

As all who have followed my public career know, I have always looked upon the United Nations as a great hope of mankind. As long as that body stays within the limits of its authority, it is safe and will be supported. But when it undertakes to intervene in matters within the domestic jurisdiction of the United States such as the Panama Canal, it will be in serious trouble. I know from my many correspondents from various parts of the Nation and abroad, the feeling of our people as regards the great isthmian waterway. Should they be forced to choose between the United Nations and U.S. control of the Panama Canal they will reject the U.N. and retain the canal.

Mr. Speaker, the current negotiations relative to the Panama Canal have been intermittently in progress since 1964. Started on the unconstitutional basis of an Executive-agreed-upon surrender to Panama of the Canal Zone, there was really nothing to negotiate and our officials have been rendered impotent and thus unable to resist brainwashing.

There does not appear to be in the entire Department of State anyone of the capacity of Secretary Charles Evans Hughes who, when faced with a similar situation in 1923, called in the Panamanian Minister and bluntly told him that it was "an absolute futility for the Panamanian Government to expect any American administration, no matter what it was, any President or any Secretary

of State, ever to surrender any part" of U.S. sovereign rights, power, and authority acquired under the 1903 treaty — Foreign Relations, 1923, volume III, page 684.

Mr. Speaker, the decision of the U.N. Security Council to hold its March 15-21, 1973, meetings in Panama has been made and it is too much to expect from routine officials that it will be rescinded. There is no course for our Government except to prepare to meet the forthcoming challenge and I propose the following program:

First. Cognizant committees of the Congress investigate the failure on January 16, by the responsible officials of our Government to prevent the planned March 15-21 U.N. Security Council meetings in Panama.

Second. House of Representatives adopt the pending "Canal Zone Sovereignty and Jurisdiction" resolutions.

Third. U.S. Senate adopt resolutions denouncing the proposed U.N. intervention in the matters wholly within the domestic jurisdiction of the United States in the Canal Zone and calling for retention of our undiluted sovereignty over the zone and canal.

Fourth. Canal Zone civil and military authorities plan for eventualities that could endanger the lives of our citizens, injure the canal or interfere with its normal operation.

Fifth. Reactivate the special service squadron with its home port at Balboa, Canal Zone.

Our Housing And Our Cities

CAN SUBSIDIES CURE?

By PERRY PRENTICE, *Vice President, Retired, of Time Incorporated*

Delivered to the Housing Industry Presidents Conference, Lyford Cay, November, 1972

IF YOU WILL PARDON a brief digression from this afternoon's subject, I'd like to devote my first 81 seconds to the sad fate of King Louis XIII of France, who died at the age of 41 on December 4, 1642, moaning that he was much too young to die and angrily (and quite correctly, I suspect) protesting that he was being killed by his doctors. Within a year they had bled him 47 times, purged him 215 times, and dosed him with 212 different remedies from a pharmacopia which included the left foot of a tortoise, the urine of a lizard, some elephant's dung, a mole's liver, blood drawn from the right wing of a white pigeon, exilir of quicksilver, and elixir of arsenic. The doctors don't seem to have had any idea what the King's ailment was, so lacking a diagnosis they tried everything, and if a mild dose didn't work they tried a stiffer dose, and if that didn't work they tried something else—until at last the King died and it was too late to try on him the other 1748 potions in their pharmacopia.

Now I realize that you did not come here to listen to such sad stories of the death of Kings, so let's forget for a while how the doctors killed the King of France 330 years ago and get straight to the point of what we today are doing to cure or not to cure today's housing problems and today's urban problems.

First, I'd like to express my own thanks and I'm sure the thanks of everyone else here to Secretary Romney and Secretary Shultz and Secretary Hodgson and Undersecretary Walker and Preston Martin and Oakley Hunter and Stein and above and beyond them to President Nixon and everyone else in the Nixon administration for all the effort they have devoted to the solution of these problems and all the billions of dollars they have poured into housing and urban renewal. No one could question the obvious truth that they have all tried harder and worked harder on our problems than anyone in any

previous administration, and as for money they have poured in more money than all previous administrations from the beginning of time. They have poured in so many billions of dollars—some of it inside the present budget, some of it committed for future budgets, and some of it completely outside the budget—that I don't believe George Romney or George Shultz or anyone else knows within \$5 billion a year and perhaps not within \$10 billion a year how many present and future tax dollars it will all end up costing.

