

THE ZIEGFELD Follies brought sparkle to 42nd Street. The Astaires, Fred and Adele, danced in the street. The Marx Brothers opened their hit show *Coconuts* at the Lyric, one of the theatres that made the block between 7th and 8th Avenues a mecca of entertainment.

That was a long time ago. Today, 42nd Street is the place for the blues - the venue for human derelicts who get their high-steppin' kicks from porn and prostitution rather than from a swirl choreographed by the tap-dancing Fred Astaire.

And drugs. You can buy anything you want, but the experience leaves you with the kind of blues that never came out of Satchmo's horn. A mecca still, to be sure, but for crime. In 1988, 2,246 offences were reported on the block - six a day. Over 20% were for murder, rape, robbery assault.

In the last 50 years, while central Manhattan turned itself into a pin cushion of skyscrapers, the developers were kept off the prime sites in 42nd Street.

More than a billion dollars of public and private investment has been spent on the periphery of 42nd Street over the past 15 years. The Bus Terminal has been modernised, Manhattan Plaza

Economics of Adam & Eve

FRED HARRISON visited New York. He assesses the impact of the property tax on the sociology of the city.

was constructed as a residence for performing artists and Theatre Row was developed.

But not a single new building was allowed to add sparkle to the block between 7th and 8th Avenues. And so it became seedier, turned over to the drop-outs and drug pushers.

Financially, the property owners - 50 of them, holding 74 parcels of property - have not lost out on their failure to reconstruct the fabric of this famous slice of the Big Apple. The low value/high turnover commercial trade behind the opaque shop windows provide enough cash for the owners to remain content; probably because some of them fail to report their incomes to the taxman, suggests Carl Weisbrod, who is

president of the 42nd Street Project Inc.

The Project is a subsidiary of the Urban Development Corporation, which wants to use its powers of eminent domain to force redevelopment. Nine seedy-looking theatres would be renovated in the planned \$2.5bn development on 13 acres.

But nothing will happen until the owners have fought the last legal, drawn-out battle, in their opposition to the takeover. Six lawsuits in the last eight years have postponed action to tear down 20 buildings and displace 400 businesses - 40 of them "adult" book stores and peep shows.

Meanwhile, the community is suffering socially, but also financially. According to Mr Weisbrod, writing in *The New York Times*:

"The block's owners collectively pay less in property taxes

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• The 42nd Street blueprint: plots 1,3,4, and 12 for use mainly as offices; 5,6 and 10 for theatre/retail; 7 an hotel; 8 a mart

than a typical, medium-sized Manhattan office building. They require a wildly disproportionate share of public services (between 40 and 50 law enforcement officers a day are assigned to the block; the Sanitation Department says the block costs 10 times more per mile to clean than any other in Manhattan)."

Existing owners, like the Brandt Organization and the Durst Organization, say they will rehabilitate the block. Durst says that, if the comprehensive redevelopment takes place, it will not recover the \$2.5m it has spent on renovating eight theatres.

Mr Weisbrod is not convinced, which is why he wants to force the issue. "They pay lip service to the public's desire to see the block cleaned up. But, in truth, they are committed to defeating the only serious effort to reclaim 42nd Street, all in an apparent attempt to maintain business as usual on this tragic and dangerous block."

A HINT of the extent of underuse of the prime sites emerges from a few of the statistics.

- The properties use just 20% of the total development capacity of the land.

- Rents reach \$200 a square foot - high, but short of what the properties would yield if they were redeveloped.

- The value of the land in the central and east side of the area alone is \$200m.

- Revenue to the city in property taxes amount to \$6m - the amount paid by a typical, medium-sized office building in Manhattan. Fifteen years after redevelopment, the tax is expected to yield nearly \$250m.

Here, then, is a prime example of how the tax system fails to reinforce the commercial logic

of the marketplace. Individually, the landowners enrich themselves as the area rots into the gutter. Their cash flow is high; meanwhile, the capital value of their sites appreciates by leaps and bounds - thanks to the public and private investment in the neighbourhood.

The property tax could be restructured to force owners to use their sites to the highest and best permitted use. A high tax on the value of the land alone would push owners into redeveloping their properties in response to both the legitimate needs of the community as well as to their own financial benefit.

Mr Weisbrod does not have much sympathy with that kind of talk. "Tax policy cannot be used as a means of achieving other social ends," he says. "At least, not in a direct way," he told *Land and Liberty*.

But he agrees that, under the present arrangements, the community is the loser. "The public and government does get screwed, because those properties are truly being undervalued.

"The unbelievable irony is that the property owners claim they are over-assessed on 42nd Street, and they bring petitions to have them [property taxes] reduced. At the same time, they say that our appraisals undervalue their property!"

The property tax, explained Mr Weisbrod, is assessed on the basis of the net income received by the owner of a property, plus the value of the land.

"Up to five or six years ago, tax policy and assessment in New York City was rather haphazard and not an entirely rational process. Increasingly, it's becoming more rational. The goal is to assess property at 45% of its true market value."

While opposing the use of the

property tax for social engineering, Mr Weisbrod frankly admits that "While each individual parcel makes a good deal of money, it doesn't pay what a truly developed site would pay" to the city in property taxes.

