

Finkelstein addresses economists convention

The panic in Manhattan real estate will be as unreal, and as damaging, as the frenzy of the boom a decade ago, Philip Finkelstein, director of the School's Center for Local Tax Research, told the National Tax Association's panel at the American Economic Association annual convention in Dallas on December 30.

"Even with the long-term prospects for the city and the regional economy as grim as they now appear, the value of a New York City location will not disappear unless the city itself does. It is these location values, and not the transitory values of its most extravagant buildings, that the city must tap for its own survival ..." he told the economists.

'Headquarters City'

New York's fiscal problems have been aggravated, he said, by too heavy reliance on Manhattan's position as "the corporate headquarters city of the nation," which has distorted the tax burden and heightened the vulnerability of municipal revenue to external economic forces.

Much of the city's current difficulties Mr. Finkelstein traces to long-term problems that were accelerated by the building boom of the 1960's. "It is significant that in the New York of the sixties not a penny of urban renewal funds and very little of New York's capital budget was invested in new economic activity. New York renewed itself with new neighbor-

hoods of upper middle class and even moderate income housing and millions of square feet of new office space leased even before built, at some of the highest rentals in the world. This spectacular private building boom lent New York the illusion of growth in its tax base that could almost match its needs for more revenue...

"Even the Comprehensive Plan drafted for New York City in the late sixties called the headquarters function of New York the 'engine' that would continue to pump resources and vitality to the rest of the city and its metropolitan region. But the engine soon stalled. Headquarters... are no substitute for broad economic activity. There were fewer headquarters jobs and fewer factories for those without skills and higher training. Nor did the services and profits of headquarters city flow to the neighborhoods..." He explained that in designing its taxing base to fit the headquarters city philosophy, New York was sowing the seeds of its current problems.

Unchallenged Pre-eminence

"In the decade or so of its unchallenged pre-eminence as headquarters city, New York gained a one-third addition to its real property tax base, from about \$30,000,000,000 to under \$40,000,000,000 of assessed value. Almost all of this gain represents the value of new

construction. Almost none of it represents the additional value of existing properties and locations in all parts of the city. The tax base grew by one-third, the tax rate doubled in that same period, yet New York City, even now is a relative bargain for many property owners. While Manhattan, with its smaller land mass and shrinking population, pays nearly one-half of the property tax bill, property in the other New York boroughs of Queens, Brooklyn, and Staten Island enjoys the lowest level of assessment; in many instances one-half the assessment-to-value ratio as Manhattan...

Political Power

"There are nearly 600,000 one and two family homes in New York City, and they are powerful politically and economically. In one of the better neighborhoods, where a house might sell for in excess of \$50,000, the tax bill is under \$1000 per year even at the current rate of 8.18 per hundred. Their assessments, in many cases, remained unchanged for 40 years. There are at least as many New Yorkers enjoying below market rate living through lower assessments as there are those enjoying the same subsidy through rent control...

"Land in New York is valued at a much lower level than improvements on it. The speculative bidding up of land and

property values in Manhattan is the major cause of a cost differential that makes New York the highest priced town on the U.S. mainland. But most of all, and most tragically, it was the greed of speculators and developers alike who oversold and overbuilt in a finite market, that destroyed the values they hoped to create . . .

"About 30 million square feet of new office space is vacant: several towers have gone bankrupt before completion: some may never be occupied at all. Older buildings forced to compete for tenants at bargain rentals fall into arrears on their taxes and mortgages and a similar fate is now overtaking Manhattan's luxury and middle income housing stock . . ."

Mr. Finkelstein explained that the economics of the New York Metropolitan area have shifted from its near-dependence on its center, to a more balanced relationship between the core and the periphery. "Strange as it may seem, New York is becoming more like other American cities with less dominant centers — with one important difference.

Suburban Exploiters

A true New Yorker regards somebody who chooses to live in the suburbs while earning a living in the city as something of a traitor at least or colonial exploiter at worst. This oddly parochial view has its sympathetic echoes in high places, like restricting public employment to city residents only, or placing more onerous burdens on commuters.

"Small wonder that residents of the fringes within the city are closer in mind and political attitudes to the residents of nearby suburbs than either of them are to Manhattan. Politically this division is even more striking, with only Manhattan consistently voting overwhelmingly liberal

democratic, while the rest of the city more closely resembles the rest of the country . . . In effect, it is only Manhattan that is a special place in New York, and, as such, it is losing power, people and resources to the rest of the city, the region and the nation . . ."

Mr. Finkelstein told the economists that the terms of property ownership in New York will never be the same again. "New York must take some of the burden off the buildings which cannot carry it and place it on to the land which can, and must. The probability of more realistic market values for New York City property is more probable now. The highest court in the state has already called for such a move and a number of jurisdictions are paying heed . . ."

"A full value assessment of the city should not show a diminution of the tax base but a shift in its incidence from the core to the periphery. The enormous value gap between Manhattan and the other boroughs would be reduced and the disparity between over-assessed and under-assessed owner-occupied property would be narrowed. Above all the absurdly low estimates of vacant and under-utilized parcels of urban land would disappear, forcing some rapid redevelopment at a lower, more modest scale in size and price. In a way, this would make New York a little more like the rest of the country and perhaps less an object of envy and scorn."

Higher city taxes seen

The Citizen's Budget Commission, a private "watchdog" organization has estimated that the property tax rate in New York City could climb to \$8.70 per \$100

of assessed valuation for the fiscal year to begin next July 1 if the City Administration chooses to exercise its full taxing power.

A mill rate of 870 would be 51c above, or a rise of 6.2% from, the current rate of 819. Commenting on his organization's dire prediction, its president, Roderic O'Connor, expressed deep regret and a sense of foreboding with "grave doubt whether the city's economic fabric can take this additional shock without being rent beyond repair." It's possible O'Connor was not conscious of his pun.

"We are aware," he went on to say, "of the many painful consequences which now arise out of the fiscal misdeeds of the past, but enough is enough. There is a limit to the amount of punishing taxation which can be imposed upon a community. The stark necessity of cutting back all but the most vital functions must now be faced. The alternative could be economic suicide."

There are some who would agree that "all but the vital functions" should always be pared from governmental bodies. But beyond that the Commission seems to be saying many of the right things for the wrong reason. Complaining about an increase in "rate" is somewhat meaningless if there is no accompanying complaint about what values that rate is imposed on and how those values were determined.

Soon taxpayers, government officials, economists and the public at large will get an opportunity to see the whole picture. The School's Center for Local Tax Research is preparing to release the data it has collected on assessed valuations by type of land use, market values based on recent sales, and the effective tax rates in the Metropolitan New York area.