The Nixon administration took over the housing problem in the wake of the Douglas report, and if any of you waded through the 391 typewritten pages of that report as I did you know that the Douglas Commission devoted page after page to spelling out the failure or inadequacy of all the subsidy programs tried up to that time. It branded public housing quote "a failure." It said the government had quote "destroyed far more housing for the poor than it had created." And then, perhaps surprisingly, it called for more and bigger subsidies, but I doubt if even the Douglas Commission ever dreamed that any administration would ever pour in subsidies on a scale even approaching what this administration has poured in.

There is no doubt about one thing—all this spending has built a lot more housing. On the other hand there is also no doubt about it that all this spending that was supposed to do so much to meet the housing needs of the poor has brought with it such an increase in housing costs and most particularly and I guess scandalously such an increase in land prices that the average price of an FHA house has shot up 40 per cent from 1965 to 1970 and I don't know how much higher now. Far from enabling private enterprise to meet the housing needs of the poor with good housing the poor could afford, all levels of government are finding that bigger and bigger subsidies are

now needed to meet the needs not only of the poor, but also of middle-income and even upper-middle-income families, so, for one extreme example, New York City and New York state are actually getting set to put up \$225 a month in subsidies and tax abatements to hold the rents in one new renewal project down to \$450 a month instead of \$675 for a 4½ room two-bedroom apartment!

From 1969 to 1972 the already-much-too-high price of land shot up 74.63 per cent per sq. ft. higher for finished FHA lots, and before the freeze building trades wages were soaring 14.9 per cent a year higher for less productivity.

This afternoon no purpose could be served by our getting into the growing argument over whether or not all this increased spending has succeeded when all smaller spending programs had failed. Maybe the New York Times was wrong when it front-paged a housing subsidy report that called the subsidy program—quote—"a classic failure." Maybe our Moderator was wrong when he headlined his housing report in Fortune—quote—"Housing subsidies are a grand delusion—they aggravate the problems they are supposed to cure." Maybe Secretary Romney has changed his mind since he called the program quote a \$100 billion dollar failure" and told a Congressional Committee that—quote—"The intentions of urban renewal were wonderful but the results are not." Maybe the Joint Economic Committee of Congress was wrong two weeks ago when it released what its chairman called—quote—"a damning indictment of our present housing programs" that have—quote—"put the Federal government in hock for an estimated \$100 billion."

Maybe you manufacturers are happy over how things are going, though I noted that as late as two weeks ago building material stocks were off nearly three times as much as the Dow Jones index from the 1968 peak. Maybe the Homebuilders are right in their enthusiasm for the program, in which case we should all thank them for their part in getting them continued for another year and thank them for employing Tony Downs to work out a better and if not bigger subsidy program for future years.

Good, bad, or indifferent, one thing seems pretty obvious: The Federal government can't go on year after year pouring uncounted billions into housing. I'm pretty sure that one lesson to be learned from the election is that the voters are in no mood to have their taxes increased, Mr. Nixon has already laid it on the line that he intends to be a lot more thrifty with the taxpayers' money in his second term and I'm sure most of you must have noted that he named HUD first in his list of places where he plans to cut. So I hope we can all agree with what Mr. Romney said in his speech last month:—quote—"The time has come to face up to hard choices and critical constraints. We have to find a better way."

In Mr. Romney's speech he suggested five possible choices for such a better way, all of them calling for the continuance of big Federal subsidies, but pouring out the subsidies through different channels.

Today I'd like to suggest a sixth quote—"better way"—a better way that should require far less subsidy money and perhaps no subsidy at all—a better way that would come much closer than any of Mr. Romney's five in meeting his requirement that from now on—quote—"There must be maximum reliance on private enterprise."

And that brings us back to where we started—the sad fate of the King of France whose doctors could not diagnose what was causing his sickness, so he just got sicker and sicker despite all the 212 costly remedies they tried on him.

With today's medical knowledge we can feel pretty superior as we read about all the quack cures vainly tried on the King of France by doctors who had no idea what disease they are trying to cure.

But I hope none of you will take it amiss now if I suggest that this

330-year old study in futility finds something close to a present day parallel in the way today's urban doctors have been rushing to apply a long list of subsidy treatments to our housing and our cities without first making sure they know what disease is causing today's housing pains and fevers.

So let's take a moment to ask ourselves what is the disease that is eating the heart out of our cities and disintegrating them in sprawl? What is the disease that has made the shortage of good-enough housing chronic and almost ubiquitous?

