EMPTY COFFERS: TAX REFORM POLITICS
IN BOSTON AND NEW YORK

by

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ABSTRACT

The urban fiscal crisis posed a challenge for urban
political analysis. More than most urban policy issues,
it focused attention on the puzzling relations between a
city's economy and its politics. Previous models of
local tax policy have largely ignored such
relationships. Some scholars have focused on the
importance of voters to tax policies. Others, in
contrast, denied the importance of politics and stressed
the dominant policy role of economic forces largely
beyond city control.

This dissertation is a political analysis of city tax
reform. How do economic interests influence tax policy?
Do governments singlemindedly pursue the tax demands of
economic elites as is often argued? If not, what
strategies do elites pursue? What is the influence of
voters? How do politicians deal with conflicting tax
demands? What is the relationship between tax politics
and tax reform?

Boston and New York faced major, and different, tax
problems after World War II. Boston's property tax base
was eroding as its tax rate climbed. New York City faced
a mounting expenditure/revenue shortfall as spending
demands escalated. Both cities embarked on major efforts
at tax reform. At the same time, economic interests
within the city and the state struggled over shifts in
their tax burdens. Business groups were especially
active.

The final chapter proposes that tax reform can best be
analyzed as a process of coalition-building among
economic interests.

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Table of Contents

Acknowledgements 4

Chapter 1: The State Tax or Taxes Political Outcomes 5

Chapter 2: The Origins of Central City Fiscal Problems 32

Boston:

Chapter 3: Tax Reform as Political Reform 64

Chapter 4: Tax Reform as Tax Concession 100

New York City

Chapter 5: Closing the Budget Gap: The Rise and Fall of Revenue Reform 134

Chapter 6: Closing the Budget Gap: Who Should Bear the Burden? 164

Chapter 7: Tax Reform and Tax Coalitions 221

Bibliography 246
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Chapter One: The Tax State or Taxes as Political Outcomes

In 1975, wrote Urban Institute economist George E. Petersen, "the budget constraint" was rediscovered. (1) As federal funding slowed down after 1973, its importance to city budgets, particularly to big city budgets, became more and more apparent. The spending explosion of the 'sixties too often turned into fiscal stress. In regions of economic decline, fears of city bankruptcies even lurked behind worries over budgetary problems. A decade has passed since Petersen’s observation. With the continuing drop in federal funding, "the budget constraint" seems more real than ever. (2)

As concern for city fiscal problems mounted, studies of them proliferated. To date, most studies have focused on city spending policies. But why assume that now cities spend money is more important to "the budget constraint" than how they raise it? In fact, with prospects for federal funding dimming, government attention has recently turned to the condition of city tax bases and tax structures. Cities across the country are attempting to gain new revenue authority not only to preserve services but also to free themselves from the ever unpopular but always available property tax. (3)

This venture in revenue reform sounds familiar. From the depression until the early 1960's, few hoped for generous federal aid to big cities. (4) Instead,
city politicians, civic leaders, businessmen, labor unions, and municipal finance experts -- seemingly an overwhelming coalition -- urged new local revenue strategies. Notable changes in revenue structures did happen. In many cities, property tax reliance dropped. In the eleven cities with populations over 500,000 in 1946, property taxes provided a median eighty percent of total local revenues; by 1977, that reliance had fallen to forty-three percent. (5) Many big cities diversified their tax structures. Philadelphia, Pittsburgh and St. Louis enacted wage taxes. Chicago, Buffalo, New York, San Francisco and Los Angeles instituted sales taxes. Special districts and public authorities, armed with their own revenue-raising powers, proliferated. State aid to local governments climbed.

But the results of these changes are problematic. The postwar reforms do not seem to have succeeded. In a 1974 study, the U.S. Advisory Commission on Intergovernmental Relations cited "disturbing elements" that signalled the onset of city financial crises. Four could be considered revenue problems and several of the country's largest cities exhibited them. (6) Indeed, many contemporary fiscal problems -- poor assessing practices, overreliance on the property tax, metropolitan fiscal inequalities, discriminatory grant-in-aid systems -- seem identical to the postwar period's. Importantly, many of the same reform strategies are once
again being advocated.

