100% location of
thriving city. (W. Madison is coming back).

Tampa: Urban City

3. Cities that have revived

All dev. is revival, renewal in some sense: all land has been
used before by someone, for something. Long history of each city
lot, several archeological layers, like Ruins of Troy. Is a
matter of making it happen faster, while we're still here to
enjoy and gain.

Gy, Japan, Atlanta, Sunbelt, recovered from wars. We were
slower.

S.F., Chicago, Anchorage, recovered from disasters. Basics were
right; location remained good. Disasters may have helped. Wash,
D.C. recovered from riots, man-made disaster.

Like Phoenix from ashes.

But other revivals are more impressive and relevant: they are
revivals from normal decay and obsolescence, pushed along by good
public policy:

Southfield
Rosslyn
Pittsburgh
Hong Kong
Singapore
Taipeh

}

In all these, has bn. hand of HG at work

into.

Then there are cities of explosive growth after slow periods:

Sydney
Jo-burg

Nairobi
Vancouver and many cities of western Canada, 1900-30
U.S. Pacific cities, same era.

p. 3

again, H. G. at work.

4. Some that shouldn't come back

Mining towns and camps, played-out
Small farm towns that lost farmers

5. Why most should come back

clear, but misleading.

It's been said decayed cities aren't lost, they've been rebuilt elsewhere. They were cash cows that have been milked dry. People move, K moves. But that's only a half truth. Basic site remains put. So, often, does a lot of costly social capital (SK), public and pvt.

Can't afford the urban sprawl.

We have little room left for throwaway cities. New natural sites aren't that common. Is only one Hudson V. etc.: can't afford to kiss off the Bronx, build a duplicate environment elsewhere. Can't rebuild the natural setting at all; and the SK, pub. + pvt. is too costly: shipping, docks, rails, airports, freeways, power plants and grids, gas lines, telephone lines, bridges, etc. *churches, schools, Halls of fame*

I doubt if that's what God had in mind. This is our promised land. "Don't blow it", God keeps telling Israel in Bible. "Don't think I'm giving you another one if you can't handle this one." Seems a reasonable demand: can't really fault The Almighty for taking that attitude.

Nor are other countries ready to give up their slices of this small, scarce earth to us.

Further, these dead areas have high potential values. They are right near majestic mountains on the topo of LV. Park Av, Bev Hills, State & Madison, Sears Tower: land a few blocks, a few miles away can't be worthless. Newark is 15 minutes by train from Manhattan. Its office rents are \$25/sf, vs. ~~\$39~~ in Manhattan (BW, 3 Oct 88). *cf. \$12-14 in Riv., Ca; That means the K you invest in Manh. is more*

Residences of last resort, for people who can't afford rural living? No, to many people Cities are Good, a place of positive values and attraction. Foreigners come from around the world to pay top dollar to locate in Manhattan; SF; Miami; Bev Hills; Newport Beach; Cambridge. If they want open country, is plenty in Ia, Mo, Minn, S.D. -- but they want cities.

*productive
\$*

Even very sick cities still have elements of life. Camden has Campbell Soup; Newark has an airport, new Hartz Mt. Indl Pk, The Pru.

≠ Not the K at top of high-rise, but btm. & middle. To get more bottoms & middles, renew more land.

6. Nature of the urban surplus

One of reasons we remember HG was his pioneering work on cities, how they work and what good they do. Previous economists evidently lived in country estates and saw cities as evil. HG saw them as a new frontier, and an endless frontier because they had increasing returns: the presence of people with good mutual access expedited cooperation through the market which is the essence of civilization. Today we would call it synergy: whole greater than sum of parts.

This synergistic surplus lodges in land rents.

To investor in a building it looks like this. 1st ~~\$10,000~~ ^{\$10K} yields him 30%, or 3,000; but he pays 10% interest, or \$1,000. There is surplus of \$2,000. He'll pay that for the superior location that makes it possible. Then add to the bldg until last unit of \$10k (~~like the race course~~) yields him just 10%, no surplus.

To understand rents is to understand cities.

These rents are annual; they go on forever, and tend to rise. To buy title to land people pay high prices. Here are some examples:

Riv. \$18
SF 1,000
Manh. 2,000
Tokyo 12,000

Riv. rent: \$20/yr.
" LP 18/sf
Manh. rent \$50/yr: $2\frac{1}{2} \times$ Riv.
" LP 2000/sf $110 \times$ Riv.

~~LP~~ ^{Riverside \$5} vary extremely from city to city, and nbrhd to nbrhd. Costs of bldg are pretty constant, but demand varies. Thus, the floor rentals in Newark just pay for the bldg, with little left over, so LP may be ~~\$40~~ ^{triple}/sf. Manhattan, rents are ~~double~~, all the excess goes for ground rent. Values up to \$2,000/sf., $400 \times$ as much.

Tokyo, top of the line, up to \$12,000/sf.

Big cities, LPrice not only hi ~~eff. to~~ psl, but higher pc; + higher relative to bldg values.

Is also highly conc. in ownership; + favorite for absentee + alien buyers.

LP diff. >> diff. in other ec. values.

	<u>luc/cap</u>	<u>LP/st</u>
E. side, upper	80k	800?

N. & C. side	10k	20?
--------------	-----	-----

H. side	7k	5?
---------	----	----

Bronx.

8k = $\frac{1}{10}$ E side

9? = $\frac{1}{100}$ E side

~~10~~

(7) Problem of sharing surplus

Is widely recognized urban rents are a social surplus. Not a profit, to make or supply land. So others than landholder have claim. A good deal of Am. politics deals w. how to share. A pleasant problem? Not really. "Easier to face a common enemy than share a surplus". So ways of sharing are ^{clumsy, quarrelsome} destructive, ~~divisive~~. Bear some response, for dead cities. Too much fighting over spoils: no more spoils.

a) Looting, most obvious. Graft. Featherbedding. Stealing & parasitic behavior of all kinds. The more surplus, the more temptation, the easier the self-righteousness ~~of~~ that leads to looting & graft.

Serrano v. Priest and like decisions in other states after California have not outlawed the property tax for school finance. Rather they have outlawed gross inequalities in the local tax base used for school finance. In Roderiquez the U.S. Supreme Court did not say "forget it". It said each state legislature should respond to its own courts and voters. One way or another, the courts are saying tax bases must be equalized at the state level.

It is not necessary, therefore, to relinquish the property tax, but only to move it to the state level. Thus every local tax haven will automatically be tapped for the benefit of every school child -- and without the need for families to move to invade the tax havens, either, and I submit that when people start locating without being influenced by this factor, we will achieve a much more compact and rational pattern of metropolitan settlement.

✓ It is not just industrial tax enclaves like Emeryville, California, West Milwaukee, Wisconsin, and Clearing, Illinois that will be tapped. Butte, Montana, Hibbing, Minnesota, and Kern County, California look like good candidates, too, with their mineral wealth. (Mineral wealth is concentrated in a few places, usually remote from populous school districts). So do the undertaxed forest lands of Maine, Oregon, and Florida, and the coal measures of Appalachia.

The quality of property tax administration would probably improve at the state level. The optimal scale of assessors' work is larger than most jurisdictions presently going, although the optimal size would fall if we could spread the overhead over more frequent and careful assessments.

b. Rent control. Let consumers capture rent.

Supply inelastic, s.r. Landlords rich, absentee, impersonal, work thru mgt., nasty. So why not?
Several spots on this policy.

1. Limited no. of beneficiaries. Orig. tenants carve out an equity in orig. landlord's estate. They may ~~sublet~~ ^{sublet} to others, become landlords themselves.

2. Lower incentive to create new rental units. At first these get higher rents, but are vulnerable to future controls. So this is worse than a zero-sum game; it's a negative-sum game.

What (1) confiscates is not just land, but bldgs, too. ~~Land~~

Land is fixed, but bldgs must be replaced. ~~Land~~ Land, too, can be reallocated to uncontrolled uses. We all know about condominiumization (can't all pronounce it, but all know about it.)

3. Ten. loses incentive to eke-out space.

4. New class society created: old renters vs. new. Uncontrolled rents are forced up.

5. Sharp conflict btw. ten. + owner. Nasty, legendary. In Tokyo, has led to outright extortion, violence. N.Y. has its horror stories, too.

6. Little or no incentive to improve

Landlord wants ten. to leave

Ten. may die; can't sell; can't do much w/o coop.

7. Ten. can't gain, but only lose, by renewal.

∴ opposes, fights it every way he can.

Creates class of obstructionists - vested int. in avoiding renewal. Land kept from best use.

← Would that it will soon follow through and devote some of its own resources to such a study.

I recommend that there be established in the Internal Revenue Service something like a Federal Board of Equalization, whose function would be to prevent local assessors from helping their constituents lower their income tax liability in this manner. Otherwise we never will get true assessment of land, for you need little imagination to see what pressure this inevitably brings on the local assessor, a pressure that is all one-sided. What we have now is a modern variation of the old problem of competitive underassessment. States solve that problem at low cost by the use of boards of equalization. The Federal government can and should do the same.

F. We keep hearing of public land purchases at prices far above equalized assessed value. Each such case is evidence of malfeasance on someone's part and should alert us to the need for full review, disclosure, and perhaps criminal charges. Is such systematic violation of the law less harmful than breaking and entering?

III. We do need to shift the property ^t/~~T~~ax to the state level.

Half the reasons one hears cited for damning the property tax are not arguments against the property tax as such, but against tax enclaves, against Balkanization, against ^t/~~f~~iscal zoning and havens of high per capita tax base. These are arguments in favor of shifting school financing to the state level. The property tax is only incidental, because for the last few decades it has been mainly local. It used to be state level, and could be again.

8. That's equity disappears from prop. tax base. New privileged class not only gets lower rents, pays no taxes.

I'm a rent-controlled tnt. myself. I understand these things from analogous experience; me + my base Canal wtr. rt. I create wtr. shortage; rent control tnts create hsg shortage. I'd be better off to have state tax wtr. use M to ~~pay~~ raise salaries of UC profs (as it does w. oil royalties).

FPC did same w. oil + gas. Duke Schwartz: "Let's not tax rent; let's elim. rent. Created same set of problems, great gas shortage of '70s.

Rational: hsg, wtr. + energy are too important to leave to the mkt. So we create systems much worse than the mkt. Coffee is allocated better.

c. "French equity": equity in kind

Morcellement; parcellement.

We approach in diff. way. Distrib. land haphazardly, then try to make every parcel as good as every other.

By extending pub. reg./owned utility + xprtn. to every parcel on same terms, regardless of diff. cost of service.

E.g. 1) B.C. Ferry system

2) B.C. Hydro.

3) Milw. wtr. + sewer. City captured + dominated by suburban interests.

gets thereafter is a return on its own investment.^{1/} But our tax system lets land be depreciated as many times as it is sold, or inherited. The income is not only exempt, it is supplemented by the Treasury, for each additional false depreciation is a gift.

This practice bleeds the Treasury. It affects most income property, non-residential and residential both, and thus affects more than half of all the property there is. I have not tried to estimate how many billions of tax money hemorrhages from this ruptured artery, but it can hardly be inconsiderable. Two otherwise impressive quantitative studies of depreciation, one by Richard Slitor for the Douglas Commission and one by Henry Aaron in the AER, shed no light on this particular matter. Both were limited to housing. Both studies downplayed the quantity of tax subsidy in fast write-off (Aaron) and multiple write-off (Slitor). They did not come to grips with false write-off of land. I know of no study that has. It is past time that the Office of Tax Analysis and a hundred independent researchers jump into this issue with both feet. The ACIR recently suggested such a study be made.^{2/}

^{1/} Suppose in 1973 I write off \$100 of land value, and my tax rate is 40%. I reduce my taxes by \$40 in 1973. Thereafter the Treasury has a \$40 or 40% investment in the land. It takes 40% of the ordinary income in perpetuity (maybe), thus getting only a return on its investment. The owner has a 60% investment in the land, and clears 60% of the ordinary income after taxes. Effective tax rate: zero.

This is modified by liability for capital gains tax on excess of sales price over book value. But there are a dozen ways to cut that down, often to zero, and in every case it comes later than the write off, and only half of it is taxable.

^{2/} Advisory Commission, Intergovernmental Relations, Financing Schools and Property Tax Relief: a State Responsibility, Washington, ACIR, January 1973, p. 6.

4) Every leg. district deserves a college campus.

P. 8

5) ~~Wtr~~ Wtr in Calif

3 new ones coming in
U.C.

