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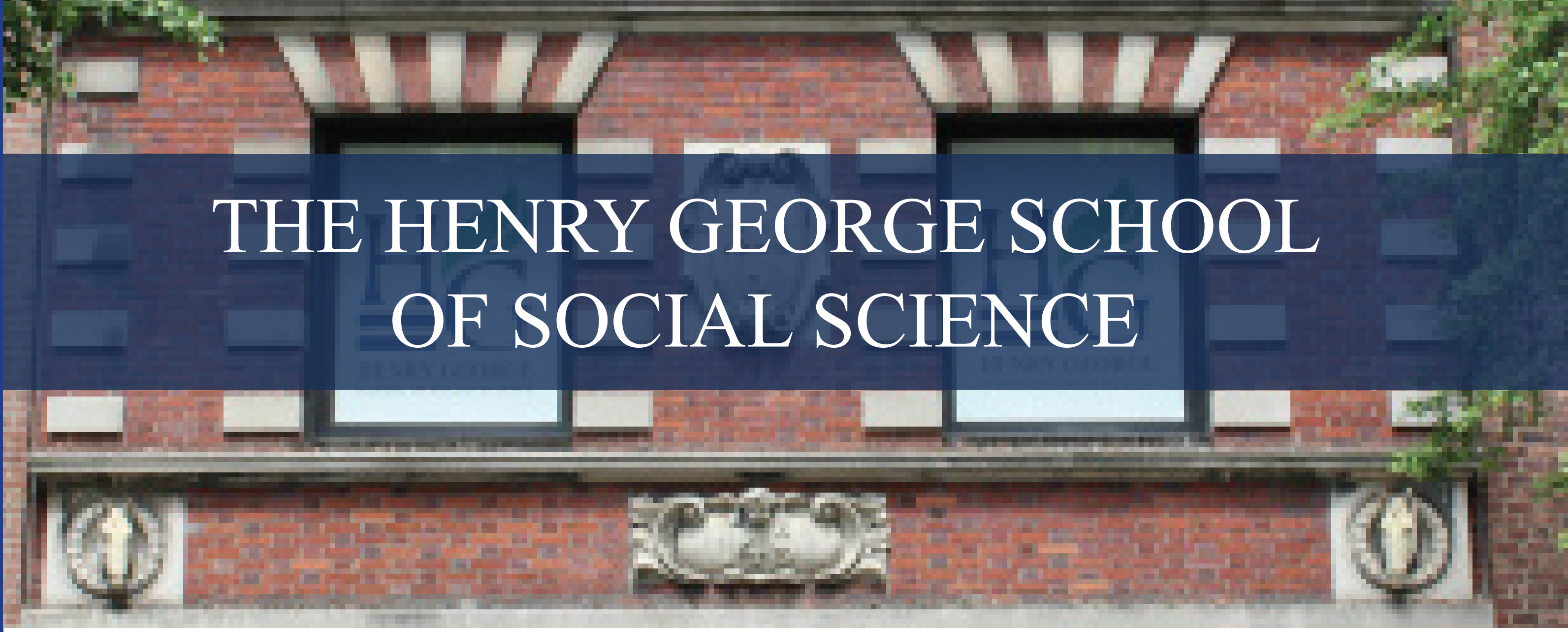
To Plug New York's Budget Holes, Look to the Past

By Ibrahima Drame and Alan Tonelson



THE HENRY GEORGE SCHOOL OF SOCIAL SCIENCE

The primary mission of our school is to educate the public on the intellectual legacy of Henry George, a pioneering political economist and reformer, to create a more productive national economy that encourages inclusive prosperity.

"Social reform is not to be secured by noise and shouting … but by the awakening of thought and the progress of ideas."

- Henry George
New York, 1883

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To lift the coronavirus and recession clouds that have further darkened the fiscal pictures and outlooks for New York City and New York State, Mayor de Blasio and Governor Cuomo should look to the past. Specifically, a proposal advocated by the late-19th century American economist Henry George can generate the revenue they require not only to close virus-created shortfalls, but to fund pressing ongoing needs more responsibly.