WITH high incomes, and low taxes, why should the property owners want anything to change?

That combination produces a special brand of commercial incentives, Mr Wiesbrod acknowledges. "The uses that are enormously profitable cater to a transient population who want fast food, pinball arcades, sex, movie theatres, and hole-in-the-wall grocery stores that sell only condoms and knives.

"The street is a breeding ground and hangout for criminals. It provides a built-in support system for criminals - they eat, meet, buy drugs, here. It's a springboard for crimes committed to the west and the Times Square area."

In the postwar years, Midtown Manhattan was extensively redeveloped on the back of the taxpayers: the real estate interests successfully lobbied for "tax breaks" - in other words, shifting the financial costs of running community services onto others. With this "incentive", the realtors enriched themselves.

But once in a while, not even these golden inducements will lure developers. 42nd Street is a prime example. The rationale behind the public initiative stems from the seediness of the physical and commercial environment, which discourage piecemeal private investment.

Why should any one landowner risk his money in providing an "up-market" building and service to customers in the mid-

Everything under control

TWELVE Pennsylvania cities have begun to transfer taxes gradually off production and on to land values, to good effect.

Take Erie as a typical example. It is now taxing land assessments at 9.15% and buildings at only 2.7% instead of both at the same rate of 4%. This is what Erie achieved:

- Fully 64% of all property owners saved on property taxes (more than 80% of all homeowners), according to the City Planner's statement before City Council.

- Many large property owners won assessment reductions on their buildings through the appeals process; since Erie will now get more of its revenue from land rather than buildings, the city won't lose as much revenue through these assessment appeals.

- \$5,682,374 per year in property tax was transferred from buildings (.040-.013 × \$437,105,680). This will make buildings cheaper and more profitable to build and operate.

Considerable evidence suggests that Erie can expect a construction spurt in the years ahead. Here's some of that evidence:

- All 10 Pennsylvania cities with a two-rate track record have experienced construction spurts following their adoption of the two-rate property tax system.

- All 24 cities in Victoria, Australia, which since 1954 have switched to taxing only land values have experienced construction spurts far greater than their neighbouring and comparable cities.

- In a study of practically all the

By Steve Cord

cities in South Africa (there is no data for some of the smaller towns), those localities taxing only land values experienced the greatest growth in building assessments from 1951 to 1984; those localities which tax buildings also but at a lower rate than land did not grow quite as quickly, but they grew faster than those towns taxing both land and buildings at the same rate. The differences were substantial.

If we reduce (and maybe even abolish) taxes on production, and expand taxes on land values instead, an unprecedented prosperity ensues. After all, if we tax jobs less, won't we have more jobs, and if we tax capital investment less, won't we have more capital investment?

And if we tax land values more, the selling price of land will fall (primarily because there will be less net rent available to the private landowner, and the capitalization of it into selling price will also be much less). If land sells for less, then it will be more accessible to poor people.

Also, if the holding cost of land is increased due to a higher land value tax, then sites will have to be used efficiently, and this all by itself will lead to increased economic production and prosperity.

Some may ask: Won't all this development congest our cities? Won't it lead to the premature development of our countryside? The answer is a clear NO.

If local government collects the rental value of land in taxation it will encourage sites to be used efficiently, in accordance with demand in the marketplace.

But it won't encourage congestion, which is inefficient use of land. And in any case, zoning and land-use planning is still possible, although the need for it will probably be reduced.

The premature development of our countryside would not occur: in fact the land would be preserved. Land value taxation would ensure more efficient use with less sprawl.

People currently develop five-acre sites in the countryside instead of quarter-acre sites in cities, or they use rural lands profligately. In either case, the clean-and-green countryside is developed prematurely.

Land value taxation simply won't sprout office buildings on land best suited for farms. Such developments are simply not the best use of farmland sites.

Inefficient land is the chief cause of the loss of countryside. The remedy is to tax land values, not labour or capital.

Parks and playgrounds are not taxed under the current property tax, nor will they be taxed under the proposal for land value taxation. But it would be easier to acquire land for such amenities because land would be much cheaper, some of it even near-zero in price.

Likewise, with historical-preservation buildings: they are not now taxed, nor would they be under L.V.T.

dle of a cesspool? The mistake, of course, is not to be found in how the market works, but in an irrational system of property taxation, which allowed the neighbourhood to run down.

Property owners were not encouraged to renew the physical fabric on an organic basis, in small increments, constantly responding to the needs of the community - a process that would have steered 42nd Street

to a more desirable commercial destiny.

Now, the UDC appears to have an unanswerable case for public intervention and comprehensive redevelopment. Until many of the buildings are torn down, and the theatres rehabilitated, 42nd Street will remain a particularly bruised chunk of the Big Apple; one on which the maggots can get fat, plying their

trades in the filthy doorways between 7th and 8th Avenues.

Later this year, the bulldozers may bring an end to the economics of Adam and Eve on 42nd Street. But unless the policymakers reform the fiscal system, the dynamics of the vice trade will continue to operate with impunity, displaying itself as a slice of the evil apple in the seedy corners of every city in the world.