

THE BEST TAXED CITY IN THE WORLD

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Address of Lawson Purdy, before the Real Estate Board of Brokers of the City of New York, at Their Annual Dinner at the Waldorf-Astoria, Feb. 24, 1906

(From the *Record and Guide*, March 3, 1906)

There is an impression that no one ever has a good word to say for the tax system under which he lives unless he speaks in an official capacity. One of my first experiences in the practical study of taxation was when I wrote to the officials of a number of States to inquire how certain of their laws were administered and with what results. In every case these officials said that the laws were well administered and gave general satisfaction. This astonished me very much, for I knew better, and subsequently I found that these very men when they were not signing official letters could tell as hard stories about their tax laws as anyone else. There is too much truth, however, in the statement that we are one-sided critics. This is a good time to cease our lamentations and take stock of our blessings. I shall endeavor to show you that the great cities of the United States have better systems of taxation than the great cities of any other country of the world, and that the City of New York has the best tax system in the United States.

In order to decide what are good taxes and what are bad taxes, we must have some common measure that applies to the whole community. I think we have such a common measure, and it is the necessity that is imposed on all men, under normal conditions, of earning a living. Then we may properly divide taxes into broad classes of those which make it harder to earn a living, those which make it easier

to earn a living, and some trifling ones that are negative. Any tax on houses or clothes or food evidently makes it harder to earn a living. Any tax on production or trade increases the cost of goods and makes it harder to earn a living.

It is not sufficient that a tax should be good in itself, but it must also be well administered, so that it will bear equally on all the persons or property subject to it. This is a virtue even in a bad tax, although if a tax is bad in itself it may be the sooner repealed if it is confessedly unequal and unjust, and the inequality of a bad tax may in reality be a blessing in disguise.

First, let us examine the conditions in our own city, and then make some comparison with the great cities of Europe. New York is supposed to get about 12% of its tax revenue from the tax on personal property; as a matter of fact it only gets about 6%. There is a general agreement that this is a bad tax, and we may be thankful that it works so badly. Few people realize how badly it does work. Let us first consider the facts as shown by the official records. When the books were opened in January, 1904, the tentative assessment of personal property was nearly four and a half billions. Of this amount, when the books were closed, there was left only \$825,000,000. The personal taxes levied for 1904 amounted to nine and a half millions, and up to last October the amount collected was \$4,800,000. Less than half

the people assessed pay the tax assessed, and for a number of years the collections have not been more than 60%.

The arrears due to personal taxes became such a serious problem that a year ago the Mayor appointed an advisory commission to deal with this subject particularly. A few days ago I appeared before the Cities Committee of the Assembly at Albany to advocate the passage of the bills recommended by the Commission. There was a disposition on the part of the members of the committee to criticize the administration of the tax laws, but I believe I satisfied them that our officials are doing as well as any men could under the circumstances. What can they do? A few men, say four or five, are given the task of determining the persons who ought to be assessed, and the amounts for which they should be assessed in a population of four millions. They use every means of information at their command, and are obliged to depend chiefly upon directories and commercial ratings, making the best guesses they can in accordance with the place of residence of the various persons and the ratings of men in business.

Our system so far as it relates to the taxation of personal property is so bad that it would be a joke if it were not for the hardships imposed on a few and the general disadvantages to the city of having such a system. But we can be very thankful for its absurdities, for we may be sure that a law which is ridiculous cannot last.

We have one personal tax which is as nearly perfect in administration as a tax can be, and that is the tax on bank stock. I heard the other day of a small bank in a neighboring city which neglected to report for several years and paid no tax, whether by accident or design I do not

know. Now the little bank has been found out, and it has discovered that it is subject to a penalty of \$100 for failing to report and \$10 a day for each day of failure, and for a penalty of \$100 a day for each day that it has failed to pay its tax. The bank is wondering whether there is anything to be saved out of the wreck. In the city of New York it is rare that one dollar of bank tax is ever overdue a single day. If there must be a tax on banks we can be very thankful that the system is so well administered. But a tax on banks makes it harder to earn a living. The banks are not objecting because they pass the tax on to their customers, and we pay it in one form or another without knowing it.

Our system of assessing real estate in this city is so good that we may well be proud of it. If it is not perfect, or as near perfect as human machinery can be, we are largely to blame because we do not insist on giving the department money enough for its work. In the city of Boston they have 88 assessors, who assess real estate to the value of \$600,000,000. We have 43 assessors, who assess real estate worth ten times as much. The system of our office, however, is so well managed that our assessments are reasonably fair, and the possibility of intentional oppression or corrupt favoritism is almost eliminated.