Did postwar tax reform fail? Were the reformers, for example, defeated by social and economic forces beyond their control? Or, are the explanations for revenue policies more complex than the search for policy failure assumes?

This dissertation investigates postwar tax reform through an analysis of revenue reform in two of the country's largest cities, Boston and New York. A political study, it probes not only policy outcomes but broader issues. How do cities change their tax systems? Who promotes tax reform? Who opposes it? What are the relationships between tax conflicts, tax coalitions and tax policies?

Though an investigation of the local revenue process, the thesis is not merely, nor mostly, interested in policy questions. Taxation is a principal form of government intervention in the local economy. Taxation alters, however modestly at the local level, the distribution of income. Whom and how much the government taxes are hardly minor issues. Today, for example, voters carry on a "tax revolt" at the polls while advocates of a "better business climate" lobby city halls and legislatures. Taxation forces us to examine how economic interests organize and have power in the policy process. Joseph Schumpeter contended that taxation confronts us with the nature of the state itself:
Taxes not only helped to create the state. They helped to form it.... The kind and level of taxes are determined by the social structure, but once taxes exist they become a handle, as it were, which social powers can grip in order to change this structure....

Since "state" and "tax" have so much to do with each other, it is natural to try to penetrate the nature of the state from this point of view. (7)

In the spirit of Schumpeter's "fiscal sociology," this study considers taxes as a "starting point"(8) for examining politics and power in American cities. "The Local Tax State"

Perhaps because it promises lessons about power, tax policy-making appears to be one of the more perplexing of government activities. In the press, for example, one day's headlines of the latest voter tax revolt are followed by the next day's chronicle of backroom haggling between corporate lobbyists, well-paid lawyers and legislators. Who actually makes tax policy? Do the people make tax policy or do the power-brokers?

Scholarly accounts are similarly conflicting. Some seem to view taxation as the essence of democracy. According to these analyses, voters may not actually decide tax policy, but their representatives, fearful of voter wrath over tax hikes, raise taxes only reluctantly and never near elections. Others argue that organized interests make tax policy and benefit from its complex system of loopholes, deductions and subsidies. Studies of state and local tax policy add a further twist. Some
of these not only deny the importance of electoral 
politics but the importance of politics altogether.

Schumpeter's essay "The Crisis of the Tax State" (8) is a useful beginning. "What," he asked in 1917, 
"are the social processes ... behind the superficial 
facts of the budget figures?" (9) Though calling his 
effort "fiscal sociology," Schumpeter emphasized three 
factors which in contemporary social science are not 
considered sociology at all: economic organization, 
political institutions and financial need.

For Schumpeter, the relationships between these 
and the social process of the budget were neither direct 
nor straightforward. Though shaping the tax structure, 
each is, in turn, shaped by it. Schumpeter saw the roots 
of modern political democracy in the tax needs of 
medieval kings. "Changes in the very foundation of the 
[medieval] economy" coupled with the financial need of 
medieval princes resulted in new "tax demands". (10) 
Political changes then followed. Taxation by royal 
decree became "tax liability on the basis of majority 
decision." (11) Financial need changed the definition of 
political power.

Despite his initial focus on the medieval world, 
Schumpeter was more interested in the consequences of the 
modern tax structure for "the individual economy" (13) 
or the "private economy." (14) What are the limits to 
the tax state's "fiscal potential?" What is "the
economic capacity of the tax state?" (15) Though not proposing an answer, Schumpeter speculated that the tax "state has its definite limits:" (16)

....The state lives as an economic parasite. It can withdraw from the private economy only as much as is consistent with the continued existence of this individual interest....In other words, the tax state must not demand so much from the people that they lose financial interest in production....(17)

Schumpeter believed that the state would come come to its "definite [fiscal] limits." In a democracy where the state took the form of a "bureaucracy" responsive to popular demands, his views were most definite:

If the will of the people demands higher and higher public expenditures, if more and more means are used for public purposes for which private individuals have not produced them,...then the tax state will have run its course.

"Rising social expenditures," not war, Schumpeter concluded, will conquer the tax state. (19)

Schumpeter's interest in fiscal sociology was sparked, ironically enough, by a Marxist scholar, Rudolf Goldscheid. (21) Goldscheid's fiscal sociology too emphasized the relationship between economic organization, political institutions and financial need. In contrast to Schumpeter, Goldscheid stressed the dominance of economic organization, that is of those controlling the economy, over political institutions.

