

Question No. 1:

Can bigger US subsidies substitute for sound solutions of city snafus?

The whole case for federal subsidies rests on the assumption that the cities and towns have no adequate tax base to raise the money themselves. Said the Kennedy conference on urban affairs last October "The basic cause [of urban snafus] is the inability of the American city, with its limited taxing power, to finance unaided the programs and services required to prevent decay." Said the Kennedy housing task force: "The federal government has largely preempted the sources of tax revenues."

This assumption is highly questionable. Fact is that under our form of government the biggest tax source of all, historically speaking, is reserved to the cities and towns—a \$250-billion-plus tax source that could easily afford to provide more added revenue than all the federal subsidies recommended by the task force will supply. The local governments present unwillingness or inability to tap this underused tax source for a big enough flow of money does not necessarily justify saddling the resulting tax deficit on the already-overburdened federal income taxpayers.

This biggest tax source, historically speaking, is land. As late as 1914 land carried nearly half the total tax load—local, state, and national. Today the land values in our cities and suburbs add up to something like over a quarter of our total national wealth, but land is so underassessed and undertaxed that it pays less than one-twentieth of the total tax bill, and more than half that twentieth is deductible from the land-owners' state and federal income taxes.

Undertaxation of land is the No. 1 reason most cities are in financial trouble. It is the No. 1 reason slums are still spreading despite the billions of federal subsidies spent to clean them out. It is the No. 1 reason city land prices are so high that private enterprise cannot meet the need for good low-income and middle-income housing in big cities without a big subsidy from someone. And the undertaxation of land leads to the overtaxation of improvements, so the undertaxation of land works two ways to perpetuate slums and retard urban renewal.

Undertaxation of land is also the No. 1 cause of suburban sprawl, the No. 1 reason cities are disintegrating instead of expanding in a plannable way, the No. 1 reason most cities consume four times as much land as they use, the No. 1 reason billions of dollars must be wasted extending highways and streets and sewers and utilities past miles of underused land, the No. 1 reason suburban land and land development costs too much and therefore the No. 1 reason many good new homes may be priced out of the market.

Says that outstanding urban economist, Professor Ernest M. Fisher of Columbia: "The plain fact is that our present system of real estate taxation, like the whole system of local government finance of which it is the chief part, is obsolete, inadequate, and unsuited to present-day political, social, and economic conditions.

"The need to re-examine and overhaul this whole complex is urgent and imperative, not only for the sake of real estate and housing, but also and a fortiori to save our local governments from bankruptcy—if possible."

Undertaxation is not only the local weakness that should be corrected locally (instead of being covered over by federal subsidies). Most cities abet slums not only by undertaxation, but also by not enforcing minimum code standards on old buildings. Most cities discourage improvements not only by overtaxation, but also by enforcing much too wasteful code standards for new buildings. And most cities make their traffic mess hopeless by undercharging motorists for parking space on their streets, thereby subsidizing those who drive to work or to shop at the expense of mass transportation and so worsening the mass transportation crisis for which federal relief is now sought.

Until cities and towns start setting their own tax house in order, pouring bigger federal subsidies into the city coffers will be pouring money down a rat hole.

The Eisenhower housing authorities learned in time the all-important truth that federal subsidies can do more harm than good if local politicians can use these subsidies as substitutes for local action; their real usefulness is to spur local politicians to develop a "workable program" for local action to earn the federal aid. So the Eisenhower appointees began talking up a tough policy of "no subsidy for cities without a workable plan." The more open-handed Kennedy task force now suggests softening this to read "bigger subsidies for cities covered by any area plan."

The Eisenhower housing authorities also learned in time that, in Norman Mason's words: "There is a close relationship between our prevailing real estate tax system and our problems of slums, blight, and urban renewal. The question of taxes—tax advantages and tax disadvantages—is inextricably intertwined with the problem of community development."

Perhaps the Kennedy Administration will be quicker to grasp this second lesson. The president's chief economic adviser has shown in his speeches that he knows all the right questions to ask on land-value taxation, though he has not yet stated his answers. The president's new highway chief is on record as wishing he could recover part of the cost of his program from the multi-billion-dollar windfall new highways have given land owners along their routes. And the president's housing task force has urged a commission to study the effect of state, local, and federal tax policies on housing.

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