Or, to ask the same question in business terms instead of medical terms, why has our vaunted private enterprise system that has given us so much of everything else—so much food that government feels it must pay farmers to raise less, so many cars that government can't build roads fast enough to keep them moving, so much of everything that just getting rid of what we throw away is fast giving government a new multi-billion dollar problem—why has private enterprise failed to provide a decent home for every family needing to be housed and why has private enterprise failed to give us, to quote Urban America's Past Chairman: "even one good city?"

When we put the question that way I think the answer becomes almost obvious.

The answer is another question: "How can anyone expect private enterprise and the profit motive to meet our unmet urban needs and unmet housing needs, as long as our governments harness the profit motive backwards instead of forward, making what we don't want more profitable than what we do want and giving millions of people, including, alas, most of the people in this room this afternoon, at least a short term vested interest in *not* ending the housing shortage and not curing what ails our cities?"

All levels of our government now seem to be harnessing the profit motive to what we don't want in more ways than I can take time to spell out here. For a small and obvious example, they harness the profit motive to traffic congestion by letting cars and trucks park on the street where they block traffic for far less than it costs to park off the street where they would not. They harness the profit motive to air pollution and water pollution by letting polluters pour their pollution into the air and into our streams free for nothing for other people to pay for cleaning it up. The Federal government harnesses the profit motive to slum formation by letting the owners of aging buildings take tax depreciation on the same decaying improvement over and over again as often as the relic is sold to a new owner. No urban renewal subsidy would have been needed to clear away hundreds of thousands of today's junkers years ago if the capitalization of their redepreciation exemption did not give them a fictitious value, and I wish I could get Charly Walker to tell me whether or not this redepreciation racket is costing the Federal Treasury more money in taxes not collected than any previous administration has spent for urban renewal.

But all these backward harnessings are small potatoes compared to the way most local governments harness the profit motive backwards by so misapplying the property tax that too often it is more profitable to let buildings decay than to improve them, more profitable not to build than to build, more profitable to hold land off the market idle or almost idle than to put it to good use. Says America's No. 1 land economist, Dr. Mason Gaffney, now with Resources for the Future but formerly chairman of the Economics Department of the University of Wisconsin in Milwaukee: "Our six-year study of every land sale in Milwaukee shows that shifting the weight of the property tax off improvements onto land would so change the arithmetic of property ownership that *no subsidies at all* should be needed to make it profitable for the owners of almost all the parking lots and decaying, obsolete, or inadequate buildings that now preempt nearly three-quarters of the valuable land near the heart of Milwaukee and most of our other cities to erect new

buildings that would make better use of the site—and this better use would include providing a lot more unsubsidized housing.”

In other words, the biggest reason and perhaps the only reason big subsidies seem to be needed for urban renewal is to provide a partial offset to the enormous penalty local governments impose on improvements by overtaxation and a partial offset to the enormous subsidy local governments give land speculation and the non-use, underuse, or misuse of land by undertaxation.

The property tax is the tax almost nobody seems to understand. Not one businessman in a hundred seems to understand it and not one taxpayer in a thousand. Even the president of the United States betrayed his need of a better understanding not only of its economics but also of its politics by proposing to give homeowners property tax relief by shifting local school costs off the property tax onto a hidden Federal sales tax. He might better have listened to the advice of the California Statewide Homeowners Association, who led the 1968 fight against a 50 per cent property tax cut there when they found that such a reduction would necessitate either tripling the state sales tax or doubling the state income tax; either way most homeowners would have ended up paying more taxes instead of less. Said the Homeowners Association: “The only people who would benefit by such a tax shift would be slum owners and land speculators.”

And now, for obvious political reasons, Mr. Nixon should note most urgently that just last week the voters of California voted down another chance to cut the property tax—voted it down by an even bigger majority than they voted down Mr. McGovern.

Any such property tax reduction as the president proposed would be capitalized overnight into inflating land prices to heights that would make our housing and urban renewal problems still more difficult and still more costly.

If even the president does not understand either the economic or the politics of the property tax, perhaps we should take a minute to make sure everyone here does understand and does realize the importance of property tax reform if we are to harness the profit motive to better housing and better cities.

To that end, lest any of you think I'm just a crank promoting a program no one else agrees with, I'd like to read you a few paragraphs from the consensus of a round table of urban experts that was cosponsored by our magazines and the Council of State Governments, the Conference of Mayors, the National Association of Counties, and the National League of Cities. Said these urban experts: “Too few tax leviers seem to understand that the property tax is not just one tax; on the contrary, it combines and confuses on one tax bill two completely opposite and conflicting taxes, and it would be hard to imagine two taxes whose consequences for urban renewal and urban development would be more different.