Even better, imposing George's land-value tax (LVT) can accomplish those goals without requiring a penny of federal aid – on which they can by no means count – or adding to residents' and most businesses' overall tax burdens. Indeed, at the right levels, the LVT can permit many and even all other city and state taxes to be cut and even abolished while still allowing spending to rise.

An LVT was the centerpiece of George's 1879 tome *Progress and Poverty*[1] – a monster best seller for decades after its publication. The author argued that Gilded Age America was failing to use its great wealth and recent scientific advances to create broad-based opportunity largely due to the gross under-taxation of land – which he regarded as an unearned asset that even when left undeveloped formed the basis of so many of the era's great fortunes. Consequently, George argued that land's worth was both a major source of inequality and an unforgivable waste of economic potential. Steeper taxes reflecting its real value – sorely underestimated by standard property taxes – would therefore break up or shrink these holdings and resulting fortunes, create a powerful lure to use land more productively, and increase the affordability of property for many more entrepreneurs.

Much more of the nation's land is used today, of course, but evidence abounds that, if anything, it's valued and taxed at least as lightly[2]. Therefore, a levy reflecting its genuine importance to owners would be just the revenue jackpot hard-pressed city and state governments need, and no better example can be identified than New York City.

The case that the City's land is grossly undervalued by its government and therefore grossly under-taxed is compelling, although even the most reliable estimates vary widely. For example, a widely cited 2017 academic study valued its 299,629 acres of land at an average of $5.2 million each[3]. Their current average tax rate is 12.28 percent, which means that these levies could be generating more than $190 billion annually. Yet the City's actual last pre-virus projected total property tax intake was only $29.79 billion[4]. That sum by definition assessed the average New York City acre as being worth only $802,000, and indicates major undervaluation.

The actual current market prices of such land also show how grossly underassessed and therefore undertaxed these municipal assets are. For example, a quick perusal of the major real estate site Zillow.com reveals that vacant lots in industrial neighborhoods in relatively less developed Staten Island have been offered even after the pandemic struck for $9 million and $12 million per acre – suggesting that the official assessments undervalue this land by at least a factor of ten.

The numbers in uber-developed Manhattan are even more staggering[5]. According to the Federal Reserve Bank of New York, a hypothetical acre of undeveloped land in Manhattan (near the Empire State Building) was worth $90 million[6]. And that was back in 2006 – well before the latest skyscraper boom.

So if the conservative estimate of $5.2 million for each of New York City's nearly 300,000 acres is used, a land-value

1. A free digital copy of George's best seller is available at https://oll.libertyfund.org/titles/george-progress-and-poverty
2. See "50-State Property Tax Comparison Study: For Taxes Paid in 2019,". Lincoln Intitute of Land Policy and Minnesota Center for Fiscal Excellence, June, 2020, https://www.lincolninst.edu/sites/default/files/pubfiles/50-state-property-tax-comparison-for-2019_full.pdf)
3. See David Albouy, Gabriel Ehrlich, and Minchul Shin, "Metropolitan Land Values," October 25, 2017, accessible at www.aeaweb.org. For a summary, see Richard Florida "Staggering value of Urban Land," Bloomberg.com, November 11, 2017, https://www.bloomberg.com/news/articles/2017-11-02/america-s-urban-land-is-worth-a-staggering-amount
4. Department of Finance, New York City, Annual Report of the New York City Property Tax, Fiscal Year 2020, https://www1.nyc.gov/assets/finance/downloads/pdf/reports/reports-property-tax/nyc_property_fy20.pdf
5. Jason Barr, Fred Smith, and Sayali Kulkarni, "What's Manhattan Worth? A Land Values Index from 1950 to 2013," March, 2015, https://eh.net/eha/wp-content/uploads/2015/05/Barr.pdf
6. Andrew Haughwout, James Orr, and David Bedoll, "The Price of Land in the New York Metropolitan Area," Current Issues in Economics and Finance 14 No. 8, April/May, 2008, Federal Reserve Bank of New York, https://www.newyorkfed.org/medialibrary/media/research/current_issues/ci14-3.pdf

tax of 5.78 percent would generate a revenue haul of $90 billion. That number matters crucially because it's more than the city's entire latest $88.2 billion emergency 2021 budget. In other words, the right LVT would enable New York to pay for all its current programs and obligations without taxing anything else by even a penny.

