the Henry George News

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Who Owns US

THE questions most often asked of Georgists are being answered every day in the national magazines and newspapers with increasing astuteness and urgency. Isn't land relatively unimportant now as compared to the high cost of labor and materials, people sometimes ask. A recent series of articles about New York's land barons should silence that. Why hasn't this tax reform been tried, will be asked less often as researchers are led inevitably to the fundamentals delineated by Henry George, especially with reference to slums and inter-city decay. Embattled students have long predicted that George's methods would be considered only when everything else had failed, and the signs are growing.

In February alone there were extensive reports in a number of publications which would not have been accepted if there were no "land problem." Even though land is usually bulked with buildings as real estate, more people know the importance of considering and assessing them separately. If the various periodicals have not gone so far as to see the solution, they are at least repeatedly calling attention to a situation that has long been neglected.

Another question often heard is, if you Georgists know land is so fundamental, why don't you invest in it and profit from your knowledge? For several years the answer to this was thought to be, it's too late. But an article in the U.S. News & World Report (February 17) quotes the experts as saying "the biggest boom in America is in land—the rise is just beginning . . . new fortunes will be made . . . the end is not in sight." One reason is that the swollen land costs in the U.S. are outpaced by surging land prices abroad where population pressures and inflation fears are stronger.

In Tokyo commercial property is said to be ten times as high as Wall Street property—prices have risen 839 per cent since 1955. A Georgist correspondent from Japan writes that "Olympic boom" eloquently describes Japan, where boom has become "boomu" and has acquired a Japanized connotation to describe everything that is increasing in number and velocity—as leisure boom, car boom, travel boom, bowling boom, construction boom, and lately the traffic accident boom, which the populace angrily insists could be reduced.

In Hawaii land is so valuable it is usually leased, not sold, and this is becoming the pattern in New York and other large American cities. Land prices in Switzerland are among the highest in Europe and still rising. Britain's high land values too, are concentrated in industrial areas and cities. Farm land 45 minutes from London

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jumped from $700 to $28,000 an acre when it was zoned for residential building. A farm on the fringe of a Toronto suburb recently brought $2 million. In Montreal it was estimated that speculators had bought up enough land to "take care of the city's growth for the next 100 years."

Rising prices are changing investment patterns in France, Germany and Italy, where money is being taken out of stocks and put into "safe" land and buildings, because of a fear "that Italy's left-leaning government may nationalize more private companies." Inflation fears affect land prices in the U.S. too. "Historically people have bought land as a hedge against the declining value of money, and that's still true today . . . money tends to depreciate in value but real estate and population keep rising."

With almost monotonous insistence we are reminded that the boom is "reaching out in all directions." At Squaw Valley, California, tiny 1960 Olympic lots that sold for $250 ten years ago are bringing $5,000 or more; and about 30 miles north of San Francisco residential lots along the ocean are in hot demand at $25,000 despite warnings that in severe storms they may be flooded. Desert land near Albuquerque can bring as much as $1,000 an acre. Apartment and office buildings in cities are mounting higher to make new "metropolitan acres" available, but other hindrances such as taxes and traffic, drive businesses out of the cities to cow pastures that sell for hundreds, even thousands, an acre.

In the face of this and other widespread evidence of the mounting census figures, the director of the Stanford Food Research Institute, Karl Brandt, maintained in a recent discussion on population, that this country is underpopulated, and that other countries too, could produce all the food they need if they would use insecticides, pesticides, fertilizers and cheap motor fuels for pumping irrigation water (he didn't mention the importance of hard work).

Not All "Boomu"

Strangely enough there are some places where the price of land is not rising. They are mentioned at the end of the long and skilful article in the U.S. News & World Report. Ask any student of Henry George where the values are declining. Right! In the downtown sections of cities! In Detroit, for instance, a decline began in the late 1930's. One land broker said, "many properties in our downtown probably would have to be sold at less than assessed value, and the assessment is only 50 per cent of value." Of course the picture is completely different in the suburbs.