“One of the two conflicting taxes fused and confused in the property tax is the tax on the improvement—the tax on what past, present, and future owners of the property have spent or will spend of their own money to improve it.” And, said the round table, “It should be obvious to anyone that heavy taxes on improvements are bound to discourage, inhibit, and often prevent improvements.”

“The other levy confused in the property tax is the land tax—the tax on the location value of the site.” And, said the round table, “It should be obvious to anyone that heavy taxes on the location cannot discourage or inhibit improvements; on the contrary, heavy taxes on locations could put effective pressure on the owners to put their sites to better use so as to bring in enough more income to earn a good profit after paying the heavier tax.” So, said the round table:

“All this is so obvious that you would think every city would try to tax land heavily and tax improvements lightly if at all; but just the opposite is the case. Almost every city collects two or three times as much money from taxes on improvements as from taxes on land.”

No one in his right mind would suggest that property tax reform is a panacea to cure all our urban ills, any more than anyone would suggest that penicillin can cure a broken arm or surgery can cure pneumonia.

But this much I can say without fear of informed contradiction:

1) We just plain are not going to halt and reverse either blight, decay, and slum formation in our cities, or sprawl and premature subdivision in their suburbs as long as we continue to subsidize the underuse and misuse of land by underassessment and undertaxation. In recent years land speculators have typically been able to hold \$1 million worth of land off the market at a net yearly tax cost seldom if ever exceeding \$10,000 while its price has been soaring \$60,000. And . . .

2) Our cities just plain aren't going to get the new improvements they need as long as so many of them continue their present property tax practice of taxing new construction more heavily than the combined Federal, State and local tax burden on any other major product of American industry except hard liquor, cigarettes, and now perhaps gasoline.

A 3 per cent-of-true-value tax on new construction—a tax rate that is exceeded in many cities—may not sound big compared with a Federal income tax that runs up to 70 per cent and actually taxes away about 11¼ per cent of all consumer income, but it sounds small only because the 3 per cent it taxes away is 3 per cent of the entire capital value, whereas the income tax, as its name makes clear, applies only to the income on that capital value.

Perhaps the enormity and folly of this 3 per cent-of-true-capital-value tax on new improvements will become clear if we restate it in sales tax, in income tax, and in consumption tax terms.

First in sales tax terms:

A 3 per cent-of-true-value tax on new improvements is the installment plan equivalent of a 51 per cent sales tax, i.e., it will cost the improver as much each year as a 51 per cent single payment sales tax would cost him if he could arrange to pay off that 51 per cent sales tax on the installment plan at 5 per cent interest spread over the 60-year life of the improvement.

And now in income tax terms:

A 3 per cent-of-true-value tax on new improvements is likely to cost the improver much more than 50 per cent of the income the improvement could otherwise earn on the equity investment.

And finally in consumption tax terms:

A 3 per cent-of-true-value tax on new improvements is roughly the equivalent of a 25 per cent consumption tax, i.e., it adds roughly 25 per cent to the rent or 25 per cent to the carrying cost of a home.

Said the Douglas Commission's report: “It seems inconceivable that we would knowingly place such a tax burden on such a necessity as shelter, *but we have.*”

Land is the only taxable resource that can't leave town to escape taxation, so the only revenue source a city could turn to to make up for the revenue lost by untaxing improvements would be to increase the tax on the *unimproved* location value of land in the city. By definition, this is a value that is created, not by anything the past or present owners have done or spent to improve the location, but by an often enormous investment of other people's money and other taxpayers' money to make land at that location reachable, livable and richly saleable. In other words, it is 99 44/100 per cent unearned increment, and for the life of me I can't think of anything better to tax than the unearned increment on other taxpayers' investment.

And, anyhow, very fortunately, the result of doubling or tripling the tax on unimproved location values should be at least as good as the results you could expect from untaxing improvements. In fact, some cities like St. Louis where the property tax is now too low are in even worse trouble than cities like Buffalo and Boston where the

property tax is too high. Up to a ceiling of perhaps 8 per cent it can even be argued that the higher land tax the better, for the higher the land tax the bigger the tax pressure on its owners to put it to good use.