Goldscheid believed that without its own property
and income, the democratic state would be "forced to live from hand to mouth....at the mercy of private capital." Not only could the bankers deny the state credit or cause havoc with currency values but through their ownership of economic resources and economic growth, business could deny the state tax revenues. (20) Despite the existence of popular political institutions, Goldscheid argued, "The state became the instrument of the ruling classes by the fiscal organization which they imposed upon it." (21) While Schumpeter saw the state as empowering the economy, Goldscheid saw the state as perennially poor, possessing nothing but "empty coffers." (22)

In sum, both Schumpeter and Goldscheid saw deep conflict embedded in the very nature of the capitalist state since one group --the capitalists -- controlled economic resources while another might dominate political institutions. Tax policy-making thus centered not only on the struggle between economic groups over financing the state but could involve conflicts over the control of economic resources. Just which economic group managed to wield political power over tax policy is a critical question in analyzing the state itself.

A focus on the political power of economic interests has continued to shape many of the most provocative analyses of national and comparative tax policy. (23) Yet inexplicably, this concern largely bypassed analyses of state and local taxation. While urban
politics pioneered the analysis of power and policy, it has largely investigated spending policy, not tax policy. The conventional literature on state and local taxation has very little to say about power or even about economic interests.

One such conventional mode of analysis might be called the voter-centered approach to tax policy, an approach similar to Schumpeter's. It relies on two types of explanations. One represents a kind of "town meeting" model of local government. These studies assume that people care largely about their immediate political surroundings and that local governments, being "closer" to the people, are more responsive to their demands. On tax issues, local activism means lower taxes or at least tax policy closely correlated with spending demands.

Other studies stress the stringent nature of local government fiscal arrangements. Local politicians, these point out, can not conceal their revenue decisions as easily as national decision-makers. They can not finance budget deficits by printing money. Most are legally required to balance their budgets. Even where such limitations are avoided, borrowing is still dependent on private financial markets.

Arnold Meltsner's *The Politics of City Revenue* is a well-known example of the voter-centered approach. Meltsner found that politicians and bureaucrats in Oakland, California actually preferred the state to impose revenue decisions on them rather than enact tax
hikes themselves. Politicians saw themselves harassed by voters demanding more in services than they were willing to pay for in taxes. Where unavoidable, tax increases were based on calculations of political cost rather than revenue needs.

Meltsner's analysis focuses on tax structures as well as on tax levels. Politicians preferred to raise existing taxes rather than to enact new ones; to utilize indirect taxes rather than direct ones; and above all, to minimize public participation in revenue decisions. (24)

The important role assigned to voters in local tax policy-making has been furthered by the influence of neoclassical economics. Though economic models did not, at the beginning at least, rely on voting mechanisms, they nevertheless stressed the role of individual (economic) self-interest in revenue decisions. Charles Tiebout's seminal article "A Pure Theory of Local Expenditure" argued that since metropolitan areas contain many local governments, rational (in the economists' sense of utility-maximizing) households will locate in municipalities with spending and taxing policies reflecting their own preferences. Indeed, Tiebout concluded that a kind of equilibrium is reached whereby citizens control local fiscal decisions through their mobility. (25)

Subsequent formulations have moved further and
further away from Tiebout's model of individual behavior to the behavior of governments. Some of these models argue that in the face of individual mobility, governments will compete much like sellers in the marketplace. They will offer more services (public benefits) or lower taxes (public costs) than their neighbors. (26) Others, questioning the validity of Tiebout's mobility assumptions, argue that governments compete only for the rich who pay more in taxes than they consume in services. Hemmed in by discriminatory zoning and housing markets, the central city remains the home of the poor. With its public benefit-tax ratio worsening, it cannot compete for the rich at least in the short run. As one discussion concluded, the outcome of a consumer choice model is "urban crisis." (27)