New fringe of devt. gets several benefits

— "Melded" costs, for setting prices. Lower real cost of serving old areas is passed on to new. Real costs are lower bcs. of:

1. Higher density of service area.

2. Lower elev. " " " "

3. Better natural wtr. sources

— closer

— require less "picks cost" — come from reliable sources, need less storage; or higher quality, need less treatment; or higher elev., need less pumping

— sources are further from competing users, have lower o.c.

4. Steadier demand; higher load factor.

— new fringe also taps advantage of low historical costs

1) Pre-infln; lower i.r.

2) Owned vts.

— new fringe gets state & fed subsidies, earlier devts. didn't get.

These subsidies go thru 3 stages, get pretty extreme.

I. State wtr proj. brings wtr. 100 mi., Feather R. to MWD
Full of subsidies (including state oil funds)

II. MWD, taxes L.A., carries to Riverside, \$200/af. By now, true cost \$1500/af.

III. Riv. melds w. own wtr., pumps to highest pressure zone, sells for common price. Add \$300 real cost; \$20 in rates.

So it costs \$1800; sells for \$20 or \$21.

Congress should instruct the U.S.G.S., Bureau of Mines, or other federal agency to cooperate actively with state and perhaps local agencies in the process of valuing mineral reserves. This entails not just ascertaining the physical volume and grade, it entails valuation, an economic art.

If it be anticipated that states might not cooperate, I suggest that no state be allowed to plead poverty in Washington until it shall have done so. I predict few of them would have reason to plead poverty afterwards.

If it be anticipated that the agencies might not cooperate, or would represent the assessed instead of the public, then a new agency may be called for. Whether in a new or old agency, new personnel are needed, with new skills and a sense of the new mission.

E.*The underassessment of land by local assessors is accepted as prima facie evidence in disputes over income taxes. Land is not depreciable for income tax; buildings are. Understating the share of land lets the taxpayer overstate the depreciable share of real estate that yields cash flow. It lets the owner of income property depreciate land.

There is little useful incentive effect of this tax break. On the contrary, it is a reason for urban nonrenewal and decay. Ecologists will not smile on the wildlife it shelters, the Rattus norvegicus, Rattus rattus, and friends. The main shelter goes to owners of land with older buildings.

Every time an old building is sold the buyer may depreciate it again. For the new basis he uses the new purchase price, never mind how many times previous owners have written off the building, and part of the land value, too. It is bad enough to let an owner depreciate land once only. If you figure it out it is tantamount to exemption in perpetuity: all the Treasury

- 6) Postage-stamp prices. Who runs up postal rates?
Manhattan has 64,000 pop/sq mi, plus bus. pop. Montana, Nevada
"Cost-push of urban sprawl"

~~7) W. Thompson, Distorted price system.~~

Now, however, two changes have occurred. One is the 16th Amendment, allowing taxation of income from whatever source derived and without apportionment. It is reasonably certain that imputed income from property might be included, as Joseph Pechman and other advocates of a CTB (Comprehensive Tax Base) preach it should be. Imputed income and unrealized capital gains both tend to be in proportion to capital value, so a tax on these incomes could be levied just as the property tax is now on the base of capital value.

The second change is revenue sharing. A Federal property tax could be apportioned by population, and the revenue then shared in the same way, or any way Congress decides. The Constitution tells us how taxes must be apportioned, but with spending, anything goes. So, as Professor Don Hagman of the U.C.L.A. law school has pointed out, apportionment is really no constitutional barrier to an effective use of the property tax by the Federal government. There isn't any. Think about it.

What's wrong w. this modified French equity?

1) ~~Note~~, The kind of equity achieved here is not interpersonal, but interregional.

Like fr. aid: Tax poor people in rich countries -

(I see they're finally catching up w. Fr. aid. + (Melda).

Some benefics. are among richest people & corps. in world: In my little corner of the world, here are a few
Irvine Co., Donald Bren, 70k ac. in O.C.

(I refer to our O.C., named for a fruit tree; yours was named for Oransemann royal house of Holland). Includes Newport Beach, Irvine, etc.

Robt. Campeau

Chevron

Ed. De Bevoise

Kaiser Dev, Bedford Props, Comm. Gen.

Mobil

Lusk

Bell Canada (Naon)

S. P.

Cad. Fairview (Olym. + York?)

Bk. of Montreal

Is a way of milking middle-class nobles. to subsidize suburban land specs.

In sylvan areas, every forest owner likes to overstate the value of stumpage for federal tax purposes (to transfer profit to timber culture, which gets capital gains) and to understate it for state and local excise and property tax purposes. All that is needed here is for state and federal tax officers to exchange information and demand the same valuations be used, although of course immature timber must be discounted from its maturity value.

The most underassessed of all properties are mineral reserves. Producing properties are underassessed; reserve properties are not assessed as mineral-bearing land at all. This has something to do with the problem of measuring reserves, but not very much. It has more to do with differential political power, and constitutes in my opinion, one of the worst breakdowns of the democratic process that we suffer. If one really means to help those poor widows, here is a place to start. If the Watergate catharsis is used merely to review the way we play cops-and-robbers, the newsprint lavished on the affair will have been largely wasted. The point is rather how dependence on campaign contribution biases and subverts politicians of both parties at all levels in favor of large contributors. Federal income tax loopholes for mineral owners are matched by local assessors and courts who underassess mineral reserves to the point of exemption.

In West Virginia, for example, U.S.G.S. maps of coal reserves have been available for a long time, but not used. Recently the State Department of Assessment has begun staff work to help local assessors use these maps, and to win the court cases that inevitably follow^{sw}. It has too often been ^{the} old story of young innocents up against old pros, and a low batting average.

2) Costs >> gains

"Spread City", RPA of NY, est. SK of creating one new lot at fringe of NY metro area = 4x sale price of lot. Probably underest. to avoid shocking people.
Ecosts have a name for this: "Dissipation of Ec. Rent".

— Passes for equity, but ~~isn't~~ isn't

— " " effic - ecs. of scale. But creates sprawl, the effic. of the L.I. Xway.

— Once passed for way to make jobs - "waste ecs" of JMK.
Those ideas are now dominant, but we still don't have the feel of it.

If we had to fire a teacher or policeman every time we let some clown boondoggle on another subeconomic water line we'd see the real social cost of these "pub. wks for prot. profit."

unit. At the same time, the city was assembling and/or holding large tracts in an industrial land bank, allegedly because the market put a premium on large tracts. It makes an interesting contrast. I have published some of my findings in "What is Property Tax Reform?", Am. J. of Ecs. and Soc., April 1972; and in "Adequacy of Land as a Tax Base," Daniel Holland (ed.), THE ASSESSMENT OF LAND VALUE, (Madison: U. of Wis. Press, 1970). Similar findings by Armin Jocz in Beloit, Wisconsin and by Alene Ammond in Cherry Hill, New Jersey, were published recently as testimony presented to the Senate Subcommittee on Intergovernmental Relations.^{1/}

Professor Samuel Loescher of Indiana University writes of his students' study that "confirms the substantial underassessment of industrial land relative to adjacent residential land, measured on a per-acre basis, in the area of every major industrial property in Monroe County, Indiana." (letter of 5/19/73).^{2/}

C. The value of assessment reform is much greater than the gain of revenue, however great or small that may be. Increased taxpayer confidence and acceptance are equally important. I do not think that people who countenance corruption and maladministration have any inkling of how destructive these are to the morale of citizens who are outraged first by the facts, and then outraged again by the complaisance and laxity of responsible officials who have the power and duty to act.

1/ Hearings before the Subcommittee on Intergovernmental Relations on the Impact and Administration of the Property Tax, (Washington: G.P.O., 1973).

2/ John Goss and Dave Hill, "An Examination of Property Tax Assessments in Monroe County" MS. (;;. 1-34), Ca. 1973.

8. Sharing surplus is also an opp. for good

Mobilize surplus, put it to good use.

Create a just society, bound in community of interest.

People do care about justice & equity. Have funny ways of showing it sometimes. Rt. now we're in the "me first" generation, but this too shall pass.

9. Problem is, old, sharing generations come up w. some clumsy, stupid ways of sharing & caring. ^{The me generation is} ~~the~~ ~~react's~~ vs. the stupidity, not the noble impulse, not the sense of community.

Key to renewal is shifting ~~to~~ from destructive ways of sharing rent, like rent control; & destructive ways like ^{looting & graft} X-subsidy; to constructive ways

Rent will be shared. ~~Attracts~~ Willing applicants ~~the~~ ~~way~~ ~~money~~ ~~attracts~~ ~~the~~ swarm around it like flies around a pot of honey. Qn. is how.

II. We do need assessment reform.

A. The U.S. Census of Governments' quinquennial report on assessment ratios is persuasive and general evidence that we need assessment reform, but it understates how much we need reform. In respect to industrial property, it omits ownerships whose value is judged to surpass a quarter of a million dollars: that is, most industrial property. It is unfortunate that this is pointed out in a part of the Census most users don't get around to reading, even though perhaps they should, so that it took Nader's Raiders to ferret this out -- at least I am in their debt for rubbing my nose in it.

So many economists are mistaken, I believe, to cite the Census to show that industrial property is not underassessed. The Census is simply not in on the action here, and Nader's data, non-random though they may be, have more to tell us than the Census.

Much of the Nader's data are consistent with and supplement and reaffirm the general principle that land is underassessed. He has focused on industrial landholdings: oil in Texas, coal in the Appalachians, copper in Montana, timber in Georgia and Maine. I know of no reason to doubt the generality of these findings, and many reasons to believe it.

B. The Census study omits the class of land most underassessed, that is unsubdivided acreage inside SMSA's. Much of that is speculative; much is in estates held by the very (and the very very) rich; and much is industrial.

I studied some of this industrial land in Milwaukee. It was not only underassessed, but regressively assessed. The large tracts were given a wholesale rate, allegedly because large tracts sell for less per

10. This brings to HG, for whom these lectures are named.
He taught us how equity + effc. go hand in hand; how to
combine the magic of justice w. magic of incentive.

A. Use monetary mechanism. That's what it's for.
If my bro. ^{+ cousins} & I inherit a house, sized for one fam, don't crowd
in 4 — sell + divide \$. ^{or one buy out the others} Equity in \$. \$ are after better —
can spend them anywhere! Put house on a magic carpet,
move it around w. you. Money is wonderful!

B. In public life, use tax mechanism.
Don't split up land
Don't make mkt. w. rent controls
Don't X-subsidize.

Turn land to highest bidder; Tax rents to support
govt.

school finance, will move right in and raise property taxes for other purposes. This is more consistent with a hypothesis that the property tax is unpopular with a minority who would block the majority from making use of it. If it were really so unpopular it would go away by popular vote.

D. Property income is divided between the public and the private owner in the same ratio that the property tax rate bears to the interest rate. Thus the property tax burden is not to be judge^d solely by the tax rate. Interest rates have risen sharply in the last 25 years, probably as much as tax rates. There is some question, therefore, whether the public share of property income has risen at all.

Table 1 suggests in broad national estimates, what may have happened, 1945-1972, to the tax share of property income.

TABLE 1

Share of property income taken by property tax,
1945-1972, method of crude estimate

	<u>1945</u>	<u>1972</u>
Interest rate (i)	.04	.09
Tax rate (t)	.01	.02
Tax share of property income, $t/(t+i)$	$\frac{.01}{.05}$	$\frac{.02}{.11}$

11. But taxes destroy, we've been taught.

Colin Clark; Art Laffer; supply-side ecs. Laffer speaks only of rate, not base or event

Great discovery of H.G. - is you can tax the Hell ~~out~~ of ~~land~~ (tech. theological term I picked up in my Seminary trig) out of land, not one sq. ft. will ~~be~~ walk away.

Now will God ~~stop creation~~ switch off The Creation. Man creates K; God created land, ^{+ sustains + renews it every day the sun rises.} Doesn't object to taxes.

"Render unto Caesar" ...

Now will man milk on his land. Will use it harder, to meet fixed cost of land tax. ~~Cannot~~ Taxes destroy incentives? The only incentive this tax destroys is incentive to hold land for the rise: to neglect ^{stewardship} ~~stewardship~~. This is supply-side ecs. w. a new twist. Can raises taxes and supply. No hard choice - can do both.

So H.G. not only reconciles effc. + equity; he reconciles taxes + incentives. It's a Miracle; a double Miracle! Like reconciling Evolution + Creationism!

Man deserves Nobel Prize. Not here to collect it, but wd. rather see his ideas kept alive. So they are.
Fortune Mag: "Higher Taxes that Promote Dev."

circumstances prejudicing objectivity. Anything less than rapid, full, voluntary, indeed enthusiastic disclosure should render the findings inoperative.

