THE FINANCIAL PLIGHT OF OUR CITIES

BY *SAM SHULSKY*

THE mayor of the world's largest city slumped back in his swivel chair, collar unbuttoned, tie undone — a picture of complete dejection. He was complaining: "Poor New York, we're right back where we started from. They never gave me a money box when I got this job. What are we supposed to do?"

Mr. O'Dwyer was discovering that even the city's first billion-dollar budget — topped only by that of the Federal government — was inadequate to carry the growing relief load.

A reporter who covers another city hall, 3000 miles away, moved up to the microphone at a radio forum and declared: "The most important problem facing the city of Portland, Oregon, is money — how to get enough revenue to finance the operating costs of the municipal government."

A second reporter, from diagonally across the country, echoed: "The biggest problem facing Tampa, Florida, is finding a source of revenue sufficient to meet the demands for improvements . . . to provide more parks and playgrounds, to increase fire and police protection."

The newspaperman from San Francisco said the same; so did the representative from Worcester, Massachusetts.

In every corner of the United States, cities with populations ranging from ten or twenty thousand into the millions are having a tough time making ends meet. In 1947, a year of high wages and a history-making $200 billion national income, a year in which businessmen and economists debated whether we were going to have a recession, our cities were already well along the downward path toward compulsory furloughs, scrip, or payless paydays for employees, and the economy firings which marked the depression of the thirties. For even though municipal taxes are high, and collections are practically 100 per cent, the cities are running out of money. They are spending more than they are taking in. The American city today is making the transition to a new cost-of-living level and — like the individual business or consumer — isn't finding it easy.

Dallas is now spending twice as much as before the war to keep its house in order; Schenectady is spending 34 per cent more; Milwaukee, 69

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per cent; Los Angeles, 38.8 per cent. Bartlesville, Oklahoma (pop. 16,000) reports that municipal expenditures have risen 46 per cent *in the past year*. In the same time expenses have gone up 41 per cent for West Palm Beach, Florida; 31 per cent for Berkeley California; 20 per cent for Grand Rapids, Michigan; and 49 per cent for Miami Beach, Florida.

Atlanta, Georgia, in a recent fiscal report showed a deficit of nearly a half million dollars, due to higher material costs, higher salaries, expanded child care and other increased social services. Baltimore expenditures ran $700,000 above income for just about the same reasons. Chicago's deficit was $800,000; Cleveland's was $3,400,000. Boston had a deficit of $1,700,000 and its City Auditor, Charles J. Fox complained: "Like Banquo's ghost, the problem of securing sufficient revenues to meet the ever-expanding service demands on local government will not down. Everyone . . . is aware of the fact that the need for additional sources of revenue for municipalities was never more acute."

Last October the Municipal Finance Officers Association cited some grim examples of cities' financial plights. Some county prisons in Philadelphia, it said, have been imposing three meatless days a week since September. In St. Louis 700 municipal employees were discharged, garbage collections were cut from three to two each week and street lights are now turned off an hour earlier in the morning. San Francisco has city agents scouting Federal surplus commodity sales in search of bargains. Hospitals, said the Association, have been hard hit in many regions because of the rigid diets of patients which do not allow for substitutions.

The newspaperman from San Francisco expressed the problem succinctly: "You can find an expert to solve every municipal problem — except how to raise more money."

II

A survey by the International City Managers' Association concluded: "It is harder now than in the depression to balance outgo with income."

The reasons for this difficulty are not hard to find. The prices of everything the city must buy have gone up during the last ten years. In its purchases of maintenance materials — steel, cement, wood, etc. — it has had to compete with private corporations which were able to bid whatever the market asked because they could pass the increased cost onto the buyer. Our biggest cities now pay anywhere from 85 to 100 per cent above the prewar prices for their basic needs. The cost of building a sewer or paving a street has doubled, but neither yields a penny more.

The general cost of manpower has risen sharply; in some cases it has doubled. The cities have recognized this upward trend only grudgingly, and in some cases they have tried to ignore it. The result has been understaffed departments, low-quality personnel, poor morale — all spelling in-

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efficiency and waste and greatly increased costs of doing business. In any case, municipal experts agree that salaries must go still higher if they are to reach the level of private industry. Even a severe business recession would bring little relief, because municipal salaries have even less flexibility on the decline than they have on the rise. Cutting officeholders' income has never been considered good politics.