Evidence for the influence of the individual voter/taxpayer over tax policy -- as opposed to his/her interest in it -- is decidedly mixed. In indirect support, one study found that eighty percent of all new state sales and income taxes since 1900 were enacted in non-election years. (28) Yet, another survey discovered that even in electorally competitive states, the odds were 2-1 that a governor enacting new taxes would not be defeated. (29) Also damaging to the electoral approach is the evidence that voters are generally confused about their own tax burdens and even less informed about tax legislation. (30) Until 1980, the University of Michigan Survey Research Center found that typically less than
three percent of the voters ranked taxes as the most important problem facing the country. (31)

The objections to Tiebout's model are perhaps better known and need little elaboration here. Consumers are, of course, not as mobile as he assumed for reasons of income, zoning and racial discrimination to name a few limitations. The hypothesized competitive behavior of governments is equally troubling. (32) Without something akin to a price mechanism how will governments be able to judge the supply and price of the benefits consumers desire? Isn't market failure the reason for public provision in the first place? In the end, the consumer-based model probably explains the behavior of at least upper-income consumers, that is what kind of economic interests they have and how they achieve them, more successfully than it does the behavior of governments.

But, perhaps the final blow to the voter-centered model was dealt by the very episode which supposedly confirmed its relevance: the tax revolt. In Massachusetts, as voter support for the tax cutting amendment, Proposition 2 1/2 grew, elected officials mounted a big campaign against it.

The second major approach to the study of state and local taxation was developed by Thomas R. Dye's Politics, Economics and the Public. (33) Through correlational analysis, Dye assessed the relative
importance of economic, social and political variables to state and local tax levels, reliance and incidence. After controlling for urbanization, industrialization, income and education, he found that political factors such as party competition, voting turnout and malapportionment had little association with tax levels, structures or incidence.

Dye's findings are well-known and contrast starkly with the voter-centered approach. First, comparative state and local tax levels were largely a function of income: the higher the income, the higher the taxes. Industrialization was most strongly associated with the tax burden or the ratio of tax levels to income: the higher the level of industrialization, the lower the relative tax burden. While much of the work investigated comparative tax levels, Dye tried to explain tax structure as well. But he could not find any association between his economic or political variables and state-local tax incidence. He had speculated that the more industrialized states would exhibit more progressive tax structures.

From its publication, the study was controversial. As Dye noted, political scientists were "uncomfortable with the finding that certain political factors "do not count for very much." (34) A huge literature was spawned, grappling with the question, "Does politics make a difference ....?" (33) Study after study, even those begun as critiques, reached conclusions similar to
Dye's findings, however, were never well explained. Gradually there crept in explanations that local fiscal decisions were more or less determined by so-called environmental factors — national economic growth, business cycles, suburbanization to name a few — beyond local government control. Some scholars argued that crises, i.e. wars and depressions, provoke major changes. Others concluded that tax structures are largely a function of past fiscal policies. That is, a state with strong reliance on income taxes will continue to rely on income taxes; a state relying on sales taxes, on sales taxes. (36) But, at the risk of being obvious, how did these initial tax structures come about?

Dye himself did not seem to share this determinism. He readily acknowledged that finding certain socio-economic variables statistically associated with tax variables does not in any way explain how economic variables influence tax policy-making. In fact, Dye saw himself redressing the narrow focus of case studies:

Political science has been guilty of viewing political life as a closed system. Specifically, political scientists have developed modes of analyses which lead them to account for what happens in a political system solely in terms of its internal activities....Rarely do we penetrate to the economic forces which give rise to the issue in the first place and which more often than not determine its outcome. (37)
Dye made at least two methodological choices which limit his own capacity to "penetrate" the influence of "economic forces" on policy. First, he uses aggregate measures of general economic activity, measures with uncertain relevance for political action. For instance, the importance of industrialization, which Dye defined as the percentage of population not employed in agriculture, to tax burden suggests that a state's economic base might be an important issue to explore. Dye does not take that further step. But one analysis that did test for the impact of economic structure on state revenue policies found that certain aspects of economic structure, market concentration and firm size, accounted for more variability in revenue structure than did comparative income levels. (38)

Similarly, Dye's focus on voting or legislative institutions rather than on other political relations is unexplained. How exactly do "economic forces" "penetrate" through elections? A recent comparative study of cities and fiscal stress suggested that ability of politicians to handle the demands of interest groups was important to fiscal outcomes and fiscal health. (39)

**Learning from Fiscal Crises**

The 1970's seems to have posed new and perhaps intractable problems for these conventional approaches. Not only did the "tax revolt" challenge the assumptions of voter-centered models. In certain municipalities, at least, the "fiscal crisis" suggested who wield
power over city budget policy: banks, business lobbies, public employee unions along with certain state and local politicos. Elections and voters looked much less important. At the same time, budgeting became more clearly a highly political process. After all, not every city with economic problems suffered fiscal problems.

