



# STATE-LOCAL FINANCES

BY RAYMOND MOLEY

**D**espite the imaginative projections of President Johnson and the huge new programs which Congress has enacted for him, there is a limit at which Federal spending must stop. For excessive deficit borrowing weakens the dollar. And when the dollar is weakened, international considerations confront us with a deadly fiscal peril. These new programs and the immortal old ones designed to help meet state and local needs only partially meet the demands on the domestic front. They will not abolish poverty, nor relieve urban congestion, nor solve any of the other great needs of our growing urban society. The greater load is still on the states and communities, and their agonies in trying to get the necessary money are piteous to view.

There are many estimates of what states and local governments need and will need. These estimates vary according to the years selected for comparisons. One estimate says that state-local spending will reach \$142 billion by 1976—twice the figure for 1963. This is a per capita increase of nearly 80 per cent. Another estimate says that since World War II the cost of local government has been climbing at the rate of 8 per cent compounded. From less than \$8 billion in 1946, it has already climbed to more than \$46 billion, and at this rate it will reach \$70 billion in 1970 and \$108 billion by 1975.

## RICHEST SOURCE OF MONEY

This latter calculation omits climbing state expenditures, a considerable part of which must go to help local governments. That figure was \$11.9 billion in 1963, up from \$5.4 billion in 1954.

To meet these rising costs, states as well as urban communities are, according to the Tax Foundation, contemplating many forms of new taxes and also increases in old ones. A general sales tax is the favorite way of getting new revenue in both cities and states. At the present time one-fourth of all state revenues come from sales taxes. In nine of the thirteen states without such a tax there is strong probability that it will be adopted. Other methods of getting new revenue under consideration are taxes on tobacco, alcoholic beverages,

motor fuel, personal income, and corporation income taxes.

But all these would only add \$3 billion to state revenues. And it is impossible to estimate what cities may raise by their own new forms of taxes.

Prof. C. Lowell Harriss, consultant for the Tax Foundation, after reviewing all these efforts to stimulate the flow of revenue, concludes that the major opportunity of meeting the needs for new revenue is to improve the operation of the oldest of them all—the property tax. It is, he says, not only the most promising form of urban relief but in its administration the most defective. It still remains the richest source of revenue. The base of this tax is estimated to be worth \$1.8 trillion. The problem is to remove its inequities and improve its administration.

## TAXATION CAUSES SPRAWL

Not only does the present property tax yield less revenue than it could yield, but the inequitable impact of the tax horribly distorts the shape and appearance of the city and its environs.

Unsightly slums are cheek to cheek with blocks of beautifully designed buildings. For a slum investment virtually escapes taxation and promises rich profits when sold.

There is also the suburban "sprawl," where idle areas of land are scattered among many home developments. This means that workers who live in the suburbs or exurbs must use their automobiles to and from work. And to accommodate this traffic, monstrous highways are erected which literally destroy large sections of a city, mostly the downtown areas.

The basic purpose of cities has been defined as a means "to overcome the handicaps of distance and maximize the ease of business and social contacts." This is frustrated by sprawl.

These distortions are mostly the results of bad taxation and assessments. The cost of these distortions is enormous, because improvements such as water, sewerage, highways, and gas, telephone, and electric lines must extend longer distances. As a result, the citizen's expenses are greatly increased.

# PROPERTY TAX REFORM

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The lack of local revenue and the distortions in urban growth are coming to be attributed to the inequitable application of the tax on land and improvements. And since it is clear that property taxes are an adequate base for much of the needs of local governments, tax experts, economists, and state and municipal officers are seeking reforms. Only through such reforms can the sweep of Federal aid for local improvements be slowed down.

Notable studies have recently appeared on this subject. One is an immense monograph by the Commission on Inter-Governmental Relations.

## HAPHAZARD CITY GROWTH

Last June, a conference on this subject was held at Claremont, Calif., under the auspices of the Lincoln School of Public Finance. Co-sponsors were the National League of Cities, the Urban Land Institute, and the National Council for Good Cities (ACTION). The Lincoln Foundation provided a grant for the meeting. Sixty-three specialists in taxation participated in the discussion.

A summary of the discussion and conclusions reached at the conference was published in the March issue of *Nation's Cities* and a shorter version in *Fortune*, also in March.

There was quite general agreement that the shortage of local revenues and the distortions of urban growth are due to tax factors. It was also the sense of the conference that the property tax, now the second largest producer of revenue, is still far from being exhausted.

This summary makes clear that because land is underassessed, the high land prices that result discourage building and encourage the holding of great areas out of the market, either vacant or occupied by slum construction.

This means that our tax laws and their administration "harness the profit motive backward." In short, the growth of wealth by building and by the vast stimulation of manufacturing of building material, furnishings, and equipment for homes and businesses is restrained by inflationary land values. Vacant land and slums are grossly undertaxed and provide immense speculative prof-

its for those who invest in them.

The system as it now operates is very largely responsible for the financial plight in which our urban communities find themselves.

The summary concludes:

"Inside our cities land is not taxed heavily enough to discourage the misuse and blighting of close-in land and the spread of slums in what should be almost prime locations. The combination of low land taxes and the customary low assessment of decaying structures helps make slums the most profitable of all real-estate investments, so slum prices have soared so high that big subsidies to write land costs down 70 per cent and sometimes 80 per cent are needed to put profit in urban renewal. New York, for example, has had to pay an average of \$486,000 an acre for slum clearance. At land prices like that only subsidized housing can provide low rents . . .

## BURDEN BELONGS ON LAND

"In the suburbs, underused land is taxed so lightly that prices have multiplied five-, ten-, and twenty-fold . . . [The] high price of land is the builder's most urgent problem. It threatens to price good new single-family homes out of the market . . . builders leapfrog far out into the countryside to find land on which they can afford to build . . . This sprawl is why cities consume three and four times as much land as they use, and this in turn is why . . . many workers must now spend up to 30 per cent of their take-home pay on transportation and spend twenty hours a week getting to and from their jobs."

Two of the major keys to reform are (a) state laws that direct separate assessments on land and on improvements, (b) greatly improved methods of assessments.

Assessing is the most inefficient, politically oriented, and incompetently manned part of all our government machinery. Provisions are needed for training assessors and state laws to supervise all assessors under Civil Service. The elected assessor must go. Finally, through these reforms a considerable burden now imposed on improvements can be shifted to the land.