Meantime, we have direct messages from the voters. Proposals to cut down the property tax were defeated in California, Oregon, Michigan, Colorado, and New Jersey in 1972, by direct popular vote. It was not a partisan issue. Nixon and McGovern alike campaigned to lower property taxes. But faced with the issue itself, the voters saved the property tax. There is no tax over which the average voter has so much control as over the local property tax. The rapid rise of this tax testifies to its popularity, not the reverse. It is conventional rhetoric to grumble about property taxes, perhaps because large owners of property set fashions. When I was a graduate student twenty years ago in California, and ever since, it has been the style to condemn the property tax -- and go right on raising it.

If indeed the property tax is so unpopular, it is fair to ask why many legislatures have made it harder for the voters to raise the property tax than other taxes: to set debt limits and tax limits for localities; to require two-thirds approval on bond issues; to require improvement districts to prove benefits received by property which they tax? There are no such handcuffs on other taxes. Ever since Alexander Hamilton, it has been a pattern of legislators protecting property against the irresponsible popular will.

I ask you to ponder the inconsistency in the deliberations following Serrano v. Priest, of postulating the unpopularity of the property tax while on the other hand raising the specter that localities, relieved from

Camden has highest tax rate in N.J.: ~~100%~~
 a problem, now. But what if tax were on land? a
 depressant becomes a stimulant; a curse becomes a blessing.
 Likewise for most depressed cities.

1

12. Remove other taxes. Double effect

Counterpart of sharing rent is to leave other things alone.
 Not tax bldgs.

Double effect on incentives. Land tax is stick; untax
 bldg. is carrot. Make both bigger.

Is true supply-side econ!

Challenger & Defender. Change balance. Bldg. tax suppresses
 challenger values.

In Mke., 1965, removal of prop. tax on bldg. wd. cause
 30% of city to be removed immediately

(But they went the other way, now lost 20% of pop.)

them. Anyone who wants to substitute his judgment for the market's needs to face up to a certain burden of proof. For the market, with all its failings, does have a rationale.

Residential relief is not especially called for if it means more payroll taxes, for example. The imputed income from the capital value of the owner-occupied home is already exempt from the income tax, while payrolls are taxed both as payrolls and again as income, and again on retail purchases.

Homeowner relief is certainly uncalled for if it means sloughing the burden onto tenants. If regressivity is one's concern then he would certainly begin with tenant relief, not homeowner relief.

On the other hand there is a place for residential relief, for example by deBalkanizing the property tax base and bringing industrial and mineral tax enclaves into school districts with many poor children. We need to tax cars much more heavily than homes, for the homes now provide streets for the cars and suffer enormously from auto noise and fumes. But "relief for the homeowner" is not an end in itself. Fairness, overall balanced equity, and maximum social efficiency and well-being are more adequate statements of ultimate goals. They do not point to lowering the property tax.

7. The Administration has released the results of polls alleged to show that the property tax is the least popular tax. Who audits these polls? Now Watergate shows us what highly motivated men may do for causes they deeply believe in, it might be prudent to reserve judgment on these findings pending candid disclosure, spontaneously volunteered by the pollsters and the administration, of ownership, control, political connections, and any

13. Credit: Triple effect

Bldg's liq. crisis. Thin equity. Crapshooters.

Prop. tax on bldgs. is forced loan to Treas. Is max. on new bldg., when bldg's need for funds is max.

Land tax is opposite.

14. Cum. ^{self-reinforcing} renewal: Quadruple effect.

New bldgs. stimulate renewal around them.

Weaken defences. Pull tenants or buyers away, ~~leave~~ worst space goes vacant, ~~space~~ that owner has to renew.

Strengthen challengers. Everyone wants to be near the new bldg.

Raises tax base — not the bldgs, but land ~~rent~~ prices.
Improve pub. services w/o scaring away fiscal surplus generators.

are on land of high speculative value on the growing edges of business districts, but here it is only the land that is clear. The buildings have little value remaining. And if any part of the property tax is shifted to tenants it is of course only the part on buildings.

In addition, the rich go in for second homes, summer homes, lakeside cottages, ski chalets, hobby farms, and the like. The rich travel more, and spend more on hotels and motels -- all taxable property.

6. There have been recurrent proposals in the wind to exempt "home-owners," a group now nominated to enjoy the mindless adulation and bottomless subsidy heaped on the falling angels "farmers," "motherhood," "growth," and maybe even the Pentagon. Americans need to spoil something it seems, and home folk~~es~~ are good folk~~es~~.

The definition problems are formidable. How much of a hobby farm is a "home," how much a speculative investment? You can imagine how much expensive fun the lawyers will make of that, and how counterproductive it all will be. But that is only a nit, next to the main fault.

I deplore the use of slanted catchphrases like "relief for the home-owners." There are other life-support systems besides owner-occupied homes, and it is single-minded to judge a policy on the basis of what it does for "the homeowner," or other special class. The world is full of various kinds of fundamentalists. You name it, and I can find ten people who think the taxpayers should subsidize it: hunting and fishing, caribou in Alaska, fine arts, performing arts, highway transportation, the merchant marine, interplanetary exploration, education, religion, medicine, birth, birth control, burial, war, peace ... it goes on and on. The world has invented the market to help arbitrate these competing claim~~es~~, or some of

15. 5th effect: xfr land back to locals.

Failure of Rivis. Maria St. Mall. "Absentee Owners"

Is oversimplifying, or misidentifying problem.

Inert, torpid, sleeping owners is more like it. They come in many forms.

They'll gradually lose interest, release land to ~~less~~ more enterprising. You want people who see land as a vehicle for enterprise, not as a cash cow ~~to~~ for their retirement.

16. 6th effect: ΔK , by import & export.

17. 7th effect: Negabucks

Reduce welfare rules, make jobs

Compact city, ease on SK.

18. W. all this talk of enterprise & effie., remember what we started with: a search for justice.

Equity & effie. are not at war. This hard choice we have to make is a stall, to ~~annate~~ enervate & mummify us so we won't do anything.

dwelling units to have a million and pay \$20,000 property taxes. That one ringer in the crowd doubles the mean property tax burden.

Then the statistician takes the mean value and says poor people with income below \$2,000 pay 10% of their income in property taxes, and it is a groaning burden. Talleyrand said "The masses want to believe in something; for their benefit, nothing is so easy to arrange as the facts." We had better massage the data some more and get rid of that enormity.

b. The ownership of property is incomparably more concentrated in a few hands than is the receipt of taxable income. The data are cited in my article mentioned above. In the lower brackets of income, most income comes from labor; in the higher brackets from property, and much property income isn't even counted. I see no way to get away from these overpowering facts.

c. Even if the residential property tax were 100% shifted forward, that would not make it regressive. Almost everyone, has overlooked the point that the poor live, by and large, in dwelling units whose capital value is low relative to the rent. Slums have a low price/earnings ratio, and besides that the earnings are a small share of the gross rent because of high operating and collection costs. ~~The~~ property tax is based on capital value, not on rent. Data cited on how rent related to income are therefore not relevant. Even if all property taxes were shifted to tenants and included in rent, the property taxes levied on the dwellings of the poor are a small share of the rent.^{1/} It is true that some slum

George Peterson, "The Regressivity of the Residential Property Tax," MS. 1972, reported in Search, Urban Institute Newsletter, September-October 1972, p.6.

19. Can ec. policy do everything?

No, but that is what it can do.

Basic impulse, striving for justice, sense of personal ethics, come from family & religion.

There are City Councils that can hotch up the best system devised.

But -- Lincoln Steffens -- deliberate applier of discord.

20. Will renewal destroy housing for the poor?

~~It~~ "Slum Clearance" did; "Urban Renewal" did. The emphasis there was on clearing, not rebdg. Have renewal a bad name. "Removal". Purely negative.

Exempt bldgs, & supply, more hsg. in agg. also more stores, more compts. ⁱⁿ selling. More jobs.

New bldgs pull renters & buyers from old, release space.

How know if agg. & space?

Δ density

Vacant land, banded up bldgs, ^{"banded-out mess"} a fine gain.

Δ quality.

The richer the new tenants, the more space they release elsewhere.

In specific cases, rich will bump poor. Is small part of Ag supply. Protesters who focus on that are straining at gnats, swallowing camels.

certainly been "income." The profession has practiced idolatry on it, and made the income tax a panacea. This comes to the surface when economists judge the property tax by comparing it with AGI.

Yet tax economists have long been up in arms against loopholes, and the public is right with them or ahead of them. It is a popular campaign issue, near the top rating. AGI is neither intellectually respectable nor popularly credible. It is bad enough to stack the cards by judging the property tax on the basis of how closely it resembles an income tax. It is worse to judge it on the basis of how closely it resembles a tax based on AGI. AGI has gotten so bad, any public policy based on AGI is a fraud.

Many a millionaire has achieved zero AGI, or ZAGI. I met one last month. "My dear," says she, "when the late Mr. X passed on I was simply terrified what to do with all the money, and how to fill out that Form 1040. Then I found this simply marvelous lawyer..." I shall always think of her innocent blue eyes when people speak of the elderly low income person crushed by property taxes, which are about all she paid. She was indignant, and sincerely so, at a system that would let her escape income taxes. But she did it for the sake of her children. And who could fault a poor old widow?

Now consider how a few ZAGI-persons affect that data which we see on property taxes of "low-income" people related to their property tax payments. My friend Mrs. X would be there, one of the elderly poor. She is a ringer, a counterfeit pauper, a millionaire in masquerade. Suppose she has a million dollars in taxable property and, at 2%, pays \$20,000 a year in property taxes. It would take 100 genuine paupers in \$10,000

21

3 kinds of slums

Only one kind goes at first - ram of CBD. And only part of that, as CBD compacts.

Bad land slums stay badland.

Mild-effect slums, wobble at fringes.

Is fear of gentrification. But that is where gentry displace poor w/o removal, same bldgs. This is one result of not renewing.

21. Ult. goal, get many cities competing, elim. national scarcity.

22. Summary: reconciliation

Equity & Effic.

Supply-side econ. + Taxn.

Cap. form. & redistrib. Taxn

to attendance (A.D.A.) or other formula based on numbers of people. Conceivably such formulae might be modified for differential local costs and "needs," as some school finance people wish, but that is an option. The point here is that support should vary as a function of population, thus giving the distribution the character of a social dividend.

4. Property taxes reduce the differential effect of inherited wealth on the current generation.

5. The property tax is not regressive. I have written an article this effect, which I cite here rather than recite.^{1/} I would underscore, certain central points that have been omitted or overlooked in later discussion.

a. I have already mentioned here that income, and especially current cash or realized income, is no index to well-being or ability to pay, either. On top of that, AGI on Form 1040 is no index to income. AGI is what is left over after most of the loopholes. Most of the loopholes are related to owning property.-- a blue collar job has never been called a tax shelter.

The other day I met two old friends. One had become a millionaire; the other was a taxpayer. I asked the millionaire his secret, and he said he just listened to Bob Hope, who related that he had become a middleman between the payroll office and the Internal Revenue Service -- until he discovered real estate.

Wendell Willkie once said that a good catchword can obscure analysis for fifty years. The catchword of the generation now pushing fifty has

^{1/} Mason Gaffney, "The Property Tax is a Progressive Tax," Proceedings of 64th Annual Conference on Taxation, National Tax Association, 1971, pp. 408-26.

SM. A

St. Juss.

Use Bible

Renew site earlier.

Shorten life cycle of bldgs — + wheels even more.

Principles of renewal.

a. Incremented, in space. Continuity in space.
Build on strength. Manhattan has plenty.

b. Make rent work for you, & vs. decay.

⑤ { To understand ~~the~~ rent is to understand cities.
Begin by defin' ground rent. Give us.

→ Present approaches destroy & dissip. rent. How?

a. Rent control

Renter can gain from hold'g old bldg;
can't gain, ~~by~~ can only lose by renew'g. Creates
class of destructionists.

(Same as me & my wtr. rt.)

They pay us taxes. Tax base lost.

b. Equity in kind.

E.g. spreading around campuses of

U.C. 3 new ones.

E.g. posts. stamp price.

⑥ Rent will always be political. Always fought over.

⑨ Milk with Territory. Overprice utilities there.
BC. Hydro, province-wide equal rates.

c. Allocate street space by Greenham's law.

d. Neglect mass transit.

9' price basic urban transit at center;
over-extend lines.

e. Underprice autos, trucks in center.

City as distorted price system.

Subsidize autos. E.g. no prop. tax on
K in autos; but heavy tax on utilities.

Tax vertical xptn.

f. Max FAR, penalize or stifle, not low vert.
xptn.

g. Leave land any. to priv. mkt., in name of priv.
ent. + priv. prop. in all mkt. where there are least justifiable.