Perhaps the worst abuses will initiate the earliest solutions. It is from the Detroit area that some of the most encouraging successes have been reported, especially by Mayor Clarkson of Southfield, a flourishing suburb of Detroit. It is also promising to note that a bill has been newly introduced in the Michigan legislature aimed at separating land and building evaluations and increasing the assessments on land.

Yes, there is still plenty of land in these United States, but as stated in this report, "it's mostly where nobody wants to go. People want to be near other people. In those areas, land is at a premium and values naturally are going up." One of those areas is New York, and it is not surprising that a series entitled "Who Owns New York," drew attention and rebuttal when details of ownership and management were documented by Daniel M. Friedenberg in the New York Herald Tribune in February.

The "old families" whose fathers came over by slow boat, still receive high incomes; but the author concludes, after spinning rapidly through this historical narrative which he limits to the small area known as Manhattan, that the island is owned by 100 men who sit on the right finance committees and who say yes or no on questions of leasing and selling.

He describes a vast "overlay of shared interests—interlocked and interwoven." These include life insurance companies, commercial banks, the powerful old and the ascendant new families, certain churches, institutions and corporations, the union finance committees and pension funds. By comparison, he says, "most speculative builders seem like marionettes in a children's show who cannot move unless other people manipulate the strings."

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This would be incomplete without a brief sampling of the heady real estate figures. When we read last year that Lord John Jacob Astor had moved to France, it was because he wanted to avoid making his heirs pay an 80 per cent British tax on American holdings which were valued in 1919 at $90 million. All buildings built on land leased from the Astors become their property when the leaseholds expire—to mention just one—the New York Hilton pays $600,000 a year in rent, plus property taxes.

Among newer families the Rockefellers hold the largest privately owned real estate development in the world. Most of the land under Rockefeller Center is owned by Columbia University. It receives an annual rental of $3.8 million and has already received about $122 million from this leasehold, which has been extended to the year 2073.

The "Center" has been extended for several blocks to include a succession of dazzling elevations. The author began by casting no laurels at land-owning families for benefits to, the city, but he relented somewhat in the case of the Rockefellers who gave the land under the UN buildings. As apparently no one can do good to another without benefiting himself, it is well known that the Rockefellers profited greatly from increased values to their surrounding properties.

The depression in the 20's made many painful changes. It is said that William Randolph Hearst "impetuously dumped most of his property, reducing his total worth to a mere $400 million at death." Marion Davies will be remembered as one of the screen beauties who received not only jewels but buildings as gifts, several of these in New York are still in her estate.

In the 1950's we meet the syndicates — groups who pooled their funds to buy property and avoid double taxation (corporation and individual) and take advantage of tax-free depreciation charges. Lawrence Wein organized about 100 such syndicates with values close to $1 billion, then abandoned the device in favor of trusts, better suited to postponing capital gains.

On the contemporary scene the star-studded speculators include such names as Zeckendorf, Tishman, Wolfson, Rose, Rudin, Glickman, Kratter and the Uris brothers, who have become very rich in 15 years and seem destined to last longest. Their buildings have been criticized by architects, but profit is the motive—forget about esthetics, say these individual builders. The better buildings, generally speaking, have been credited to corporations. Joseph Kennedy's holdings are estimated at $400 million, largely in New York, and he is considered to have made $100 million in these deals alone.

The author seems to hold the view that speculators, like the old families, have added nothing to the city. We

read, however, of Samuel J. Lefrak, a "master landlord" who will soon have a million tenants—more than all the persons living in public housing provided by the city—and he prides himself on never having accepted state aid.

This may be some sort of a benefit to New York in view of the urban renewal scandals disclosed in the March Reader's Digest by a U.S. Representative. Where the government pays two-thirds of the cost of buying and clearing slums and rebuilding the areas, these must be designated as "not worth saving." It was discovered (too late) in a Cleveland project, that many valuable and almost new buildings were summarily classified as sub-standard, promptly destroyed, and eventually replaced—at the taxpayers' expense.