A third burden added to the overloaded back of the city budget has been the necessity for increased services. During the false prosperity of the war years — when cities were unable to spend money for essential materials even when they wanted to — treasuries became comfortably plump. Advocates of increased social activity encountered no difficulty in adding new types of free education and other services to the budget. Health services were enlarged. Employee pension programs were initiated. Because of the increased number of women in wartime employment, extensive programs were set up for the care of the children of working mothers.

Probably the most imposing additions were made in community recreation facilities, on the theory that these made up in entertainment value for the enforced curtailment of motoring and other forms of travel. More than $60 million was spent on these facilities, and new high levels were achieved in pre-school play centers, craft shops, little theatres and music projects. Thirty-two cities now support opera groups; 86 support symphony orchestras; 642 support art groups. The number of tennis courts, softball diamonds, bathing beaches and swimming pools in use is the largest in our history; the number of recreation supervisors has nearly doubled. Chicago has even begun to worry about its alcoholics — at least about those on relief. Last June the city opened Portal House, a center for the voluntary re-education of those who manage to get drunk on the city's money.

Whatever the social value to be derived from these various programs, their effect on city budgets is clearly harmful.

III

Where is the money going to come from?

Under present tax-gathering formulas, revenue cannot go much higher. More than 65 per cent of the total income of cities having populations over 25,000 comes from taxes on real estate. And there has been precious little real estate added to our cities in the last six years. While it is true that assessments have been raised, the increase is often hedged about by political restrictions. Some states have imposed complex regulations for raising assessments, many of which involve years of legal red tape. Tax rates have also been increased, but these raises are almost always limited by state law. New York City, for example, has got to within several hundredths of one per cent of its three per cent maximum; in Ohio the

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state legal limit is only one per cent. But even if there were room for increases in assessments and tax rates (as there is in some cities), the nationwide migration to the suburbs and rural areas would render this almost meaningless. Except for some large housing projects, improvements in city real estate have ceased, and higher evaluations for realty tax purposes has thus been made almost impossible.

The valuation base has also been reduced by the steady transfer of billions of dollars' worth of real estate in major cities to government, churches, schools and charitable institutions — all of which are tax exempt. The growth of the Federal government's activities has been a major contributing factor. Washington, D. C., of course, represents an extreme example, with 51 per cent of its land untaxable. But there are others not far behind. In New York City the value of exempt property is more than $5.5 billion, which represents about one fourth of the total realty valuation in the city. Milwaukee exemptions total roughly one third.

Faced by this contraction in income and, like any white collar worker, unwilling to give up the comforts enjoyed during the lush war years, the average American city today is faced with the problem of learning to get along on less, or with raising more money — or with both.

The *spirit of the times is more in* keeping with the former task. And in isolated instances, especially where politics has been forced to yield to common sense, some progress has been made. A steady attack on the state treasuries is gaining some ground; a greater part of the relief load is being transferred to the mother government. A movement is under way toward consolidation of municipal buying agencies, with the result that the departments of hospitals and welfare are no longer bidding against each other in the kitchenware market while the school system is so overstocked with the stuff that it has to hire warehouse space.

Other operating efficiencies have been instituted, or at least indicated to be desirable by a slowly awakening public opinion. In large cities the archaic and wasteful county bureaucracy is under steady and relentless attack, and the days of the sheriff, whose traditional duties are now cared for by a more efficient police force, are definitely numbered. Equality in assessment of real estate — or, more precisely, the removal of political influence from the assessor's office, has been pointed out more than once as a crying need. The last convention of the Municipal Finance Officers Association was told by Kansas City's director of finance, R. F. Agard, that "one of the chief obstacles to be overcome in the field [of property evaluation] is the fact that assessing officials are usually elected on a political basis rather than . . . appointed on the *basis of their qualifications to admin*ister a function of this importance. Favoritism shown personal and political friends and the penalizing of

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political enemies are chronic faults."

There has been a tendency to make the young but fast-growing suburb pay its own way in higher charges for water rates, for sewerage, for police and fire and health protection. The spirit of "make the old one do" has entered into civic thinking, and has resulted in many cities staying out of the currently high market for materials and manpower. Such an attitude, endorsed by the Minnesota Taxpayers Association, resulted in 60 per cent of the counties and 37 per cent of the cities postponing construction programs.