Untaxing improvements would provide the carrot; uptaxing location values would provide the stick needed to prod the owners of underused and misused land to put it to better use in order to bring in enough more income to pay the higher tax. This carrot-and-stick combination would be such strong medicine for what ails our housing and our cities that it would have to be given in small doses to avoid creating chaos in the real estate market by starting an overnight building boom that would overtax the city's mortgage money and building labor resources, and induce more new construction than the market is ready to absorb.

Forty good and obvious reasons for what property tax reform would do for our cities and our housing have been spelled out by the Chairman of the Property Tax Committee of the National Tax Association. Here are 13 of his reasons:

"More new homes would be built in the city to take advantage of the tax exemption of improvements.

"Building more new homes would give slum dwellers a better chance to escape from the slums.

"Rents would come down as new construction eases the housing shortage.

"Urban redevelopment would be accelerated at no cost to the taxpayers. Over the years the heavier land tax would tax the slums and their almost worthless buildings out of existence.

"Commercial and industrial construction would likewise be stimulated.

"This would create more commercial and industrial jobs.

"New buildings would be built better and existing buildings would be improved if we stop penalizing quality by taxing good buildings more heavily than cheaper buildings.

"The building boom would create many more jobs in the construction trades.

"The construction boom would give city planners a better chance to get their plans off the drawing board and translated into reality.

"Less close-in land would be wasted. This would save city governments billions of dollars now wasted by sprawl, for all municipal costs are multiplied by distance.

"Premature subdivision would no longer be profitable, and this change should make ecologists and other lovers of open space much happier.

"Subsidies would no longer be needed to make it profitable for private enterprise to take on most of the job of rebuilding and revitalizing our cities.

"The new construction and all the resulting increase in in-city business activity would strengthen the local tax base and make our cities less dependent on state and federal aid."

More important to you here today is what it would do to help cure your own problems, so I'll try to spell out your own long-term interest in property tax reform in two short paragraphs:

First to you men in Government—

Property tax reform to harness the Profit Motive to what we want for our cities and our housing could save the Federal Government billions of dollars now needed for subsidies.

And now to you builders, suppliers, and money lenders—

Property tax reform uptaxing land and downtaxing improvements would make it impossible for land speculators to hold their land for ransom and get rich in their sleep at the expense of the homebuilding industry and its customers. Property tax reform uptaxing land and downtaxing improvements would ease if not end the artificial shortage-of-available-land that the homebuilders voted 4-to-1 twelve years ago was already their most urgent problem. It would reduce the property tax burden on the homes you sell by something over 30 per cent, and it would release the billions of dollars a year the homebuilders must now waste on exorbitant land prices to build far more quality and far more sales appeal into the homes they want to sell.

Mexican-United States Relations

FOREIGN INVESTMENT

By JOSE JUAN DE OLLOQUI, *Ambassador from Mexico to the United States*

Delivered before the Inter-American Bar Association, Washington, D. C., January 16, 1973

IN ABOUT A month, on February 18, it will be two years that I had the pleasure of speaking to this forum of distinguished colleagues. My late academic pursuits have taken me to the field of economics, but basically, and first of all, I am a lawyer. In economic parlance I may say that my infrastructure is that of a jurist.

On that occasion the title of my talk was "Some Reflections on the Climate for Foreign Investment in Latin America." I incorporated in it, elements of the Mexican experience, as well as some considerations on the positive legislation of my country, and on the philosophy prevailing among the Mexican people on foreign investment. I commented on the meaning of the term "Mexicanization" compared with nationalization. I mentioned our displeasure for the purchase of some sound Mexican industries by foreign investors; our interest in having capital in partnership with domestic capital; the convenience of receiving new technology. In short, I intended to give a panoramic view of this important question.

Those, and some other viewpoints of the immense majority of the Mexican people were correctly interpreted by their President and have been gathered in two bills before the Mexican Congress, one to promote Mexican investment and to regulate foreign investment and, the other, which has already been approved, to establish a registry for the transfer of technology and the use and exploitation of patents and trade marks.

These bills before the Congress and the recognized stability of our Government, are, and will be, the best warranty that the foreign investor will have, to channel his resources toward my country, under the established norms, because they are a clear reflection of the attitude of the Mexican people on this subject.

The bill on investments, furthermore, clears the doubts of prospective investors. They had been insisting in different forums, both inter-Governmental and of the private sector, that those sections applicable to investments by foreigners, which appeared in several laws and regulations be incorporated into a code for easy con-