It has often been said that if all wealth were divided equally among us, it would not be long before some people would again have much more than others. As we read the history of the real estate moguls it may be that "these too shall pass," for the individual builder seems to be losing out in the trend to bigness. The key to all building, the author points out, is capital—that's where the banks come into the picture, and recently also, with increasing forcefulness, the insurance companies, railroads and other large corporations. The Metropolitan Life Insurance Company is now one of the largest landlords in the city. The New York Central and Pennsylvania railroads own vast properties.

Despite public protest, the architecturally splendid Pennsylvania Station is coming down to make room for a new Madison Square Garden, as money is pitted against non-monetary values, "with the money winning out." New York Central's extensive tracks under Park Avenue have provided the air rights for "ice cube office buildings"—most conspicuous of course—the Pan Am Building. The latest "improvement" announced by the Uris brothers is a leasehold for the ground under the Grand Central Palace, which means another fine old building will be replaced by "an insipid new one."

What caused this de-personalizing of our city's land? Could it have been taxes? Back in the 19th Century and early in the 20th profits in business were far greater than those in real estate. This changed with Theodore Roosevelt's "trust busting" and gathered strength through the New Deal, as the income tax, " a mere nibbling affair when enacted," began to "bite deeply into profits."

When the profit squeeze hit the national corporations, Congress, anxious to promote the construction industry, gave it a tax-free depreciation analogous to the depletion allowance granted to oil. Congress might better have favored construction by simply moving taxes from buildings to fairly assessed land values. Builders then, unhindered by repressive taxation, might have produced better buildings, since they would have been free to compete with each other for tenants. If taxes were concentrated on land values, much of the big money might go into the kind of structures that would beautify the city and honor the builders.

Mr. Friedenberg explains that "the advantages of real estate are not limited to depreciation. Since buildings are built with mortgages normally running anywhere from 65 to 80 per cent of total cost of a new project, and as high as 90 to 95 per cent on FHA and special state-legislation money, the actual equity invested is very small. But depreciation is allowed on the entire building cost, not merely on the equity investment. Thus a small amount of capital has powerful leverage in boosting cash return. And to cap the advantages, capital gains permit the seller after three years to reduce the tax on profits to 25 per cent . . . more than 70 per cent of today's real estate deals involve tax angles."

Speculators are optimistic, but there must be a limit to the office space the city can absorb, the author notes. There is a new 5 per cent tax on rents over $2,500 a year and this will probably jump, since "such taxes always have in the past." With New York a "morass of unresolved problems," he concludes, "it can only look to realty taxation in order to raise the money needed to solve them."

So with the spectre of increasing inflation before us, we have taxes on profits driving investments into land, lightly taxed—when a simple reversal of this situation would spread the benefits equitably, preserving the time-honored American ideal of opportunity as freely available to all as it can be made.

Dr. Robert V. Andelson, now assistant professor of government at Northwestern State College, Natchitoches, Louisiana; formerly director of the Henry George School in San Diego, recently told a group of members of the International Student Club, "we may wind up as communists unless we become economists." Professor Andelson named ten advantages that could accrue from land value taxation, basing his statements on *Progress and Poverty*, and referring to Fairhope, Alabama as a "thriving city founded to exemplify the system."

Arnold Weinstein is an attorney in New York and a trustee of the Henry George School. His son, Steven, a fencing champion, now a sophomore at Columbia University, gladdened his father's heart and raised the morale of his university, by winning the Inter-collegiate Invitational Foil Championship — a competition which included Columbia's traditional rivals — New York University and Navy. Steven is the first sophomore to win the tournament and the first Columbia student to win since 1955. He is an eighteen-year-old Athletic League champion from Forest Hills, Long Island. After the exciting victory he was lifted to the shoulders of the cheering Columbians and, according to the New York Times, "took a good natured pummeling before they let him down."