This spirit, of course, is only one aspect of a widening civic interest which, in typically American fashion, always slumbers through good times only to become fully awake and righteously indignant when the going gets tough. Chambers of commerce all over the country are now actively sponsoring pay-as-you-go committees aiming to purge the cities of the wild-spending buy-at-any-price spirit which has dominated many of their citizens. The committees are dedicated to proving that if cities paid for improvements as they were made instead of borrowing, they would be able to save anywhere up to 40 cents of their tax dollar. The inclination to put off until tomorrow the bills that should be paid today has, in the past, made for financial situations which make the "dollar down, dollar when you catch me" practice seem like conservative banking. Eighty years ago, the village of West Farms, New York, borrowed $249,000 at 7 per cent to build a plank road. Not wishing to burden themselves with all of this fiscal load, the town's elders provided for leisurely repayment. The last of these bonds do not come due until the year 2148, in fact. It was a highly successful bit of financing — by 1868 standards — and the next year the adjoining town of Morrisania followed suit.

Today these towns are part of Greater New York City. But the Victorian bond issues linger on, to the extent of $233,000, on which the city is dutifully paying 7 per cent.

Similar instances are plentiful all through municipal history, but the modern, forward-looking city today will have none of these methods. Syracuse, New York, decided that it could no longer live with a mortgage debt that consumed 38 cents of every dollar of income. In the seven years before 1945 it cut its debt from $37 million to half that figure. By 1948 this will be down to $8 million, and thereafter Syracuse will make improvements only on a pay-as-you-go basis. Its neighbor to the west, Rochester, has also taken the pledge, and to implement it has deferred large improvement outlays until 1950. Scarsdale, New York, last year also made the switch to pay-as-you-go, and instead of hiding improvement costs under a bond issue, added them openly and forthrightly to the tax bill, boosting it $1.30 per $1000 of valuation, but saving an ultimate $300,000 interest bill.

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IV

Obviously this spirit of self-denial, of revoking the old adage, "what is the concern of everyone is the concern of no one," can work out only where the citizenry is aware of what is going on. This presupposes education for adults through formation of taxpayer leagues, and for future taxpayers through tax education in the high schools and colleges. Public administration classes have become increasingly popular. Cities as far apart geographically as Philadelphia and Wichita are now stressing civic planning in the public schools. Children in Wayne, Michigan, learned their hometown problems by enlisting in a door-to-door survey of the population, asking questions of both fact and opinion on the city's activities. New York state, recognizing that public service is more a science than a political reward, has set up a university program, footing the bill for scholarships. The city-manager form of government has been instituted in an increasing number of communities and, where it has managed to keep free of politics, has done a good job of restoring efficiency in civic matters.

But not all the American city's past mistakes, nor its inevitable future needs, can be economized out of existence or into the budget — even when the citizenry is aware and willing. And so the average city today is sadly looking for new taxes to levy — an unpopular job at any time and particularly so now, when the taxpayer has become budget-minded and penny-wise, and thinks his government should forget its wartime profligacy and return once more to the copy book maxim about a "penny saved . . ." Because of this popular distaste for new taxes, the search for new methods of raising revenues has been far from dignified at times. Looking over the list of recent additions to the municipal tax list, it becomes apparent that many of them were imposed by legislators whose principal interest was to hurt the fewest people and cost the fewest votes. There have been few signs of any full-scale overhauling of municipal tax structures.

New York's proposal of a $5 tax on autos and $10 tax on trucks was greeted with such a storm of protest that it was withdrawn. On the other hand, the pari-mutuel tax has succeeded since no one, apparently, will speak up in defense of race-track habitués.

Other cities have resorted to charging for services which have been considered, heretofore, inalienable rights of city dwellers. For example, more than 130 cities of 10,000 population and over now make an average charge of 60 cents per family per month for refuse collection. Others exact a sewerage fee based on the amount of plumbing in the house.

In still other centers, the old proverb has been twisted to read: "by their taxes ye shall know them." Gardena, California, (pop. 9319) found that a table-tax imposed on card clubs bolstered revenues hand-

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somely; income from this source now exceeds that from general property taxes. In Beaver Dam, Wisconsin, bowling is evidently the more popular pastime, and the city fathers there have cut themselves in for a penny a game. Chicago collects $50 a year from each juke box. Rainier, Oregon, levies $100 a year on each pinball machine.