Purpose of public land in priv. hands is get it well used.

Limit any. efforts of govt. to ~~remove~~ clearance
& removal, not encourage rebldg. Or land eminent
domain to mucky newspapers, etc.

⑧

Rent diff. > inc. diff.

Data on N.Y. islands: e. of Centr. Pk.

w. " " "

Harlem.

⑨

Cities that have revived.

Southfld.

Hong Kong

Gy., Japan, Adelaide

Roslyn

Singapore

Pittsb.

Taipei

All dev. is revival. Every city has long hist., many archeol. layers, like Ruins of Troy.
Land has been recycled over 1,000s of yrs.

Where to house the poor

a) In approx. Δ supply, lower ~~rent~~ structure of rents.

Not in the specific place. New bldg usually rents for more.

How know if you will Δ approx. supply?

i) Δ density

ii) Curiously, Δ quality. Res. the more affluent one the gentry you attract, the more space they release elsewhere in system.

b) ^{owners, landlords, + states} too many cities competing

c) Dev. vacant land; abandoned bldgs. "Bombard-out" areas.

a) New bldgs pull tenants from old. Open

up space. ^{To understand ~~that~~ the system-minded, see as whole, a}
 God's-eye view: ^{easy way is to} ^{can't think their way} [Some ~~people~~ call this "trickle down" theory,

refuse to think about it, try to stop others from thinking, too. That stuff is for clowns who are deceived

by superficial resemblances. Trickle down is when you justify unequal wealth by saying cons. of rich helps poor; or as K fumes.

Here, is no intent to ---]

I have never lived in new bldg in my life. Always 2nd hand, always hand-me-down. Not poor: \$400k hse.

Is just mandarin to pretend otherwise. Is natural, the poorest shd occupy least wanted hsg. Who else? Point is to revise whole structure of supply, help everyone. Also to distrib. soc. div, or dem. grant.

Equity in \$, rather than in kind.

Credit extension + tax timing.

(13) Lig. crisis of bldrs. Bldg. tax max at worst possible time. LVT defers Taxes. Puts lig. crisis on specs, holdouts.

Mandarin equity vs. foul equity. Mandarin equity ties you up in knots, is enervating, paralyzing. It says:

a) What about poor renters

b) " " " " specs — Ma Schultz?

c) Etc. Always let's distrib. interfere w. a pie; + not asking who is hiding behind widow's skirts; straining at gnats, swallowing camel.

Foul equity says how about guys try to improve the comm. To get renewal, that is choice we must make.

anyway

If we avoid displacing poor renters long enough, they disappear, replaced by gangs, dopers, Satanists, vandals, ~~and~~ crazies, etc.

(14) Curr. nature of renewal. Rejuvenations, shake waves from new bldg.

a. Pulls tenants from old. Worst space goes vacant, releasing ^{land} for new ~~new~~ bldg.

b. Raises renewal value next door. Weakens defender (if any), strengthens challenger.

c. Raises tax base — from higher L.V.

(15)

Theme: equity & effci. We are told it's a tradeoff.
The trade off is a stand off - we get neither.
I'm here to tell you how we can get both.

1st, decide you really want to do it.

(4) Old cities aren't lost; they've been rebuilt somewhere else. They've been cash cows.
But something is lost

(15) Absentee owners are one cause.

(12) Is why is HG collection in NY Pub. Lib; why people visit his grave in Brooklyn (same cemetery as Matt Sullivan?)

Is why followers tried to get him into Hall of Fame. He didn't have wanted that. He wanted his city to thrive. Stone face wd. do no good unless people knew what he stood for.

(10) No room for throwaway cities. Only one Hudson; one Vancouver, SF Bay, etc.

Stewardship need has caught up. This is our promised land. "Don't blow it", God keeps telling Israel. Don't think I'm giving you another one. This is your place: treat it right. I don't think we can fault The Almighty for taking that attitude - seems reasonable exchange.

SM. B

St. John's

① ±

Grandfather went there. b. # 17 Feb ~~1847~~ 1841
Grammar School of Columbia College. Then
"was educated at St. John's College at Fordham, N.Y."
"after leaving college ... enlisted in the U.S. Navy"
- ~~obit.~~

Today, Fordham U. is in Bronx
St. John's U. is in Jamaica

"Papa left Fordham before finishing, went to Calif."
ca. 1859. - ~~Grandson~~ ~~Fam.~~

Culinary Cemetery, Bklyn.

2. Revive dead city.

Many disciplines must do their part. I speak only in
~~extro~~

3. Potentiality.

④

Rock btm values hand by majestic mts. of value.

⑤

Income diff? Much less than l.v. diff.
e.g. Manhattan, e. of central park — see ~~segon~~
~~analysis~~ "Correlations analysis" folder — vs.
N. of Central Pk.

(b) * Harder to face common enemy than share surplus.
 (c) Rent is surplus. It will be shared. — is being shared.

Can be shared constructively or destructively.
 Present methods are destructive. Key to renewal is, shift to constructive.

Present: "dissip. of rent" — destroys while sharing. "Equity in kind".

a) Rent control.

(Dave Schwartz, FPC, "let's eliminate rent")

b) Graft

c) X-subsidy

Hi-density of Manh. -- 64,000/sq. —
 a market distrib. cheap. But rates are hi. Is being milked.

Same time, cost of preparing outlying lot is 4x what lot sells for -- NY Reg. Plan Assoc.

see "Spread City", etc.
 Case of wto. in Calif.

Nat. level, Fed. funds. For yrs., emphasis on regional sharing. NY + Ct. + Mid-Atlantic are "hi-income" states; sunbelt

are "low-inc".

Result: Fed. govt. is machine for milking the Mid-Ctl. — ~~just~~ this region is the nation's cash cow.

The tax & spend formulas developed under this mindset became instl'd, even as the Sunbelt prospered.

"Regional equity" also o'look. diff's of wealth & income inside regions. like for ex. "Tax poor in rich ~~area~~ regions to help rich in poor regions".

Use destructive taxes — shoot anything that moves.

5. Constructive way to share:

— Equity in money, rather than in kind.

E.g. 5 children inherit a house!

— To share land, use monetary mechanism; tax mechanism.

Taxes are destructive? Repressive? Demotivating?
Destroy cap. funds?

Not really at all. Depends entirely on what is taxed (base) & how taxed (taxable event)
Laffer curve speaks only of rate — least important.

sh. C

3 kinds of slums.

"Life is not fair" - but we can make it worse.

(11) "Incentives" - to do what? Fuel + more.

(1) Dead cities. E. St. Louis:
Camden, NJ. PC Inc = \$5,731. Crime higher than Detroit
Benton Harbor, MI
Gary?
Newark?
Ford Hts., IL, nation's poorest suburb.

Baldwin Park, CA
Robbins, IL
Harvey, IL.

Dead parts of cities.

S. Bronx. PC Inc = $\frac{5731}{.75} = \$7,641$
Midw. "inner core"
Watts? Reviving from north.

(3) Truly dead cities are those who've lost their fun -
ghost towns, played-out mines
silted harbor, Salem, MA.
Furn towns geared to small firms.

(2) When basis are right, renewal comes fast: Chi.
after fire; SF after quake; Anchorage after quake;
Japan; Hy.
Natural catastrophes even helps, speeds renewal.
Wash. after 14th St. riots, "instant urban
renewal". Insurance fires.

(20, d)

Some states allow hi degree of local fiscal particularism.
Here, low tax enclaves attract more big surplus generators.
Deficit generators end up in ghettos, ~~which~~ lousy shums.

(20, b)

Here, part of solution is fiscal shaming at higher level of govt. But Fed. aid to cities has fallen; ⁺

Not the N.Y. kind. (Yorktown, White Plains?)

(9)

where public use is forced in

(9)

Decline began ca. 1968: white flight; indy. flight.
Local partic. as reaction to "civil rts."
compensatory

Civil rts. has many angles, besides race. Also
civil libts. have come to protect nuisances. Plus tech. mult.
of ~~offensive~~ behavior: personal offensiveness.

white pers. inc. tax has risen, } so cities seek people
+ real wage fallen
less: corp- tax fallen, seek indy. more.

(12)

Ghettos lack; patrician leadership. city politics
gets dirty, worsens problems. City falls in control of
small-minded people: self-seeking, conniving, etc.

(9)

≠ Camden, fed aid. 1981: \$10m

1988: .025m

(21)

~~From~~ Paranoia toward dev., ~~then~~ they will take advantage. True, they will. Just make the rules so their advantage is ~~for~~ ~~too~~ everyone's.

Things not to do:

a. Do not assume they have a prop. rt. in service extensions

Min. any automatic leverage of pub. over public invt. This guarantees waste of pub. K, badly planned nets.

Rather, get more dev. of pub. over priv. K: lay out streets, parks, schools — then get priv. response w. a community synchronizer

Infill needs ~~the~~ added pub. cap. ~~the~~ ~~(APK)~~. So put pub. K where it gets highest return. Measure return in Δ rent, which one Δ taxes.

Now, we move pub. nets. in Δ taxes — on bldgs, sales, utility tax or profit. ~~Business~~ Problems:

a. Biases plus toward things taxed. Overzeal; for retail. Resistance to messy cons. — promoting all-elect. house

But Councils move, genius in campaign payoffs, (emphatically contribs).

Result: Special City finds APK to move fringe lot = 4x its sale price.

Greenman's Laws:

- a. of Pub. Places
- of Mass Transit
- of fiscal units

~~Overdependence~~

(22)

Facts on cars, Trucks. Use half city.

Main killers of city:

(15)

Absentees

(18)

Slow renewal - pref. to old over new.

(15)

Toopid owners

(22)

Autos

Don't let crime & offensive behavior hide behind poverty.
~~If do~~ The poor & their benefactors are their own worst
 enemies when they do.

(1) "Cities are good." Not a "last resort", a place of positive values.

(21) Cars absorb the police budget. Housebreakers are worst.

(22) Re "Traffic generation", look at whole system.
 Compactness reduces xptn needs:

A. Shortens car trips

~~Users~~ 3d drive.

~~at home~~

B. Supports alt. xptn

1. Mass

2. Vertical

3. Pedestrian

(4) Even dead cities have life. Camden has Campbell Soup;
 Newark has Pru; Bronx has Fordham.

(11) Camden has highest prop tax rate in N.J.
 10% cited in Wsg, 30 June 88. This can be a
 supply-side spur, handled right!
 Milw. hi tax rate.

(9) Forc'g kids of diff. interests & abilities into same schools.
 Forc'g excess xptn.

This has to be viewed in the national perspective. Many of us are hung up on viewing the property tax in provincial and particularistic terms, and think of employment as a pestilence, inviting problems and and especially school taxes into our enclave. But here we are discussing the property tax as a national institution. The national effects of a national change in the character of the tax would be to increase the demand for labor nationwide, and abate the problem of unemployment and its derivative evils. It would not involve flooding any one particular jurisdiction with the rejects of all the others.

Looking at it this way, you can see why some have though^t that the site value tax might tend to accomplish the goal that we once hoped Keynesian policies might achieve, to wit full employment. Society has now allowed this Utopian dream to be entertained, and even legislated it as a national goal in The Full Employment Act of 1946. The Keynesian approaches seem to have been pushed past their load limit, but perhaps at least it is permissible to dream some more. It was unrealistic of the old Georgists to expect local jurisdictions to solve the national unemployment problem with local tools. But now that we have a national Full Employment Act, and an Advisory Commission on Intergovernmental Relations that is concerned with the property tax, could we not begin to think of the property tax in part as a tool to help achieve full employment?

V. Summary.

I have eight specific recommendations.

A. That the Bureau of Mines, the U.S.G.S., and/or other appropriate federal agencies, be instructed and funded to work actively with state and/or local assessors to help assess mineral reserves.

B. That the Internal Revenue Service be instructed to share information with local assessors in order to help improve the assessment product.

C. That Federal acquisition of real estate at prices above its equalized assessed valuation be declared contrary to public policy.

Either condemnation shall be at the equalized assessed value; or else the entire jurisdictional assessment shall be challengeable by any other affected party.

D. That timber valuations for income tax be made identical with assessed valuations for state and local taxation; and the same for mineral valuations at the time of severance. In each case, the value of immature reserves needs a discount, but I warn against a propensity to exaggerate the discount, especially for larger owners with slower schedules of harvest and extraction of reserves.

E. That there be established, presumably in the Internal Revenue Service and with the aid of the Census of Governments, a national Board of Equalization, whose function is to protect the Federal revenues by preventing the underassessment of land and resulting depreciation of land.