Not surprisingly, local fiscal crises have provoked new ways of analyzing local fiscal politics. Most important, scholars have begun to address the role of economic forces, to use Dye's term, in local policy-making. Two explanations are most provocative for this study. One stresses that the peculiar vulnerability of the local economy promotes the dominance of those with control over capital. The other roots the influence of powerful economic interests in the structure of local political institutions.

Paul Peterson argues that the city's open economy determines its spending and taxing policies. In his book City Limits, he asserts that

political variables are no longer relevant... because the internal political arrangements of the city are not treated as the decisive factors affecting local policy. At the same time the environmental variables are no longer understood as nonpolitical determinants of policy. Instead they become indicators of the factors external to the city which give precision to the limits within which city policymakers exercise their discretion. (40)
The task of local political analysis is to "learn about the way in which the structure of local government operates to limit political choice." (41)

According to Peterson, what limits political choice is the city's need to compete economically with other jurisdictions. Through its fiscal policies, the city tries to attract high-value taxpayers and economic growth. The city thus develops "its own set of interests which constrain the choices that policy-makers take." (42) Conflicts among interest groups or the "competing preferences" of voters remain secondary to this "city interest" in economic growth. City politics becomes "groupless politics." Conflicts over welfare or redistributional issues are fought out at other levels of government which have more control over their economic fates.

Like the neoclassical political economists, Peterson reasons that to compete governments must offer mobile, rational taxpayers benefits equivalent to taxes paid. If a government can offer more benefits or charge lower taxes, it will attract additional firms and taxpayers, further promoting economic growth.

In contrast to these arguments, Peterson does not assume that taxpayers are homogenous in their fiscal demands or equivalent in their political influence. To pursue the "city interest," governments must satisfy the tax and service preferences of their biggest taxpayers:
It is the contribution to the fiscal base of local government that is crucial, not the number of votes the entity casts in the local elections. A city concerned about its economic interests does not consider each taxpayer’s benefit/tax ratio but only in proportion to his contribution to the local coffer. (43)

This distinction among taxpayers raises questions about the "internal political arrangements" which Peterson has already dismissed as unimportant. How do American city governments systematically pursue the interests of the few and still win elections? How does city politics become "groupless politics" once distinctions among taxpayers are made? Do taxpayers, for example, agree on the city interest? Peterson does not argue that. Instead, he says that political apathy and low election turnouts minimize mass interest in, and influence over, policy-making.

These conflicts are avoided because of political conditions, not the constraint of economic competition. The so-called "city interest" is real the interest of the biggest taxpayers what Peterson calls "notables" who dominate the economy and hence the political process. In addition, what Peterson offers as normal city politics is challenged by most other scholars of fiscal crises. Where Peterson proposes apathy, they see conflict among city groups. Clearly we need to know more about political arrangements than Peterson cares to tell us.
In their article, "Political Conflict, Urban Structure and the Fiscal Crisis," Robert Alford, Frances Fox Piven and Roger Friedland begin the political analysis which Peterson neglects. Like Peterson, these scholars argue that promoting economic growth is a primary function of urban government. Thus, governments must foster private investment through spending programs and tax concessions.

But, in their analysis, promoting growth is not easy as in Peterson's. Throughout U.S. history, they argue, "...the electoral arrangements which underpin municipal governments make them vulnerable to popular discontent...." (44) Public apathy can not be counted upon. Popular challenges to business gains from public policy are thus always a potential threat.

The dilemma for cities.... is how to maintain a structure of expenditures and revenues that can stimulate stable economic growth while at the same time maintain the popular legitimacy of government institutions. (45)

Those running local governments have thus developed complex institutional strategies to prevent conflict while promoting growth. Government activities are decentralized to ensure many disparate, unrelated points of decision-making. Policies of interest to business are decided out of the public eye. Economic development-promoting functions are often institutionally divorced from processes open to public
participation, such as elections or civic review boards. Spending policies are decided independently of taxing policies. This separation of functions, the authors conclude, means the policies crucial to business are largely beyond public control, whether through elections or other mechanisms. Different economic interests with different policy demands participate very differently in the budget process.