It is not likely that any of these tariffs will find nationwide acceptance. Certainly none seems to fit into a constructive, all-embracing formula for restoring our cities to balanced budgets. It may be that what is lacking is a realistic social and economic concept of the city of today — an approach which takes into consideration the fact that the American city has changed in the last decades.

It is no longer a "walled town" — providing paved streets, sewage disposal, large stores and theatres — in the midst of an agricultural area. While it is itself losing population, better transportation is making it a focal point in the lives of more people within the area it dominates, whether these people live strictly within its legal boundaries, in its suburbs, or fifty to one hundred miles out, in its satellite villages and farming country. In one way or another, all the people living around a large city today are citizens of that city; they are dependent upon it in varying degree for their livelihood, medical care, education, shopping and entertainment. And therefore they are liable in the same degree for its upkeep.

Dr. Mabel L. Walker, director of the Tax Institute, Inc., and a leading student of our cities, speaks of these people as part of the "fluid population" of the modern city. Some commute to it every day to earn a living. Some — artists, writers, and others who need not keep strict office hours — may come in only twice or three times a week. The egg farmer may come in only once a week; his wife once in two weeks. All, however, derive some benefit from the city's existence — a value for which, at present, they pay nothing. They leave it to the city dweller to foot the bill alone for the intra-city transportation, improved streets, parking facilities, police and fire and health protection enjoyed by everyone who comes to the city. New York City, for example, is struggling with an annual deficit of more than $80 million on its subway system — a deficit now made up by taxes on local real estate. But the vast army of commuters who pour into the city daily continue to drop their nickels into the turnstiles in return for an eight-cent ride, leaving the city government to pay the difference. Even those cities with sales taxes exempt the visiting shopper from paying it if he is smart enough to ask the store to deliver the purchase to his home in the suburbs. The native, however, who is already paying a real estate tax to support a big shopping center, is nicked for the sales tax too.

Those who hold to this "fluid population" theory argue that the only way to tax those who at present escape their share of supporting a metropolis

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is to levy taxes against whatever use they make of it. First of all, they would impose a tax on commutation, whether by train or by private car — the latter in the form of highway tolls — on the obvious premise that the suburbanite and farmer wouldn't come into the city if it weren't for their own good to do so.

An even more important proposal is the municipal income tax — a horrid phrase but one which will be heard with increasing frequency. Two cities have been imposing it with remarkable success — Philadelphia since 1940 and Toledo since 1946. Both take one per cent of all salaries, wages and net profits earned in the city, at the source. It has proved of considerable help. Toledo, which had been tied down by Ohio's $10 per thousand real estate tax ceiling, is now one of the few municipalities in good shape in that state. In its first year the income tax provided $4 million, lifting the city out of the red after fifteen years of chronic deficit.

It appears as though everyone who has any contact with the city will soon be forced to swallow the same pill. There is no denying that it will be a bitter one and will meet determined opposition wherever it is proposed. Already the citizens of one city — St. Louis — have succeeded in defeating in the courts a one quarter of one per cent tax on the earning of individuals and corporations.

But defeating a proposed tax is only the first half of the problem. Providing a substitute form of raising revenues is the second, and it is much more difficult. The ultimate solution to the growing problem of financing our cities seems to lie in taxing all those who make use of them.

PHRASE ORIGINS—23

SQUARE-SHOOTER: *In attempts to win at dice, gamblers have used many different kinds of dishonest cubes. Not all crooked dice are "loaded": many of them are imperfect cubes, which guarantee the user that certain combinations will appear — not every time — but more often than could be expected with honest dice. These imperfect dice can be shaped so that any combination will appear, over the long run, whatever per cent of the time the user desires. One company which manufactures them advertises blandly that, "All our Shaped Percentage Dice represent a degree of perfection that will please the most critical. Regularly supplied 5, 10, 15, 20, 30 and 40 thousandths (of an inch) off. Always state strength desired. . . ." Ever since the days of Shakespeare, a perfect, or honest, die has been known as a "square die," or a* square, *and the honest dice-gambler has been called a* square-shooter. *This phrase was especially widely used in America during frontier days, and has since come to mean almost anyone who plays fairly or has integrity. Incidentally, the* square *in* square-shooter *is a noun, and not, as most people believe, an adjective.*

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