F. That the Federal influence be exerted to encourage shifting the property tax to the state level.

G. That the Federal influence be exerted to encourage converting the property tax to a site value tax.

H. Finally, - and fasten your seat belts - that the Federal power to tax property be reviewed. The Constitution allows Federal property taxation, and the Federal government has used this power five times. The power was weakened by the requirement that the tax be apportioned among the states according to their respective populations as determined by the Census, just like Congressmen.

**READ HOW THE CITY OF ST. LOUIS CAN USE THE PROFIT MOTIVE TO
REVERSE THE PRESENT TREND WHICH DURING THE SIXTIES SAW:**

- (1) It gain the unhappy distinction of losing population faster than any other central city in the United States.
- (2) A net loss of 260 industrial plants from one census to the next.
- (3) Virtually no new construction without federal, or some other, subsidy.
- (4) Vacant buildings and empty lots creating an urban ghost town for blocks.
- (5) Tax-eaters replacing tax-payers in the central city.

A PROPOSAL

to Get the City of St. Louis Going Again

**A Talk Before the Chamber of Commerce of Metropolitan St. Louis
July 22, 1971**

**by
Perry Prentice (*)**

I am 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 in the United States Chamber of Commerce and my present service on the National Chamber's Urban and Regional Affairs Committee.

GLOWING REPORTS

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 "saw one of the most progressive and productive surges in the 200-year plus history of this midwest metropolis". I've read that value added by manufacturing increased by 78%, employment by 30.5%, Metropolitan population by 14% and I've read that "the simplest explanation of this phenomenal growth is that St. Louis has everything going for it".

HOW ABOUT THE CENTER CITY?

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 to write the land cost down to a third of what the land-

owner actually got for his land? Was it just hyperbole for a seven-city study by the Center for Community Change to report that "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".

Why in the words of this same report, is your "central district rapidly being surrounded by a ring of vacant buildings and empty lots creating an urban ghost town running for blocks?" Is there some good enough reason that I don't know for letting an "urban ghost town" preempt what may 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 MUCH DOES SPRAWL COST?

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 recreational opportunities only nearness to a lively and sizeable city can provide and none of them big enough to offer business 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 without making them

(*) Mr. Prentice was for 25 years Vice President of Time, Inc., and was formerly editor and publisher of House and Home, the world's largest building trades magazine, and of The Architectural Forum when these were published by Time, Inc.

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 just 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 county instead of taking maximum advantage of the enormous community investment you have already made inside your city?

URBAN GHOST TOWN

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 crises 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 spaciouly 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.

LOW TAXES ON LAND

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 that 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; that is why way back eighteen years ago the chairman of your development committee could blame "the unavailability of land at a reasonable cost" for the crises he said was then confronting your city, and that is why still today Mr. Schoon has to report that "the major problem in the City of St. Louis is that land is not available for expansion."

WHAT IS GOOD FOR THE LANDOWNER IS BAD FOR EVERYBODY ELSE

The last time I spoke in St. Louis back in 1966 I took as my text the words of the great classical economist David Ricardo, who laid it on the line 170 years ago that "The interest of the landowner is directly opposed to the interest of every other element in the economy," or, to put the same thought in simpler words, "What is good for the landowner is bad for everybody else." 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 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 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.

FORWARD STEPS

I don't suppose any other 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 first steps towards correcting what's 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 let's the city give ten-year tax exemption and twenty-five-year tax abatement to new improvements in blighted areas, and your Board of Alderman has just taken the extraordinary step of officially declaring all downtown St. Louis blighted so as to let every developer 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 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 25% 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 desirable.

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.

TEN PROFIT MOTIVE STEPS

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 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 25% as heavily as their location values.

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 15 years for its half-way 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 most 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; they will 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 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 the 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.

Reproduced by: PUBLIC REVENUE EDUCATION COUNCIL
812 Olive St., Suite 1103
St. Louis, Mo. 63101
Phone: (314) 421-5630

F

Mason Gaffney
3040 Tyler Street
Riverside, CA 92503

8 July 88

Professor M. Northrup Buechner
Colleges of Business Administration
St. John's University
Grand Central and Utopia Parkways
Jamaica, N.Y. 11439

Dear Professor Buechner:

Thank you for your letter of 11 May. As per our telephone conversation I am honored to accept your invitation to speak at St. John's on Wednesday, 26 October 88, 1:30 to 3:30 PM, on "How to Revive a Dead City". It is a topic close to my heart.

Enclosed is a resume and two photographs as requested. I also enclose two articles: "Property taxes and the frequency of urban renewal"; and "Land Planning and the property tax". These might be useful in the publicity.

You might be able to make use of recent articles which I wrote for the New Palgrave Dictionary: "Henry George", "Single Tax", and "Land Tax".

Sincerely,

Topics

1. Ac. Freedom
2. Polls
3. Hidden assets, corp. raiding
4. What is Fair in pub. finance?
What is Equity in Distribution?
5. ~~Still~~ Dangers to banking system.
How to ruin - ~
6. ~~Parasites~~ ~~Earned inc.~~
How to ~~start~~ untax earned inc.
- ✓ 7. How to revive a dead city.

St. Johns

Wed 26 Oct. 26

\$900.

Send resumé.

Photo.

Subject

Undergrads. No exp. background.
Gent lecture, open to public

Non technical; entertaining

50 min. 1:30 - 2:30

+ gas to 3:00.

Karl Brunner on monetarism
last

Be home at 2 PM Tues. w.

list of topics

HOW TO REVIVE A DYING CITY

by Mason Gaffney

The Henry George Lecture, St. John's University

New York City, October, 1988

Introductory

You may think me an outlander but my parents were New Yorkers and never forgot it. One grandfather even went to St. Johns, although not this St. John's -- it's what they once called Fordham, in The Bronx, now one of those dying cities we need to revive. He was to become a priest and lead the celibate life. As you see, he was not equal to the calling. His official obit tactfully says "after leaving college he enlisted in the U.S. Navy", but Aunt Fan wrote privately, "papa left Fordham before finishing and went to California where he taught school. Required mostly brawn, he said." Violence here is not new.

He married late, so late a young man like me has a grandfather who served in The Big War. That is not remarkable except by that he meant The Civil War. Ours is a family of long generations. My other grandfather, the Yankee Presbyterian, lived in Brooklyn Heights when that was a suburb for stock brokers, and that goes way back too. *out*

Now these old timers, to whom the past was only yesterday, spoke always of New York City as the center of civilization. It was a livable, optimistic place: a great, growing, vibrant, trend-setting, prospering, cultural city. A little crooked, sure, and great-grandfather was probably no saint, paving streets for Tammany Hall. But it had a present and a future, a life and a soul, not like the dead-end hopeless despair of today's Bronx.

Henry George

But we're here to talk of the future: I'd like to see those good times and better ones come again, preferably without the graft. And we're here to review the ideas of another commuter between New York and California, Henry George, and how the ideas might go to work to revive dead cities. Henry George was a journalist who taught himself economics. He had a flowing pen and a brilliant mind, and the book he wrote, Progress and Poverty, became and remains the all-time best-seller in economics. *recast*

People remember him today not for the volume of his sales but the enduring quality of his ideas and proposals. The reform program he worked out combines the magic of incentive with the magic of justice. It comprises a plan not just to revitalize cities but to reunify society.

George's fans have boosted him for The Hall of Fame. It is ironic he never made it. Not that he would have cared, a stone face was not his style. The irony is the Hall of Fame is now decaying and abandoned, in the Bronx Borough, a setting also decaying and abandoned for failure to use George's formula for keeping cities healthy and robust. The Hall of Fame in The Bronx exemplifies a malignant propensity to pour the national treasure into dead monuments while their living matrices starve, rot and crumble. For further evidence tour the purlieus of your state Capitol, contrasting the vulgar ostentation on the marbled side of the street with the squalid reality on the living side.

Dead and Dying Cities

What are these moribund cities? Some extreme cases are East St. Louis, Camden, Benton Harbor, MI, Ford Heights, IL, along with Robbins and Harvey, Gary, and Newark.

But more commonly and generally, large parts of once-vibrant cities are half dead, seriously blighted and trending downwards. One of these is the South Bronx, which New Yorkers know well enough to avoid knowing any better. In Milwaukee it is the near north side, called locally the "inner core", a galloping blight whose area I have seen triple in the last 20 years, while Milwaukee's population dropped 20%. In Chicago it is South State Street, only a few blocks from the Madison Street crossing which for generations was the most valuable corner in the nation. In Tampa it is Ybor City.

Note blight is not restricted to stagnant or declining regions and cities. In booming Los Angeles there is Watts. In nearby Riverside, CA, one of the fastest growing cities in the nation, the CBD is surrounded by blight which, among other things, frustrates years of subsidies aimed at reviving the moribund CBD itself.

But let us sound deeper to gauge the full mass of this iceberg. These extreme cases are not just anomalies, they are more than ghettos and embarrassments, they are symptoms of systemic malfunction. They could be portents and symbols for the rest of the economy. Blight may be defined as failure to maintain and replace and renew the capital inherited from the past. Many studies of American industry indicate it all has this problem, compared with vigorous foreign competitors. In learning to cure blight we may learn to restore the greatness and pride of this whole troubled nation.

Cities that have Revived

There is good news, too, some cities have risen from the grave. Indeed, all land development is resurrection in some sense:

all land has been used before by someone for something, from the beginning. Trace the history of any city lot and you'll usually find there were several antecedent improvements, layered like the ruins of ancient Troy. It is a matter of making renewal happen faster and more widely, while we are still here to benefit.

Germany and Japan recovered from World War II with breathtaking speed. Atlanta even recovered from General Sherman, too, although in its own courtly time. Chicago burned almost completely in 1871, leaving 90,000 people homeless, but recovered without breaking stride; San Francisco and Anchorage recovered from devastating earthquakes. Washington, D.C. recovered from the 14th Street riots and arson. The basics were right, the locations remained good. The disasters may even have helped by forcing the demolition of obsolescent capital and releasing land for rebuilding: "instant urban renewal" is more than street jive, it can be true perception.

But some other revivals, less dramatic and publicized, are more impressive and relevant to us because they are revivals from normal decay and obsolescence, pushed along by good public policy that we can analyze and replicate. There is Southfield, MI, bordering on Detroit and thriving and flourishing as fast as its parent central city is dying. There is Rosslyn, VA, just across the Potomac from D.C., a forest of high-rises that rose up while Washington was burning and derelict during the 1960s. There is Sacramento, CA, whose once-depressing center has found new life. There is Pittsburgh, of grimy repute, recently named the most livable U.S. city. There are Hong Kong, Singapore and Taipeh, once best known as rather fetid ports of call, now three of the "Four Tigers" of southeast Asia.

In all those modern success stories of economic and social revitalization we find the hand of Henry George at work, if we seek out the local politics and policies. In Taipeh we learn they are guided by the philosophy of Dr. Sun Yat-sen, and if we read Dr. Sun we find he was an enthusiastic Georgist convert. In Pittsburgh we find a "graded tax plan" applied, framed and supported by something called The Henry George Foundation. Throughout Pennsylvania today we now see several smaller cities emulating Pittsburgh's partial application of George's policies: Harrisburg, Scranton, McKeesport, New Castle, Washington, and Duquesne. Fortune Magazine reviewed their progress favorably in a 1983 article. Recently steel-depressed Aliquippa signed on, too, and Clairton. These once-declining cities bear close watching today as they bounce back.

Then there are cities of explosive growth after ^{enduring} slow periods. These include Sydney and Johannesburg, both notable for their use of Georgist policies. Whatever their social faults these two cities have burgeoned to become the economic capitals of their respective continents, an economic achievement hard to dismiss. There are several other good examples in East Africa, like Nairobi; and in

the Antipodes, like Brisbane and Auckland. Many cities of western Canada, including Edmonton, Saskatoon, Victoria, New Westminster and Vancouver grew up with partial use of Georgist policies in the early 20th century. Less explicit application of Georgist policies was made informally (through assessment discrimination) by Seattle, Portland, San Diego, Houston, San Francisco and many other growing western cities during the same period.

It is good to know degeneration and failure are not our predestined fate. We may choose them, but we may also choose renewal and success. It's a matter of attitude and know-how.

Why Cities Should be Revived

Some cities and towns may and should be abandoned. Camps and towns around played-out mines are obvious examples. Some small farm towns and hamlets become redundant when roads let customers range farther and patronize the larger or better town. Salvage what you can and move on.

Some would apply the same logic to all cities. Dead cities aren't lost, they say, but are just rebuilt elsewhere. They were cash cows that have been milked dry, meaning their depreciation allowances are reinvested on new frontiers, and the people and vitality move with the capital. That's a clever and important half-truth, but remember a half-truth is also half wrong. The basic original site stays put, land can't move. A lot of costly social capital, public and private, can't move either.