A few years ago the law was so amended as to require a separate statement by the assessors of the value of land. This is essential to an accurate assessment, and as a reform is being sought by other cities of our own country and by the city of London. It gives us also most valuable data to enable us to determine to what extent our taxes make it easier to earn a living or harder to earn a living. About 44% of our taxes fall on land values, and as we always have had this

tax it is a tax in name only. You who are learned in all the lore of real estate values know better than I can tell you that the tax on a lot of land enters into the determination of its selling value, and so long as the value does not decline it is no burden upon the purchaser. If there had been no tax he would have paid proportionately more for the land. It is in the nature of what economists call a "rent charge," and all land is bought subject to a prospective charge equal to the expected tax. Not only is this tax no burden, but it is a positive benefit, as I shall illustrate presently by a comparison with London.

Bearing in mind that in the city of New York 44% of the revenue is obtained from a tax which does not make it harder to earn a living, let us consider Paris. Paris obtains over one-third of its revenue from a local tariff called an octroi, which to a great extent is levied on food, and therefore falls upon the citizens in proportion to their consumption of food. It is not difficult to determine that that tax makes it much harder to earn a living. Less than 23% of the Paris revenues are even in form derived from real estate. The tax is imposed on the occupier, and if premises are not rented there is no tax. A very small part even of this real estate tax falls on the value of land. It is paid in the first instance by the user of the house, and must be shifted by him to the landlord in order that any part of it may fall on land values. Recently the octroi has been reduced in Paris. It used to yield 50% of the revenue. Now a small tax is imposed on unused land and there is a disposition to increase this tax and further reduce the octroi.

Berlin is in much the same position as Paris. The so-called real estate tax

yields about 15% of the revenue, and as this is imposed much as the similar tax in Paris, only a small part of it comes from the value of land. Many German cities the last few years have imposed a small tax on land alone, and this has already been accomplished in Berlin, or probably soon will be.

London is perhaps a little better off than the other two cities. Seventy-two per cent. of its revenue comes from the rates, but to our American ideas rates are a fearful and wonderful invention. Rates are imposed on the occupier of property and laid on income not capital values, and are based on what a tenant would be supposed to be willing to give as rental for the property in its present condition. In England, if a property is not occupied, it pays no tax. Land in the heart of a city may be used for a cow pasture, and the rates are based on the rental that can be obtained for it for its use as a pasture. It is evident that this system must tend strongly to keep out of use much land in demand for building. In 1885 the Royal Commission on the Housing of the Working Classes, of which the present King was a member, reported in favor of a tax on site values in order to make land available for building purposes and to reduce the tax on buildings.

In his work on "The Incidence of Taxation," Professor Seligman says that under the English system the main burden of the tax will rest ultimately on the occupier, not on the owner of the premises. Probably not over 15% of the revenues of London come from ground values.

Of recent years we have seen many well meaning attempts to shift the burden of taxation to those best able to bear it, but in general the result of these attempts has been to put more taxes on production and trade. The English people are

far worse off than we are, but they have their faces turned in the right direction and are sure to go forward. You know of the tremendous victory of the English Liberals at the election this month. The Prime Minister of England, Sir Henry Campbell-Bannerman, in a speech to 10,000 people at Albert Hall, on Dec. 21, spoke as follows:

"When I come to a policy of constructive social reform I am conscious that I must make reiteration of things I have been saying up and down the country for the last three or four years. But I can assure you this, that it will always be the same story. We desire to develop our undeveloped estates in the country, to give the farmer greater freedom in the exercise of his business, to secure a home and career for the laborer, who is now in too many cases cut off from the soil. We wish to make the land less of a pleasure ground for the rich and more of a treasure ground for the nation. Why cannot Mr. Chamberlain drop his project of taxing corn and cheese and so forth and go back to his old love of three acres and a cow? These great questions cannot be neglected, because the health and stamina of the nation are bound up with the welfare of a large class of workers on the soil. The town population is redundant, and the country population is desolated—it is a subversion of healthy natural life.

"But we are met to-night in London, and not in the country; in London, the greatest city in the world—and a conglomeration of cities—some cities of the very rich and some cities of the very poor. Sir, London presents a group of problems positively terrifying in their

dimensions, problems of housing and overcrowding, problems of the unemployed, and the overemployed, and of the badly employed. But they differ—these problems—they differ, after all, only in degree, and not in kind, from those which present themselves in other and smaller cities. We all know the evils. Whoever passes, like the Levite, on the other side of the way, Liberalism cannot pass by on the other side. But, then, what is that which we can do? We can strengthen the hands of the municipalities by reforming the land system, in which I include the imposition of a rate upon ground values."

The splendid growth and improvement of our cities in this country and of our City of New York is due to the fact that it does not pay to hold land idle too long, and that so large a part of our revenue is derived from a tax which does not make it harder to earn a living. In the City of London there is no real estate business as we know it here, because land changes hands so little. The ownership is not diffused to the extent that it is with us, the difficulties of transfer are great, long leases are permitted, the penalty for improving is severe. London is full of old buildings unsuited to the site. Tenants cannot afford to put up fine buildings for the benefit of their landlords. Our tax on the value of land results in its more thorough use, and to-day we have on Manhattan Island the finest business blocks and the most costly hotels and dwellings in the world. We may be thankful that we live in a city which gets so large a proportion of its revenue from a tax which makes it easier to earn a living.

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