While solving the dilemma of political conflict, the institutional fragmentation characterizing local fiscal policy presents its own problems:

While these structural arrangements help to diffuse and manage conflict, they also lead to the proliferation of governmental activities and costs and contraction of government revenues. The tensions which might otherwise take form in direct struggles between business, industry and finance on the one hand, and workers and consumers on the other hand, take form instead in escalating demands on municipal agencies....(46)

Fiscal crisis is a possible result.

Alford, Piven and Friedland's propositions about conflict and fragmentation offer quite plausible account of spending policy. But, they are not persuasive about tax policy. While, to emphasis the prior quotation, fragmentation appears to result in "a proliferation of governmental activities and costs...," (47) it certainly has not resulted in a "contraction of government
revenues." Perhaps, by "contraction," the authors mean that revenue growth has not matched spending growth. But how does conflict and fragmentation lead to such a lag? At times, Alford, Piven and Friedland imply that city's competing groups are more or less able to resist tax demands. Indeed, only in fiscal crises do "capitalist groups" regain control. But the analysis is not consistent. At other times, the authors claim that "popular" movements do not concern themselves with how programs are financed. If so, why can not business groups, which actively monitor tax issues, dominate them?

In sum, these two approaches persuasively argue that economic elites play key roles in local government fiscal policies. They disagree on the sources of elite influence and on its success. But neither presents a persuasive account of the tax policy process and thus a persuasive account of how interests operate politically.

It seemed that an analysis of actual revenue-making processes might resolve some of these difficulties. This dissertation attempts such an investigation. Indeed, since the literature is characterized by more theory-building rather than by research into actual policy-making, case studies seemed an appropriate method of investigation. Only two cities, Boston and New York, were selected to permit a detailed study of tax reform over time. The focus is the process
of taxation not a specific law.

The immediate postwar era was chosen for several reasons. First tax reform was, as noted, a prominent issue after the war. More importantly, until 1965, federal financial assistance was not counted upon in a significant way to solve city fiscal problems. Without the possibility of federal money, the costs and benefits of revenue reform were squarely on city and state governments and their taxpayers. Local politicians could not depend on the largesse (or ignorance) of the taxpayers in other jurisdictions. The hypothesized link between voters and decisionmakers is maintained. Given recent trends in federal aid policy, the future may resemble this past more than it does the era of rising federal aid from 1965 through 1978.

Two cities obviously do not permit broad generalizations about all central city revenue reform processes. Indeed, Boston and New York appear most unrepresentative of America's big cities. Both are old, Northeastern cities with major functional responsibilities and a history of high taxes.

On the other hand, Boston and New York appear very promising for the analysis of economic interests in tax policy, insight into the relative impacts of economic and political factors on tax policy as well as the role of voters, elected politicians and other economic interests in tax policy. Boston and New York were chosen
because they differed from each other on dimensions that are typically treated as critical to the making of tax policy: economic activity, political organization and fiscal institutions.

The differences between the cities are quite striking. Boston was a city in economic decline since 1920 while New York was beginning a long economic boom. Politically, Boston was the home of a dying machine with few active political groups. New York City had nurtured numerous political organizations and parties. Boston's voting turnout was one-half New York's. Finally, their revenue structures, that is the existing institutional capacities to meet revenue needs, differed. Then, as now, Boston was wholly dependent on the property tax. New York enjoyed the broadest taxing powers of any American city.

Each case focuses broadly on two questions. How do cities reform their revenue systems? How do economic interests have power in the policy process?

The first question sets the dissertation apart from most studies which analyze and compare tax levels. This study does not examine why Boston and New York had, and indeed have, higher taxing levels than virtually all other American cities. Instead, it concentrates on the process of restructuring tax bases.