We have little room left for throwaway cities in this finite world. New natural sites aren't that common. There is only one water-level route west along the Mohawk, only one Hudson Valley with only one mouth, and here this city has stood for 350 years. We can't really afford to kiss off The Bronx and build a duplicate environment somewhere. We can't rebuild the natural setting at all, and the sunk social capital is too costly: shipping, docks, rails, The New York Thruway, airports, streets, expressways, subways, water lines, power lines, sewer lines, gas lines, phone lines, churches, schools, bridges, tunnels, museums, Halls of Fame, universities, ... *sewers, roads, schools*

Of course we can replace the Bronx out at the east end of the Long Island Expressway, too, but that means not only duplicating the micro-infrastructure but adding the Expressway, and corresponding trunk lines for all the utilities, and paying the price of commuting in time and fuel and pollution and auto purchases and tires and repairs and paint jobs and insurance and gridlock and traffic casualties. And then ultimately, when we tire of the new suburbs, where do we go next?

Look at The Earth from a lunarcraft photo. There is only so much, and we already have a big portion of the best temperate zone.

what

This is our Promised Land. "Don't blow it", God keeps telling Israel in the Bible, "Don't think I'm giving you another Promised Land if you can't handle this one." It seems a reasonable attitude. Nor are other nations disposed to give up their crowded slices of this small, scarce Earth for us.

Furthermore these blighted areas have high potential market values. Picture a topographic map of a city where the contour lines represent points not of equal elevation, but equal market value per square foot. On this kind of topo the peaks, the Everests and McKinleys are in the city retail centers, where just one square foot rises to \$2,000 (that's about \$90 millions per acre, and an acre is about 91 yards on a football gridiron). Land just a few miles or blocks away from such dizzying altitudes can hardly be worthless. Harlem is near Park Avenue; Watts is near Beverly Hills; South State Street is very near the Sears Tower. Newark is 15 minutes by train from Manhattan. Newark office rents are \$25/sf per year. That is less, of course, than in Manhattan, but in Riverside, California we are throwing up offices to get rent of \$12/sf per year, while Newark stagnates.

The capital you invest that earns \$25/sf is more productive, obviously, than that yielding \$12. I don't mean the capital in the floor atop the high-rise because that is likely to cost \$25/sf (in annualized terms) to build and operate. I mean the capital in the middle and bottom floors, which cost less to build but rent for as much, yielding a surplus. To get more such middles and bottoms, and the corresponding surpluses, renew more land in those neglected areas of high potential like Newark. Not to renew those lands is to waste those potential surpluses. Each year's loss is lost forever, for the services of land perish with the passage of time.

Shall we treat The Bronx as a ^{because they} residence of last resort for people who can't afford anything decent? That's hardly necessary. To many people cities are The Big Apple, desirable locations of positive values and strong magnetism. Rich foreigners come from around the world and pay top dollar to locate in Manhattan, not because they have to but want to. So it is too with San Francisco, Miami Beach, Beverly Hills, Newport Beach, Cambridge and Georgetown. If they want open country there is plenty left in North Dakota, Texas and Nevada -- but they want cities.

Urban revival works best when a healthy piece remains on which to anchor new development. In the worst scenario no such place remains, but even Camden has Campbell Soup; Newark has a great airport, a new Hartz Mountain Industrial Park, and the Pru. Life is persistent and resilient; vital seedlings keep sprouting, they only want sunshine, water, care and cultivation.

The Urban Surplus

One of the reasons we remember Henry George was his pioneering

work on cities, how they work and what good they do. Previous economists showed limited or no understanding of location value and its causes. Even Heinrich von Thunen, father of location theory, approached cities in an arid, antiseptic way that left out most of the sperm and egg, enzyme and ferment that today we call urban linkages and synergy. George was a mensch, like Holly Whyte or Jane Jacobs, seeing cities in intensely human, interactive terms. *He* *saw*

George saw cities as foci of communication, cooperation, socialization and exchange, and these as the basis of civilization. He saw cities as the new frontier, an endless series of new frontiers because the city as a whole enjoys increasing returns. The presence of people with good mutual access, associating on equal terms, expedites cooperation and specialization through the market. Multivariate interactions in cities are synergistic. Indeed, while each part -- each parcel of land -- is developed in the stage of decreasing returns, the composite city is generally in a stage of increasing returns, thanks to synergy; the whole is greater than the sum of its parts, and increases to the whole yield more than the sum of increases to the parts. *He* *is it for a building etc.*

This synergistic surplus, says George, lodges in urban land rents. Thus he explained an outstanding phenomenon of his times which other economists were overlooking completely. the unparalleled rise of urban rents and land prices, and the wealth and power of the owners. *The phenomenon of*

To the investor in a building, it looks like this. The first \$10K he spends yields him 30%, or \$3K; but he pays 10% interest, or \$1K, leaving him a surplus of \$2K. To acquire the superior location that confers that surplus he'll pay up to \$2K annually, which means he'll pay up to \$20K for title to the land (at 10%, \$20K will cost him \$2K/year). *well people grasp the idea that you talk only of land - how does it pay in the extra 0 - is it for a building etc.*

Of course the next \$10K he spends may yield him more than 10% too, say 20%, conferring more surplus and adding more value to the land. But the idea is the same. He'll add to the building until the last unit of \$10K yields him just 10%, enough to pay interest and no more. (You have just taken a flying tour through the theory of diminishing marginal productivity.)

To understand ground rents and land prices is to understand cities; not to understand is to remain mired forever in confusion and fallacy, to be gulled and misled and bamboozled, which is indeed and alas the common lot of mankind. Let it not be yours. *spread slightly*

These ground rents are annual; they continue forever; and they generally tend to rise. To buy title to land, therefore, people pay prices that look very high relative to current cash flow. In Riverside, California, a city of low density and 208,000 people, land prices go up to \$18/sf. In San Francisco, a city of high density and 800,000 people, prices go up over \$1,000/sf. In

Manhattan they go over \$2,000. In Tokyo, probably the top of the line, one sale is reported at \$25,000/sf. An official agency has appraised the top value at \$120,000/sf, although this may be puffed up. But \$25,000/sf is high enough: urban land prices take your breath away.

Land prices vary extremely from city to city, and block to block. The actual cost of building a square foot of floor space is fairly constant from place to place, but demand varies with location. A small rise of floorspace rentals translates into a large rise of ground rent and land price, because rent gets everything above what is required to operate and amortize the building.

Thus in Riverside in a small neighborhood mall a floorspace rental of \$12 just pays for the building with only a little left over to pay for land, resulting in land prices of perhaps \$5-\$8/sf. In Manhattan rentals are triple or quadruple those in Riverside, with all the surplus going to ground rent, resulting in land prices up to \$2,000/sf, or about 300 times higher than Riverside.

In bigger cities at key locations land prices are not just high per square foot, they are higher per capita than in small cities. Surprisingly, they are even higher relative to building values, in spite of the high-rise buildings. Remember each added floor until the top one adds more ground rent because floorspace rentals are more than enough to cover the added cost.

Urban land is also highly concentrated in ownership, meaning a handful of people and corporations own most of it. It is heavily favored by absentees of great wealth who want to diversify their holdings and acquire stable, secure wealth ^{building} ~~they can manage by remote control~~, ^{which} so today a growing share of income property is held by aliens. Aliens even hold a good deal of residential property in selected communities of international jet-set ambiance and repute, places like Palm Beach, La Jolla, Greenwich, Belvedere or Beverly Hills.

Comparing cities and neighborhoods, land prices are much more differentiated than other measures economists commonly cite, in their traditional blindness to this factor. The median income in upper east side Manhattan is about 8 times higher than north of Central Park. But the price of land psf is probably 40 times higher. Margaret Reid in her classic Housing and Income presents many more contrasts of the same kind; so does Harold Brodsky in his studies of Washington, D.C.

Sharing the Surplus

Urban rents are a social surplus, not a payment in reward for anyone's making or supplying land. So others than the landowner have a claim. A good deal of American politics deals with how to

assert that claim and share that surplus.

It seems a pleasant enough problem, cutting up a big pie. The ancient Chinese knew better: "It is easier to face a common enemy than share a surplus" quoth Confucius. The common ways of sharing this surplus are clumsy, divisive and destructive. They bear some responsibility for dead cities. With too much quarreling and gouging over spoils, ~~there are no more spoils to dispute.~~ Macauley wrote nostalgically in Lays of Ancient Rome: "Then lands were fairly portioned, then spoils were fairly sold. The Romans were like brothers, in the brave days of old." The same might be said of New England in the early 17th century, whose traditions we still honor in the word and name. But we have come a long way from brotherhood. Let us see how spoils are shared now, and then how we might do better. *disappear*

Looting and Graft *explain*

Looting is sharing by direct action. We had a bellyful of that in 1967, and its destructiveness needs no homily. Graft and patronage, the basis of ethnic-populist political machines, are more tempered kinds of looting which destroy incentives more quietly and insidiously. Featherbedding, stealing, parasitic behavior of all kinds all cut into the surplus. The problem is they are blindly indiscriminate, they cut into productive incentives too. But the more the surplus, the more temptation, the easier is the self-righteousness that rationalizes looting and graft.

Rent Control *the and*

Rent control shares the surplus with tenants. It is a tempting route and several cities follow it, including New York. Why not? Renters are the majority. Many landlords are rich and remote, they work through layers of faceless minions so you probably don't even know their names. The managers are tough and tight so you have a lot of abuse and negligence to avenge. Supply is inelastic, at least in the short run, so the owners can't cut and run. Poetic justice is served.

But there are several spots on this policy. *They are!*

1. *** limited number of beneficiaries. The original tenants carve out an equity in the landlord's estate, but the benefits spread no wider. Tenants may, and many do, sublet to others, becoming landlords themselves. Rent-control is at best a zero-sum game among the few, not a social reform.

2. *** lower incentive to maintain supply. It becomes unattractive to build new rental units. At first these are allowed higher rents, but are vulnerable to future caps. So rent-control is worse than a zero-sum game, it becomes negative-sum.

What rent-control confiscates is not just land-income but building-income too. Land is fixed, but buildings need maintaining and replacing which they will not get if there is no return. Too, land can be reallocated to uncontrolled uses: we all know about condominiumization. The new wrinkle in Sta. Monica is to buy a rent-controlled apartment building cheap and convert it to a single-family residence for the new owner.

3 *** wasted space. Tenants lose much incentive to economize on space, because it is underpriced to them. In the extreme some tenants move away, but retain the apartment to use a few weeks of the year.

4 *** new class society. Old renters become a privileged class vis-a-vis new ones in new units which are temporarily uncontrolled, or controlled at a higher level. What with the lower new supply, and wasted space, uncontrolled rents are forced up above the free market level.

5 *** owner-tenant clashes. An owner's main goal under rent control is to evict and repossess. The resulting nastiness and intimidation have become routine, and the war stories legendary. In Tokyo outright extortion and violence are frequent.

6 *** aborted incentive to maintain and improve. Landlords lose all economic motive to serve and maintain, let alone improve. Tenants retaining precarious tenures have at most very limited motivation even to maintain, let alone improve property.

7 *** dogged obstructionism. A sitting tenant cannot gain by site renewal, but only face eviction. Tenants therefore fight it every way they can. A class is created of dogged self-righteous obstructionists with a vested interest in the status quo, however obsolescent, however decayed, however inappropriate to the site.

8 *** undertaxation. The equity that tenants carve out of the landlord's estate has no market value because it is inalienable, at least legally. Assessed values therefore drop, and tax yields drop correspondingly. The new privileged class not only gets preferential low rents, but avoids contributing any share to support public services. The resulting higher tax burdens are dumped on others; the worsened public services are suffered by all.

These
I understand these matters in part from personal experience, not identical but analogous. I'm a small farmer with shares in a canal company, which shares give me the right to receive water 'way below the market price, but no right to sell my water. So I and my fellow shareholders do the only thing the law allows, we waste water and collectively create that chronic artificial crisis called the southern California water shortage. I'd be better off to have the State tax the water, raise the rates, and use the money to

raise the salaries of, well, how about UC professors?

