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New York--The Fragile Metropolis

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Taxation has been described as the art of extracting from the goose the maximum number of feathers with the minimum amount of hissing.

Tonight, I am here to speak on behalf of the goose, and to report that the hissing is getting louder and more ominous.

In this most severely taxed jurisdiction in the entire nation, taxpayers are becoming increasingly restive; and they share the growing conviction that:

* First, the leaden weight of New York's tax burden is not fairly or wisely allocated among the taxpayers;

* Secondly, that the City's onerous tax rates have already reached the point of counter-productivity, where lower rates would actually produce a greater total revenue harvest; and

* Thirdly, that the general public is obviously not getting appropriate value in routine municipal services for the huge sums they are paying.

The weight of the evidence is clearly on their side, and those who wish to stem the rising tide of disaffection must pay heed.

In the retail world, it is said that "the customer is always right," because otherwise he may choose not to remain a customer. The same is increasingly true of the tax-payer, especially in an age where communications technology permits locational choices that weren't always possible before.

A look at some glaring instances of bad tax policy puts the problem in clear perspective.

Half of all New York City's tax revenues come from real estate, and of that portion, 11% comes from dramatically <u>under</u>-assessed one-, two- and three-family houses and 25% comes from dramatically <u>over</u>-assessed multi-family housing.

The actual numbers are staggering.

For example, a one-family home worth $100,000 would have an assessed value of $8,000; and at a tax rate of 10.89%, the tax bill would be $871.

The same $100,000 of value in an apartment house would have an assessment of $45,000 and the tax bill would be $4,448.

<u>$871</u> from an owner-occupier and <u>$4,448</u> from a renter; and the poor, of course, are overwhelmingly renters. Where is the logic, where is the fairness in that?

But this is only indicative of the cynicism, the unfairness and the illogic that permeates all questions dealing with housing in New York. The nation's economists are in virtually unanimous agreement that rent control and rent stabilization as practiced in New York work demonstrably against the black and Hispanic and for the white, against the young and the newcomer and for the old and the long timer, against the truly poor and disproportionately for the middle and upper income.

Repeated studies by such distinguished observers as Anthony Downs of the Brookings Institution; George Sternlieb of Rutgers; the staffs of the Rand Corporation of California and of Arthur D. Little, Inc. of Massachusetts, and even Nobel laureate George Stigler, recite a litany of harmful and destructive effects stemming from controls, yet no one on the municipal scene has had the integrity even to raise the question of dispassionate examination of the issue.

Our civic leaders bemoan the plight of the "homeless," yet no one points out that from 1974 to 1984, more than 300,000 structurally-sound rental units were abandoned by their owners. Many were destroyed and many taken over by the City for unpaid taxes that were much too high in the first place. Now the City is spending on them hundreds of millions of dollars annually (and receiving virtually no taxes!).

Abandonments slowed in the 1980's, after the oldest and most vulnerable housing units were taxed out of the possession of the small owners and investors who, as in the rest of the nation, nurture and repair and janitor the lowest-cost private housing. Needless to say, these are precisely the structures which the poor and homeless might have had available today.

Right now, real estate tax arrearages are again skyrocketing; and there are ominous signs that a new wave of abandonments may be in the offing, including units previously rehabed.

Real estate taxes now account for 23% of the operating costs of rent-stabilized apartment buildings, up from 18% in 1985; and eventually that increased burden must be reflected somehow in the life of the structure.

In virtually all other U.S. cities, tax-foreclosed apartments are auctioned off to private owners and put back on the tax rolls. Not in New York City. The Department of Housing Preservation and Development itself goes through the expensive procedure of rehabilitating the buildings, which they then sell at a fraction of true cost to tenants and not-for-profit groups.

New York's city government spends, directly and indirectly, over one billion dollars a year on its housing activities, which is thought-provoking enough; that as a result we have the nation's worst housing market, with the lowest vacancy rate and the highest rates of abandonment and deterioration, is even more thought-provoking.

Just for the record, it should be noted that Chicago's housing department costs that city $3 million annually; Los Angeles's costs $9 million. Boston, Detroit and San Francisco do not have housing departments. New York City's HPD has an annual budget of $520 million.

So much for our long-standing housing fiasco, which has no parallel in the rest of the country.

Now let's turn to the office building situation, in which New York City currently has over 60,000,000 square feet of office space vacant and is still relentlessly losing tenants to other cities.

Headquarters move-outs, like J.C. Penney's to Texas or Mobil's to Virginia, make dramatic headlines; but even more serious is the "thinning out" process, what Samuel Ehrenhalt calls the "quiet exodus," where New York Life keeps its headquarters here but each night sends its clerical work, like claims processing, to be performed in a country village in Ireland; or where Met Life keeps its headquarters here but moves major divisions to Atlanta; or where Citicorp keeps its top officers here but has its credit card processing performed in North Dakota.

