

# Beating the enemy that dwells within

POVERTY and despair and economic decline are apparent in both large and small cities in America. People are no longer threatened by foreign forces, but by our disastrous domestic agenda. As Pogo said long ago, "We have met the enemy and they is us."

The gap between rich and the poor has widened over the last decade. After the longest peacetime expansion in history that lasted from 1982 to 1990, income inequality is greater than it was during the 1981-82 recession. Could the gap between rich and poor and the plight of the city be related?

The Internal Revenue Service's latest statistics show that in 1987, 1% of the nation's population held 36% of the wealth, up from 27% in 1973. The Bush Administration says the tax burden on the wealthiest 1% has sharply increased to about 27% of the income tax in 1988, up from 18% in 1981.

But Kevin P. Phillips, author of *The Politics of Rich and Poor*, said in an interview that the rich are paying more taxes because their share of national income almost doubled to 15% in the same period. "It is not that the rich is burdened unduly," he said, "it is just that they have more of the money".

Another study by Citizens for Tax Justice showed that middle income families pay more of their earnings in state and local taxes than do the richest Americans. The poorest families see 81% of their earnings swallowed up by state and local taxes.

In 1989, figures from the Bureau of Labor Statistics show that this country's work force earned an average of \$17,718. That is only an increase of 0.94% over the comparable figure of \$17,553 in 1969, almost two decades earlier. The great secret of American life is that our standard of living is declining. Figures from the Bureau show the average weekly earnings

By JACOB B. HIMMELSTEIN

(adjusted for inflation) have grown only \$2.74. But consider what happens when only the employee's social security is deducted:

1959: \$159.69  
1969: \$180.35  
1979: \$172.17  
1989: \$154.01

The average weekly take-home pay of a worker has declined \$5.68 in 30 years.

In the typical family today, both adults must work to compensate for the loss of purchasing power. In over 35 years, median family income has essentially remained unchanged. The Washington-based Economic Policy Institute concludes that "real wages for the average American worker declined by almost 10% during the 1980s."

The report showed living standards for most workers and

their families have worsened, while the income gap between rich and average Americans has grown larger.

Over the past decade, a steadily increasing percentage of Americans discovered that health care coverage and a good education for their children were beyond their economic means.

THE VERY rich continue to be insulated from the concerns of the middle class. The wealthiest 10% of the nation's families enjoyed an income gain of \$543 billion during the 1980s. An almost identical amount, \$544 billion, was spread over the other 90% of the country's families.

Another study by the Washington based Center on Budget and Policy Priorities says: "The richest 2.5 million people now have nearly as much income as the 100 million Americans with the lowest incomes." The average income received by wealthiest 1% of all families is approaching \$550,000 per year.

Several studies that I read said that there is no affordable housing in urban areas for median income families. The Delaware Valley Regional Planning Commission found that in 81% of the 353 municipalities in the nine-county Pennsylvania-New York region, median-priced housing units were unaffordable for families earning the median

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income. In other words, a family earning \$38,300 annually – the 1990 median income for a four-person household in the Philadelphia region as estimated by the U.S. Department of Housing and Urban Development – could afford a median priced house in only 68 municipalities.

In New York City the housing crisis has become so bad that the number of people doubling up in apartments has greatly increased. This has not only become the affliction of the poor but, also, of the working class. It is estimated by housing officials that at least 100,000 people live doubled in the public housing projects. The head of the Montgomery County PA Redevelopment Authority has said there is no affordable housing: this is the richest county *per capita* in the United States.

An editorial in *The New York Times* says: "The numbers illustrating inflation, crime, trade deficit and other problems are frightening.... but what makes them catastrophic is that nobody understands them and nobody knows what to do." This is the understatement of the century.

It may have been true 100 years ago, but today there are those who know what is wrong and exactly what to do. But it is impossible to get a proper hearing in Washington or any of the great cities of America.

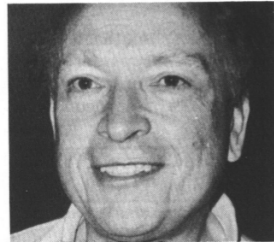
We have been conditioned to accept the advice of "urban experts" who have never understood basic economic theory. We have been so misinformed by these experts that even those who agree that there is a solution are inclined to agree that "nobody understands".

UNLESS cities correct what is wrong with the property tax and abolish taxes on income and business, there will be no solu-

tion to the urban crises. Cities should help themselves by taxing land heavily instead of, as now, subsidizing land price inflation.

Last October, in the face of Philadelphia's deepening fiscal crises, I and some colleagues visited the President of Philadelphia's City Council to promote this idea. This was a day when the city's leading newspaper, *The Philadelphia Inquirer*, printed a letter in which the President of Philadelphia Board of Realtors endorsed the idea of the land value tax for the city.

The President of City Council referred us to the Director of the City Council Technical Staff for whom we prepared a study



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which indicated that most of the home owners of the city would benefit from a switch to the land tax. The Director of the Technical Staff agreed that it would be a great idea and would have his support.

It was suggested that, before we could get the support of City Council and the City Administration, we would have to have the daily newspaper's support. To achieve this, I proceeded to make appointments with the Editorial Editors of both Philadelphia's daily newspapers. Both editors assured us that they understood the idea and would support it, provided that we could get a bill introduced into City Council.

This was a most frustrating experience. Without the bill, we could not get publicity. But without the publicity, we could

not get the bill before the Council!

But eventually we must move toward the collection of economic rent generally and in easy stages. As the program advances those taxes which were previously based upon buildings and improvements must be reduced simultaneously as taxes on land value are increased. In this way there would be no general confusion and we could acquire experience as tax pressures create positive instead of negative results.

According to the Constitution of the United States, Congress is empowered to levy any and all taxes. Traditionally it has delegated this power to the states. Even, today, many state legislatures have the power to follow whatever tax policies they might choose. Some states have built their tax policies into their constitutions and nothing but a referendum would change their fixed policy.

Nevertheless, Congress could abrogate all such state constitutions and decree that all states should adopt a gradual changeover. It could provide specific instructions as to how a proper tax system could function and without interfering with the right of the states to collect and to use the property tax funds for whatever purposes they see fit.

Our system of taxation has condemned cities and states to an ongoing fiscal crisis which will condemn millions of people to live in poverty. The gap between rich and poor increases yearly. Only by effecting fundamental change can we set the stage for a new era of social sanity.

We must not continue to allow the few to take advantage of the many. Otherwise, we will see the destruction of our body politic which will be a catastrophe to the rich, poor and the middle class alike.