The Federal Power Commission (now FERC) has long done the same thing with gas, and earlier with oil, capping the field prices. Their Chief Economist, David Schwartz, opened my eyes to the moving spirit behind the policy when he joined a conference I sponsored in Vancouver. Our subject was how B.C. might best collect rents from gas flowing from Provincially owned wells. Dave Schwartz is a likable gentleman, selflessly dedicated to the public weal, but he grew impatient and finally blurted "Let's not collect rent, let's cap the price and eliminate rent." That one foolish remark suddenly flashed more light onto 20 years of FPC regulation than tomes of NBER studies. They actually had so little understanding as to believe and act on that notion. By doing so they contrived to create, among other problems, the great gasoline shortage of the 1970s. *We should have the rents & increased production for social purposes.*

The rationale with housing, with water and with energy, all three, is that these basics are too important to leave to the market, and must be price-controlled. The result is to create *proper* systems of regulation much worse than anything a market could accomplish. You are too young to remember but around 1973 there was also a great coffee crisis, a dearth of raisins, and even a crisis in toilet paper. These were too unimportant to regulate so their *thus* prices rose, demand fell, supply rose, and the crises quickly disappeared without a trace or a memory. Rent-control ensures we will not ever overcome the housing crisis so simply or at all.

"French Equity" (equity in kind)

Under the Code Napoleon every French testator must divide his real estate equally among all children, and there is no substituting money for land. *already introduced* the Code requires equity in kind, nothing else will do. The resulting fine subdivision is called morcellement, and the Code demands it with no regard for efficiency. It goes farther. Each heir must get an equal share of land of each quality: meadowland, pastureland, woodland, etc. The even finer subdivision is called parcellement, which was once carried (like most human error) to absurd lengths.

Today we approach French Equity indirectly, and expensively. First we distribute the land haphazardly, but then seek to make every parcel as good as every other. We do so by extending public utilities and roads to every parcel on the same terms, regardless of location and differential costs of service. A familiar example is the U.S. Postal Service, and it has given its name to this kind of pricing, called by economists "postage stamp pricing". Here are six quick examples.

1. *** The B.C. Ferry Service. This socialized system has two main lines to its big apple that make money, Vancouver-Victoria and Vancouver-Nanaimo. But the whole system hardly breaks even

because there are some dozen lesser lines serving small islands and peninsulas. The worst of these costs \$12 for every dollar of revenue. The losses are made up from the profits of the trunk lines. The generic name for that is "cross-subsidy".

2 *** B.C. Hydro. This socialized power system serves the entire Province, an area so vast it exceeds those of California, Oregon and Washington combined. Its rates are uniform throughout. Half the people live in Vancouver at high density and are cheap to serve. A few live up north on the Yukon border where (I surmise) it costs several hundred dollars to earn one dollar of revenue. That is cross-subsidy.

3 *** water and sewer service in Milwaukee County, Wisconsin. Here the City investments have been captured, controlled and milked by suburban interests, with a lot of help from the State Legislature, so capacity in the City plants is taken up to serve the suburbs, and capital is poured into long interceptors (trunk lines) linking suburban land developments to City plants. That is cross-subsidy, and has been called worse things.

*** college and university campuses. The Legislative ethic demands something for every electoral district. Not every Assemblyman requires a college campus, for there are other prizes too, but the horsetrading process seems to spawn too many. Just now we have eight UC campuses, most of them with excess land, a few with excess floorspace. Faced with rising enrollment the preferred solution in Sacramento is not the lower-cost option of intensifying and improving and staffing existing campuses but the higher-cost option of creating new ones, each to enrich some influential land speculator and tantalize a hundred others who are busy lobbying for the new spoils.

*** water supply in California. To summarize a complex tale, the low real cost of serving older settled areas is passed on to new settlements through an accounting device called "melding", a nice name for shutting your eyes and stirring all the accounts in the same pot. Melding passes through several levels: a State wholesaler serves the Metropolitan District which serves local Districts which serve cities. But the net result I have calculated is this: at the end of the line, in Riverside, it costs society \$1800 to serve the marginal acre-foot (a unit of water) which sells for \$20. That is cross-subsidy. It is worth fortunes to people developing land at the end of the line; the cost is spread over everyone else so they won't notice. Professors are supposed to keep quiet about it, but some of us never learn the rules.

*** postal service. How we love to dump on the postal service for raising rates, and moralize about the inefficiency of

government. But do the harrassed clerks really deserve all the onus? Manhattan has 64,000 residents per square mile, plus the daytime population; Montana has 5.4 per square mile. It obviously costs a lot more to collect and deliver the mail in Montana. The main reason postal rates rise is because the whole U.S. urban population is spreading out more like Montana and less like Manhattan (which once had over 100,000 per square mile). Henry Schechter calls it the "cost-push of urban sprawl"

What's wrong with "French Equity"

There are two big problems with cross-subsidy as an approach to equity. First it is not equitable; second it is wasteful and inefficient.

The kind of equity achieved by regional cross-subsidies is not interpersonal, but interregional. It is something like Washington's programs of "foreign aid", means of taxing poor people in rich countries to aid rich people in poor countries. Some of the main beneficiaries are among the richest people and corporations in the country and world. Here are a few who hold speculative land and enjoy subsidies on the growing fringes of southern California.

*** Largest is probably The Irvine Company, owned by Donald Bren, among the 20 richest Americans on Forbes' latest list. This company holds some 70,000 acres in Orange County, including and surrounding Newport Beach, Irvine, Corona del Mar, etc.

*** Others include Robert Campeau who recently acquired Federated Department Stores; Chevron; Edward J. De Bartolo, also high on Forbes' list; Kaiser Development; Bedford Properties; Connecticut General Life; Mobil; Lusk Realty; Bell Canada; Southern Pacific; Union Pacific; Cadillac Fairview (Olympia and York); Bank of Montreal; the Hunt oil family; Newhall Land; etc. The list goes on, but you see the point. Equity is not served by milking middle-class neighborhoods to enrich owners like these. "Public Works for Private Gain" is bad enough, but worse when the profiteers are already the richest.

How about efficiency? Subsidy creates waste in the amount of the subsidy, almost by definition. Spread City, by the New York Regional Plan Association, estimated the social cost of creating one new lot at the metropolitan fringe is four times (4x) the value of the lot (and that is probably an underestimate, for the truth is so awful many readers would block it out, or blame the messenger for the bad news). Why do people develop lots worth only one quarter of their cost? Because other people are paying the other three quarters.

This process does transfer ground rent from areas of overcharge to areas of undercharge. But in the process it simply destroys much of the ground rent, a process known to economists as

This deserves attention from your point of view as well.

I think this is unfair - He advocated what people might accept in an irrational world when times were desperate

"Dissipation of Rent". To spread the surplus we lose much of it. *

Being neither equitable nor efficient, has "French Equity" any kind of merit? Once it passed for a way to make jobs, in the salad days of J.M. Keynes when he actually urged waste as a route to full employment. Those ideas are now dormant, but we still don't have the feel of it. If we had to fire a few teachers or policemen each time some City Council yields to a major campaign donor and extends utilities to his raw acres we would better sense the true cost of these "public works for private profit".

Sharing surpluses constructively

It is in fact possible to mobilize the social rent surplus and put it to good use, without waste. It is possible to create a just society of people unified and bound together in mutual satisfaction with the terms of their association, without contempt for their own government.

and

People do care about justice, always have and always will. They have funny ways of showing it sometimes: just now we're absorbing the "me generation", but this too shall pass. The problem is the older sharing-caring generations did some fuzzy thinking and foisted on us some clumsy, wasteful counterproductive ways to share and care, including substantial exploitation of the new generation they now brand as selfish. The "me generation" reacts against the stupidity and hypocrisy, not the noble impulse itself.

Rent will be shared, one way or another. *or school* Chicago economists preach that economists should only care about getting resources allocated efficiently to maximize the national product. "Entitlements" they say are arbitrary and don't much matter, just so they are clear and definite so everyone knows exactly what he owns and can trade it freely. In practise that means leave them as they are today, whatever their origins. But life doesn't work that way. Eager supplicants swarm around rent like flies around fresh pie.

The key to renewing cities is shifting from obstructive ways of sharing rent, like rent control; and destructive ways like looting and cross-subsidy; to constructive ways.

George's Constructive Program

This brings us to Henry George, for whom these lectures are named. He showed us how equity and efficiency go hand in hand: how to combine the magic of justice with the magic of incentive.

First, by George, equity need not be in kind, that is clumsy. Use the monetary mechanism, that's what it's for. If you and your brother and two cousins inherit a house sized for one family you don't crowd in all four, you sell and divide the money. Or one buys

* *I have a terrible line to illustrate this - "It's like spreading whipped cream over measure."*

out the others. There is equity in money as well as real estate. Money is often better, you can reinvest it anywhere. It puts your house on a magic carpet to follow you around. Money is wonderful! (Just take care not to blow it.)

Second, by George, use the tax mechanism. Don't divide land into unusable morsels; don't shackle the market with rent controls; don't dissipate rent in cross-subsidies. But turn land over to the highest bidder, and tax ground rents to support government.

The Power to Destroy or to Redeem

But we've always heard taxes destroy incentives. Economist Colin Clark said years back the country would fall when taxes exceeded 25% of income. Arthur Laffer said tax yields would actually fall if rates go higher, and rise if rates fall.

The news in Henry George is we can tax all the rent out of land and not one square foot will walk away. Nor will God switch off The Creation. Man creates capital by saving; some Other Force created land, and sustains and serves it every day the sun rises, undeterred by taxes.

Nor will Georgist taxes leave owners sulking on their land, but the contrary. Fortune Magazine headlines them as "Higher Taxes that Promote Development" (article by Gurney Breckenfeld, August 8, 1983, pp. 68-71). The tax is a fixed charge based on land's market value, derived in turn from its opportunity cost. The owner will use it harder and improve it more to meet the fixed tax. If he doesn't care to do that -- if he has more than he can use -- he will sell, releasing surplus land to meet the demands of others, of whom there are many with urgent needs, and many more with enterprise wanting more space. Taxes stifle enterprise only if they increase with enterprise. Land taxes increase only with opportunity cost, which is independent of the enterprise of the individual owner. The only incentive this tax impairs is the incentive to withhold land from use.

George's land tax promotes equity toward the landless in at least four ways: it relieves them of taxes, to the extent that landowners pay more; it supplies them with more goods and services, as land is used better; it offers them jobs producing those same goods and services, and incomes with which to buy them; and it offers them a better chance to acquire land themselves, as surpluses are released to the market.

This is supply-side economics with a real kick. It works through tax transformation rather than tax reduction -- the total tax take may be raised or lowered, as a separate issue. If desired, we can raise taxes and stimulate supply together, there is no hard choice to make between them. At the same time it is demand side economics too: untaxing new investments raises the marginal rate

of return after taxes (what Keynesians call the "marginal efficiency of capital") which, to demand-siders, is the motor that drives the macro-economy.

So George's simple program not only reconciles efficiency and equity, it squares taxes and incentives. What more can a reasonable person demand of economic policy than to resolve these ancient basic standoffs that have confused and divided us, blocked understanding and deadlocked constructive action for generations? It is an achievement on a par with resolving Evolution and Creation, except George's program is something we can do something about. We can use and implement it as quickly as we are willing to unclog the cerebral arteries and follow thought with action.

Many people, it is true, are morbidly fascinated by deadlocks and standoffs, and cling to them as old friends and comforters. They actually prefer irreconcilable disputes as cherished parlor games. It may ease the conscience to think justice must be sacrificed for efficiency, and schools starved and libraries closed to free up incentives, so nothing, really, can ever be done.

We all feel compassion by nature but, to survive and stay whole in this world of beggars and bandits, learn to harden our hearts and cork it in. We learn to screen out evidence of suffering and injustice, and rationalize what we cannot deny. This mindset, while understandable, is unaffordable in a period of dangerous national decline, and growing division between haves and have-nots. Corking in feelings is hard on a person, too. There is relief and satisfaction in venting compassion via support of constructive public policies.

Camden has the highest tax rate in New Jersey. It's a depressant now, and a vicious circle as the high rate drives away capital and further erodes the depleted tax base. But what if the tax were on just land value? The depressant would become a stimulant, ~~the drag a motor~~, by the simple magic of converting a variable charge into a fixed, unavoidable one. So it is with most other depressed cities, which today look vainly to Washington for salvation and redemption. They do need enabling legislation from their states, on the Pennsylvania model, but given that they can save themselves. They'd better: no one else is going to do it for them.

The Double Effect: Untaxing Buildings

The counterpart of sharing rent through taxation is to untax things people do and make, like buildings. This doubles the incentive effect. If the land tax is the stick, untaxing buildings is the corresponding carrot, and George's program is to make both of them larger.

Every lot with an old building is in press between that

building, the "Defender", and a potential replacement, the "Challenger". The trouble with taxing buildings is it stacks the fight, it rigs the score against the Challenger. Say the lot-cum-Defender is worth \$100K, and the Challenger would cost \$500K to build. Challenger cash flow must exceed Defender cash flow by enough to pay off the \$500K, plus added taxes based on it. If the tax rate is high that will stifle new investment as thoroughly as a communist coup.