Of course, the city projected that the pandemic would open up a $9 billion annual budget deficit[7], and even the new spending blueprint cuts it only to $8.4 billion. But the entire gap could have been closed instead by raising the LVT to just 6.45 percent – again, leaving all household and business income untouched. Further, even if rock-bottom rates were maintained on other existing taxes, city spending could be significantly increased.

Higher LVTs could indeed lower the assessed value of real estate, and could also prompt some property owners to leave the city. But the revenue impact of lower assessments could be offset by still higher LVTs. Moreover, because the key to success of so many businesses is "location, location, location," and because of the tremendous value New York City locations will always hold, discovering the optimal tax rate shouldn't be difficult. Moreover, with all its other considerable levies abolished, the city could become known as a quasi-tax haven for job-creating business investment.

Better yet, with sufficient revenue in hand, Mayor de Blasio could tell federal aid skeptics, like Senate Majority Leader Mitch McConnell, "Thanks but no thanks for that assistance".

The evidence of gross land undervaluation and taxation in New York State as a whole is even stronger. For Albany realizes almost no direct revenue from any of the state's 19.45 million acres, whether they're in cities, suburbs, small towns, or rural areas, making clear how game-changing the right LVT could be.

Research by the Federal Housing Finance Agency indicates that a reasonable valuation for each of these acres would be $801,000, which would result in a $15.50 trillion figure for New York's total land value[8]. If each of these acres was taxed at a mere 1.15 percent rate, all of the state's entire $178 billion budget could be funded. And every other state tax, like income and sales taxes, could be completely eliminated. Indeed, even if the FHFA-derived assessment figure is 50 percent too high, valuing that land at a mere $400,000 per acre would fund half of New York's budget, permitting cuts in all other levies. Alternatively, based on the $801,000 figure, any LVT higher than 1.15 percent would enable Albany to meet additional public financing needs without either imposing any other levies or incurring a single penny of additional debt.

It's true that not all state land is taxable, or should be taxed. Even so, the state can run balanced budgets even during this coronavirus year with an LVT that's only slightly higher than 1.15 percent. For example, assume that for various reasons (e.g., non-profit organization ownership), 20 percent of the state's land is tax exempt. If the remaining taxable land – valued at $801,000 per acre and $12.40 trillion in total – were taxed at 1.43 percent, nearly all of New York's entire 14 percent virus-created 2021 budget gap could be filled.

Not that either the Mayor or the Governor can overhaul their tax systems unilaterally. In particular, the City will need to reform a crazy quilt of four categories of property taxes ranging between 0.8 percent to 4.8 percent of property value, and full of exemptions dating from the days when its government was desperate to prevent residents from fleeing, and to keep and attract business.

But especially at a time of historic financial stress, the bonanza – and substantial economic independence – within reach amply justify any heavy political lift. Both the City and State are sitting on privately held wealth that the term "gold mine" can't even begin to describe. All that's needed to unlock it for the public good is to use the key created by Henry George more than a century ago.

7. "Comproller Scott Stringer Releases Analysis of FY 2021 Executive Budget," Press Releases& Statements, Newsroom, New York City Comptroller Scott Stringer, May 5, 2020, https://comptroller.nyc.gov/newsroom/comptroller-stringer-releases-analysis-of-fy-2021-executive-budget/
8. Morris, A. Davis et al. "The Price of Residential Land for Counties, ZIP Codes, and Census Tracts in the United States." Working Paper 19-01, FHFAWorking Papers Series, Federal Housing Finance Agency, February, 2020, https://www.fhfa.gov/PolicyProgramsResearch/Research/PaperDocuments/wp1901.pdf

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