Revenue Underfoot

Extract from an article by Philip Finkelstein, a Deputy City Administrator of New York*, in the *New York Times,* May 13.

THE TIME is ripe for fundamental reforms in the assessment of real property in New York City.

Next month the tax rate will go above $7 per hundred dollars of assessed valuation, a rise of at least 50 cents from last year. That should be enough to make any property owner look again at his assessment. It means that even with an assessment as low as $10,000, taxes will go up at least $50 a year.

Yet so far public attention has focused primarily on alleged irregularities by the Tax Commission, which hears appeals by taxpayers who consider their assessments too high. Too little attention has been directed to the inequities and inefficiencies of the assessment system itself.

That is unfortunate, because it is a system that is providing bonanzas for some while it rips off others. And it forces the taxpayer to keep digging deeper into his pocket even though the city adds more than a million dollars in rateables every year.

The fact is that the city - and almost every urban jurisdiction in the country - has failed to tap the treasure literally underfoot. Land, especially vacant land, is the most woefully underassessed of all types of property.

In the five years from 1966 to 1970, for example, with inflation and heavy development lifting property values, the ratio of assessments to sales prices of vacant land *fell* from nearly a half to less than a third. At the same time the owner of a Bronx apartment house might be assessed for ten per cent *above* the best price his property could bring.

For every tax bargain in vacant or negligibly improved property, some taxpayer must pick up the burden in higher assessment of his own improvement and a higher citywide rate for everyone.

Proper, annual reassessment of land, bringing it closer to real values, could not only help remove some of the inequities, but could also produce some startling positive consequences.

Every billion dollars added in total assessments reduces the tax rate fifteen cents. Adding a couple of billion to the land portion only would certainly keep the tax rate below $7 and would keep the city from hitting improvements any harder.

There should also be a spur to development - not a bad result in a lagging building era. And at the end of the rainbow there may even be that pot of gold - increased revenue and improved debt-incurring capacity as the tax base grows realistically.

The state Board of Equalization, which is helping the town of Ramapo in a pioneering effort to computerize the assessment process so that properties can be reassessed annually, could play a useful role with the city as well. The board, which sets the statewide equalization ratio, provides a special assessment percentage for New York City.

Every year for the last five the board has reduced its assessment percentage by two points, meaning that it has increased the full valuation of city property on the basis of which the tax rate and constitutional debt limit are set. A good bet for next year is 50 per cent, so that full value would be exactly double the $39.5 billion of assessments.

Staggering as it may seem, $80 billion may still be an understatement by several billion dollars of the full value of taxable New York City property. All assessments including land have been dropping as a proportion of sales values - from 59 per cent in 1966 to 47 per cent in 1971, the last year for which such citywide figures are available.

While the state's assessment percentage also dropped, it has not kept up with the market. The failure by the state to use current and extensive sales data has created a gap that has cost the city at least $5 billion in valuation and $110 million in taxing power. Early, reliable land assessments and sales data would quickly close that gap. It would also undo the more regressive features of the property tax.

The property tax, as economists such as C. Lowell Harriss of Columbia University and Dick Netzer, dean of the New York University School of Public Administration have long pointed out, is really two taxes, different in kind and in consequence. One is tax on the land itself and the other is a tax on the improvement.

What makes a piece of city property valuable for construction is the sum of public and private invest-

*The views expressed in this article do not necessarily reflect the policy of the city administration.

ment in and around that location. Transportation, utilities, amenities, the compatible use of neighboring properties all play a part. The opening of the Verrazano Bridge, extension of the Independent subway on Hillside Avenue, the tearing down of the Third and Sixth Avenue Els, have all contributed mightily to higher values in major stretches of urban land.

Under most circumstances, the better, the newer, the more profitable the improvement, the closer the relation that assessment will bear to an actual or projected sale price.

Although applied at the same rate for land and improvements, the property tax necessarily discriminates against owners of substantial improvements because the land under such improvements as well as the building itself is likely to be assessed at or fairly close to the market value. The owner of vacant land, or a parcel with a small improvement, will generally be assessed at a much lower rate.

Assessors know very well of the unstated but effectively enforced policy to keep assessed values down in residential areas.

But if a homeowner-taxpayer reaps some benefit from underassessment, it is a pittance compared with the millions escaping the public treasury into the pockets of speculators, holdouts in major land assemblages and slumlords who actually gain a lower assessment when their improvements deteriorate.

Even in valuable locations on the west side of Manhattan or Brooklyn's Sheepstead Bay, vast stretches of property are paved over for parking or remain boarded or vacant until the price is "right" and the terms are the owner's.

Believers in the principles of a land-value tax would tax only the land and place no levy at all on the improvement. While their theories have never been tested within an American jurisdiction, the effects of the opposite - heavy tax on improvements and a minuscule one on land - are evident in the decay and disuse of downtowns across the nation.

Fishing for Trouble

OLIVER SMEDLEY

THE purpose of deep-sea fishing is not solely to earn profits for the trawler owners. It is mainly to catch fish for human consumption. British housewives want plentiful fish at the cheapest possible prices.

Let no-one think that I do not respect the sterling qualities of all those who choose to earn their living by going to sea to catch fish, a marvellously more satisfying life, incidentally, than most. But let's not be bamboozled by sentimentality. Are British fishermen in particular more magnificent than Icelandic or any other fishermen? I am fairly certain that they would never claim so for themselves. All trawlermen have to face similar hazards. All are equally magnificent.

When it comes to considering the question of Naval protection for the trawlers belonging to the trawler owners' monopoly, perhaps the Government, which has invested so much of the taxpayers' money in subsidising the building of trawlers for the benefit of the trawler owners and no-one else, thinks they should now spend more taxpayers' money in protecting the profits that accrue to their friends the trawler owners. The public do not stand to gain anything from the deal, except public humiliation if and when the Royal Navy fails in its task.

The trawler owners now say that they propose to boycott the importation of Icelandic cod fillets pending the outcome of the dispute. By what right do the trawler owners decide for us what shall or shall not be imported? They are not the Government. But if one follows the course of the Icelandic dispute since the war, one sees how bit by bit they have succeeded

in excluding the Icelanders from our ports and thereby made enemies of our former friends.

During World War II Iceland provided us with practically all our fish and we were her only customer. Without her help we could not have survived. By 1948 we were still taking 51.1 per cent of her exports. By 1950 this had been reduced to 14 per cent and in 1971 we took less than nine per cent. In the meantime Iceland has had to find other markets. In 1971 she sold 42.5 per cent of her fish to the USA and eight per cent to Russia.

Iceland is now more friendly with Russia than with Britain. We must hope that the Royal Navy will not be met by Russian submarines if they enter Icelandic waters in defence of the trawler-owners' profits. Successive Governments, through their myopic protectionist policies, have been grievously at fault in turning a loyal ally into a potential enemy.

What the Government should do now is clear.

First they should stop subsidising the trawler owners with the taxpayers' money. Secondly, they should break up the stranglehold of the trawler owners' monopoly by ensuring, in the interests of the people as a whole, free entry to our ports of foreign-owned trawlers, particularly those of our former friends from Iceland.