The Georgist tax by contrast is impartial between Defender and Challenger, and lets the market decide. In Milwaukee, 1965, after a long detailed study I found switching to the George program would let 30% of the city be renewed forthwith, immediately, simply by untaxing Challengers vis-a-vis Defenders. (The sad news is Mayor Maier went the other way, so Milwaukee has lost 20% of its people and more of its wealth and is sick city today.)

The Triple Effect: the Flow of Credit

Most buildings when new have to surmount a liquidity crisis. Almost every one is built on credit with a small equity, and takes a while to yield cash. During this critical period builders need all the help they can get.

The property tax on buildings is a maximum during this crisis. The timing is such as to maximize the damage, ~~for any given tax yield over time~~. Now of course a building uses public services and something must be taxed to pay, but new buildings in older cities nearly always pay for more than they receive, while old ones receive more than they pay for. Think of building taxes as a kind of forced loan from the builder to the Treasury, to be recovered down the line when buildings are older. But what could be more counterproductive than forcing a loan from a person passing through a credit crisis already?

The Georgist tax works the other way, it spares the builder when he needs it, and rises slowly under him over time as the site ripens to its next best use.

The Quadruple Effect: Neighborhood and Regional Spillovers

Urban blight is cumulative and self-reinforcing: blighted buildings cast a pall on land around them, discourage upkeep and stifle renewal. Whatever slows renewal of one site therefore slows the neighborhood, which reflects back blight to the first, a vicious downward spiral. *It is synergy in reverse.*

Conversely, new buildings help stimulate renewal around them. There are exceptions, I know. Some new buildings, especially banks and corporate headquarters, sterilize a block with blank walls. I will not defend that, but the exception is not the rule; the abuse is not the precept. The rule is new buildings draw tenants from

old and weaken other Defenders so other owners have to renew, too. When they do, where better but next to the newest, hottest building? So renewal is cumulative, just like blight, only upwards in a benign spiral.

beneficial
This competition for sites raises the tax base -- not buildings, now, but land prices derived from ground rents. Using the higher base the city can improve public services, if needed, but without taxing any building, without scaring away any generators of fiscal surpluses. In this scenario, buildings raise the tax base indirectly, by raising the value of land around them.

The Quintuple Effect: Reuniting Ownership and Occupancy

Riverside, CA built itself a lovely downtown pedestrian mall, back when that was in vogue, and has been sorry ever since. Nothing worked out, retailers deserted, and half the stores are empty. Recently I asked the developer of Tyler Mall, a success, why he thought downtown failed, and got the answer in two words: "absentee ownership". I should have known, I've preached it for years.

An agricultural adviser in Fresno once told an impressionable boy "The best dressing for soil is the owner's shadow, applied daily". In town they say "Who's keeping the store?" Absentees aren't the only negligent owners, nor are they all bad. Torpid owners are the problem and they come in many forms. Basically, to make a city go you want to be rid of owners who see real estate mainly as a cash cow for their retirement, and replace them with owners who see it as a vehicle for their enterprise, who apply their shadow daily. Those shadows will also follow them into local civic clubs, and enterprising downtown and neighborhood associations for making joint improvements.

a footnote → This is a surprisingly delicate area. Walter Goldschmidt was persecuted and maligned for his classic Small Business and the Community, 1946 (republished in his As You Sow, 1947). His sponsor, The Bureau of Agricultural Economics, fared even worse, it was terminated with extreme prejudice. But he documents the points abundantly from contrasting Arvin, Dinuba and Wasco, CA.

It is the surplus *from* land use that attracts outside buyers. Absentees are redundant parties in production, but often top bidders for pure ownership, that is the legal privilege of receiving ground rents plus unearned increments that accrue over time. Georgist taxation cuts most directly into those "runs of free income" (as Veblen called them in Absentee Ownership) which attract absentee owners; and spares the rewards of enterprise. For that reason it slowly makes the market transfer ownership from absentees to occupants and managers on the spot, with all the good community effects that must follow. In a period of rising concern over alien takeovers of U.S. real estate, these points merit focused attention.

The Sextuple Effect: Increased Capital Formation

Untaxing buildings obviously draws in outside capital, which is good, but is not capital formation to the whole economy. In Keynesian models, however, reducing taxes on new capital raises the rate of return after taxes ("marginal efficiency of capital") and does create new capital. In supply-side models it is more important to increase saving. Land taxation helps here, too.

Land taxation, if vigorously applied, tends to reduce the investment value of land, through a process called "tax capitalization". There is a diminishing marginal utility of savings to any wealth-holder, meaning the more you have, the less you need more. With land devalued, those needing wealth seek substitute assets to replace land in their portfolios. To acquire those additional assets they must save more, and invest the savings in real new capital, rather than land.

The Septuple Effect: Economy in Government

Georgist taxation tends to reduce the need for public spending in at least two obvious ways. One is to increase job opportunities, which in turn reduces welfare spending. The other is to obviate much of urban sprawl with its costly, wasteful cross-subsidies.

In the longer run it seems reasonable to expect that more genuine productive job opportunities at home would reduce the pressures for military spending, at least those portions which are strictly boondoggling of a make-jobs nature.

Social Justice

With all that talk of enterprise, capital and efficiency, remember we began with a quest for justice in sharing the rent surplus. We found that justice and efficiency are not at odds, we can have both. This trade-off that standard-brand economists expound is just a stall, a put-off to enervate and unman us so we won't do anything. What we have shown here is not just that we can have both, but more, we cannot have either one without the other. If we don't share rents efficiently, in the Georgist manner, social and political pressures will continue to cause inefficient sharing and eventual dissipation.

Those are strong claims. Can economic policy do everything? No, but those are the things it can do. The basic impulse, however, the striving for justice and brotherhood, the sense of personal ethics, those come from within, from family, community, schools and religion. So too does the sense of workmanship, the striving for excellence and competence, without which no system works.

There are City Councils and Councilpersons who can botch up

and corrupt the best system ever blueprinted. But the Georgist program may even help straighten them out. Lincoln Steffens taught us that the troublemaker in Eden was not Eve, nor yet the serpent, but ... the apple! The apples of discord that corrupt City Councils are unearned increments to land value, which they create or deny with every decision about extending sewers or changing zoning. Georgist taxation dehydrates those apples by attaching higher tax liabilities to each unearned increment.

Does renewal destroy housing for the poor?

"Slum clearance" in the 1950s had a negative caste, with a name catered solely for middle class consumption. Reuse of cleared land was often at lower density, inevitably throwing an increment of unhoused people on the private market. Federal "Urban Renewal" in the 1960s was better named, but the actual emphasis was all on clearing, not rebuilding. The inventory of cleared, unrebuilt land under the Federal program grew vaster each year. "Bombing out", and "Negro Removal", the cynics' cracks, were on the mark, although blacks were not by any means the only evictees. Any talk now of demolition and renewal evokes the specters of those tragic, cruel, wasteful public programs.

But George's program begins with fostering renewal and intensive use. Clearance is involved only as needed to serve renewal, never as a goal in itself. The first land taken would generally be land now vacant, or with unused, boarded-up buildings. New buildings would draw renters and buyers from old ones, releasing more space. The idea and the impact are to increase supply of rentable and salable floorspace.

There would also be more stores, with more competition in selling; and more employers, with more competition in hiring.

How do we know there would be an aggregate increase of supply? Higher density is one test. Untaxing buildings fosters higher density because density, exemplified by high buildings, is the substitution of capital for land. Untaxing capital obviously makes that more economical.

Higher quality is the other test. The richer the new tenants or buyers, the more space they release elsewhere when they move to new quarters. Now this is the hardest point to see and accept if you are poor, or an advocate for the poor. There will always be specific cases where the rich bump the poor. There is a certain mindset that locks onto such specific cases and makes up contemptuous names like "trickle-down" to dismiss effects on the aggregate market. But the aggregate is what should concern us. If we mobilize local tenants to fight new building we are marshaling a minority with a particular vested interest to fight against the interests of the majority of the poor, and everyone. We will spend our lives straining at gnats and swallowing camels. For the plain

fact is that building new homes for the rich, the ones who can afford new homes, is what releases usable space for everyone else.

There are three kinds of slums. Only one kind, the narrowest of the three, is likely to witness evictions for the rich. This is the slum on high-valued land. These slums develop in the van of expanding commerce or high-rise apartments, where landowners neglect their buildings because they expect to demolish them soon. These areas are limited.

The second kind is on bad land which will stay bad.

The third and most common kind is on good land covered with old buildings which have filtered down to people who generate bad neighborhood effects. Many of these units go vacant. The land value is low. The market will never renew these slums at one stroke, but by nibbling at their fringes. But as it nibbles incrementally in, if it does, it unavoidably creates more space than it consumes, raising the aggregate supply.

Another fear for the poor is gentrification. But this, by definition, is where new gentry displace the poor without renewal, occupying the same old buildings. This is one result of not renewing; renewal as such is innocent. It seems a bit carping, too, to criticize people for maintaining and restoring old buildings. The alternative may be viewed in many ungentrified neighborhoods where buildings simply go out of use, sheltering no one.

But the ultimate end of Georgist policy is to be viewed in terms of the nation, not just single cities. The idea is to pit cities against each other to attract people. Nothing is better for people than to be competed for. It raises their bargaining power as tenants, buyers and workers.

A summary of reconciliations

Georgist policy has been shown as a means to revive dying cities, and in the process to reconcile equity and efficiency; to reconcile supply-side economics with taxation; to reconcile capital formation with taxation of the rich. It can be seen as a means of harmonizing collectivism and individualism, in the most constructive possible ways. I know of no other program whose proponents even make such claims, let alone substantiate them. As you issue forth with cap and gown into a world that has already priced you out of the real estate market, you will find George's program worth your intense study and strong support.

AMERICAN JOURNAL OF ECONOMICS AND SOCIOLOGY

Babson College, Babson Park, MA 02157 617-239-4339

June 10, 1989

Professor Mason Gaffney

Dear Mason:

I have read your powerful talk with great interest. I see why the students enjoy it quite apart from your confession of Tammany Hall connections. It flows along with pertinent references to real places and problems. It even names names!

It is of course, a speech, and a very long one at that, rather than article. I would not send anything so long out to reviewers or desortions would be wholesale. I think there is a paper here though but extracted from what you have and buttressed by a nice historical account concerning the "French connection," and references covering your e.g's. This remnant of the manorial system was also carried over into Quebec and resulted in many narrow fronted river lots.

The rest of the speech with some pruning would make a great pamphlet for the Georgist organizations and, accompanied by a brief press release, would be an excellent thing to send to the financial and real estate editors of 100 of the nation's newspapers. You can get their names from the 1989 World Almanac, and the addresses from Newspaper and Publishers. If it was in the newspapers even the mayors would find time to read it. You could also send it to the host of public affairs programs on TV and radio stations in the cities you named. There is a guide to them also which a good business library would have. Perhaps your school PR dept would do this for you.

I also suggest you sent it to Collins at the HG school in Philadelphia or the other head man there post haste.

I did some hen scratching on it that may be of interest.

Sincerely Yours,



Frank C. Genovese
Editor-in-chief

Holiday Inn

Tues Oct 25

Conf. No. 60807247

Constant phone, baggage area
also 898-1225

Wed. after 5, can leave.

Call in fl. sched.

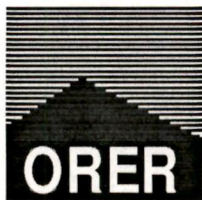
11:10 A will pick me up.

Over 200 audience.

Anti control - most students
probably favor it.
Many come from inside NYC.

2
N4C utility rates are 5x the
nat. ave. Are used as
vehicle for collecting taxes.

~~Stromham~~
Shoreham (?) nucl. plant.



PETER F. COLWELL

ORER Professor of Real Estate
Department of Finance
University of Illinois at Urbana - Champaign
1407 W. Gregory Drive - 304B DKH
Urbana, IL 61801
(217) 333-1185

August 21, 1989

Professor Mason Gaffney
Department of Economics
University of California
Riverside, CA 92521

Dear Mason:

Enclosed is our edited version of your paper. As I indicated to you earlier, we've had to do some cutting to fit the space available for our "commentary" article. In doing so, we have tried both to retain the major factual points and to preserve the lively spirit of the piece. I hope that you are "happy" with the end product, given our space constraints.

We'd like to get your blessing before going to press, and we hope to go to press shortly. Please look over the article and let me know your reaction.

Thank you for providing this insightful contribution to the *ORER Letter*.

Sincerely,

Peter F. Colwell