Last week, Paine Webber announced record annual earnings, due in part, they said, to moving their "operations, systems and communications departments to Weehawken, New Jersey."

What is heartbreaking is that "operations, systems and communications" are what Manhattan is supposed to be so good at.

In each of the cases mentioned, New York's prohibitive office occupancy cost was indicated as an important factor in the decision to leave.

Taxes obviously are an important component of occupancy cost, so let's see how property taxes on New York office space compare with those on similar space elsewhere (and remember that New York's Commercial Occupancy Tax is a burden that other places don't impose on business; nor do they impose the onerous so-called "Cuomo Tax" on disposition of property by investors).

Consider average property taxes on a new, fully-taxed Class A office in the Central Business District of various cities.

*	Atlanta, GA, for example, charges	$1.75 per sq. ft. per ann.
*	Seattle, WA	$1.25 " " " " "
*	Dallas, TX	$1.68 " " " " "
*	Denver, CO	$1.20 " " " " "
*	Phoenix, AZ	$2.60 " " " " "
*	San Francisco, CA	$2.86 " " " " "

In New York City, taxes range from $6.00 to, say, $12.00, for roughly comparable space.

In Seattle, taxes average 5.4% of gross rent; most other cities like Dallas, Denver, Phoenix and San Francisco, impose taxes that average about 10% of the gross rent.

In New York City, property taxes on office space average about 20% of gross rent, or double the national average.

Do we have a problem? The courts in ancient Rome liked the phrase, "Res ipsit loquitur" -- "the thing speaks for itself."

Now let us address briefly the question of what the general public gets for what it pays, in this high-taxing city in this high-taxing state.

In a nutshell, although our per capita tax bill is two to three times higher than that of other Americans, on the basic municipal services that all cities provide -- such as police, fire, education, sanitation and parks -- our per capita expenditures are average compared to other cities.

On fire protection, for example, we spend $81 per year per capita, while Baltimore spends $80, Houston $76, Boston $107.

For police, we spend $176, Boston $152, Cleveland $186, Chicago $161.

On education, we spend $658 per annum per capita, Boston $614, Chicago $724, Los Angeles $706, Dallas $697.

For parks, we spend $50 per person per year, Philadelphia spends $46, Los Angeles $36, Dallas $67.

Where then is the discrepancy? The answer is shown clearly by the numbers, which say that in virtually all the rest of the nation, welfare, hospital and housing costs are seen as federal or state responsibilities. Only in New York City are they seen as municipal responsibilities.

On welfare, Baltimore residents spend per capita $1 per annum; Boston residents $6; Dallas $5; Chicago $23, Houston $5; New York City $562.

Hospitals owned and operated municipally is another question that cries out for examination. Few major American cities have even one municipally-owned hospital; New York City has 16, absorbing subsidies of over $500 million per annum.

With hospitals, as with housing, although our expenditures are vastly higher, no one would claim that the services received by the public are better here than elsewhere, and in many respects they are demonstrably worse.

Incidentally, I should point out that the numbers I have used tonight are from several sources, but most have come from various articles in "NY: The City Journal," a valuable new publication devoted to tough-minded and dispassionate examinations of every aspect of life in New York.

Friends, painful decisions lie ahead of us, but they must be faced sooner or later.

The growing perception, of both its residents and the outside world, is that New York is a city that no longer functions as it could or should, that the many and substantial pluses of life here are in danger of being outweighed by the personal sacrifices and intolerable conditions and exorbitant costs that have become a fact of life.

This translates, directly and unequivocally, into jobs -- whose gain or loss are factors crucial to the health of the city.

Unless and until New York has a tax climate comparable to that of other major American cities, along with streets that are as safe and as clean, schools that perform as well, housing markets that function as effectively and municipal services that are comparable and at no greater cost, this city is threatened with a continuing decline in the quality of life for the general public that is as sad as it is unnecessary.

Other cities, here and abroad, are competing fiercely and successfully for precisely the people and activities that New York has traditionally prided itself on attracting; and we must face that challenge forthrightly and effectively. To do so, we cannot continue to indulge in the deadly mixture of political expediency and economic irresponsibility that has brought us to our current plight.

The painful mismatch between our <u>limited</u> economic resources and our <u>unlimited</u> social welfare aspirations must be brought into line.

I began tonight with the image of the taxpayer as a goose; I close by asking you to reflect on what we are doing to protect and maintain the flow of "golden eggs" that has traditionally sustained the city.

The future well-being of New York depends on our answers.