The second question is even less customary. It assumes that elected officials are not only responsive to pressures from groups affected by actual or proposed
policies but may actually share power over revenue
decisions with them. Here "economic interest" is largely
defined in terms of tax-paying groups. By using studies
of tax incidence in both cities, the analysis begins by
examining who benefits and is burdened by the existing
tax structure and thus who are the major taxpaying
groups or economic interests. Most analyses employ very
broad, often overlapping, categories of economic and
political interests: notables, producer groups, consumer
groups, business, labor, voters. I have sought to break
down such broad categories into finer ones.

Since city tax structures are often controlled by
state legislatures, state tax incidence was also
considered. As shall become apparent, financing city
budgets through state tax change is always an
alternative to city tax reform itself.

Next this study examines the process of tax
reform. Tax reform, whatever its claims of "good"
solutions to fiscal problems, generally shifts the tax
burden among groups, thus profiting some and injuring
others. As a study of tax reform, the dissertation thus
constantly distinguishes between the city's search for
solutions to its problems and the conflicts between
taxpaying groups over potential shifts in their tax
burdens.

How do taxpaying groups attempt to influence the
process of tax reform? Do local governments pursue the
tax demands of economic elites to promote economic if not, what strategies do elites pursue? What, in particular, is the effect of voters? How do politicians negotiate or deal with conflicting tax demands?

Finally, the investigation considers tax outcomes. By examining who benefits and loses from actual tax decisions, the investigation attempts to gauge the extent of political power different groups in the city enjoy. Changes in tax incidence -- given the alternatives of the actual revenue-making process -- may say something about power.

The studies prove quite different. In Boston property tax problems galvanized city businessmen into an active effort to change not only tax policies but city political institutions as well. Tax reform in Boston became part of a broad effort at urban transformation. In New York, no comparable movement developed. The city's ever-present, ever-growing budget shortfall nevertheless made tax reform an ever-present political possibility. While in Boston businessmen dominated the tax reform process in New York politicians acted with greater independence in part because New York's business groups opposed tax reform.
Footnotes:


5. Unless otherwise noted, all numbers, graphs and calculations in this dissertation are drawn from the Bureau of the Census' *Financial Statistics of Cities* or *Financial Statistics of States*.


21. Ibid.

22. Ibid., p. 205.


31. Ibid., p. 171.

32. For a summary of these views see Richardson, op. cit.


34. Ibid., p. 297.


41. Ibid.


43. Peterson, City Limits, p. 36.


45. Ibid., p. 219.

46. Ibid., p. 200.

47. Ibid., p. 217.
Chapter Two: The Origins of Central City Fiscal Problems

Examining the history of policy problems often challenges conventional explanations of their causes and standard techniques for their solutions. Urban tax problems are no exception. Exploring their roots belies the notion that economic trends dictate fiscal conditions. In fact, one way to grasp the political underpinnings of the local "tax state" is to investigate how city fiscal strength actually began to deteriorate even while city economies flourished.

This chapter sketches how turn-of-the-century fiscal arrangements collapsed and how efforts to erect new arrangements began. Though this thesis examines only two cities in depth, urban fiscal and tax problems were widespread, symptomatic it seemed, of fundamental trends in the urban economy and polity.

But the chapter does not merely outline fiscal collapse and reform. By investigating the development of twentieth century tax problems we can also glimpse how politicians, experts and other interests often neglected in contemporary policy discussions played major roles in defining central city fiscal problems and their solutions. As the case studies will show, legislatures, suburbs and city businessmen all had stakes in central city tax reform.

The Achievements of State Tax Reform

Ironically, nineteenth century state tax reforms
laid the groundwork for twentieth century big city fiscal problems. As industrialization quickened after the Civil War, local revenue systems, and state revenue systems dependent on local collections, broke down. Most importantly, personal property taxation, that is, levies against property other than real estate proved increasingly unable to tax the new income based forms of wealth such as stocks, bonds, and dividends. In some cases, local assessors did not know how to value the new wealth. More often, they were unwilling to do so: when they did, the rich left for lower tax jurisdictions. As wealth rose, tax collections fell. Cincinnati’s personal property taxes dropped from $62 million in 1866 to less than $45 million in 1892; New York City’s dropped from $452 million in 1884 to $411 million in 1892. (1)

At the same time, real property tax burdens rose as city expenditures climbed with rapid urbanization. As Graph One shows, the ten largest cities grew at rates higher than the national average. Also striking is the variability of growth rates for individual cities. Some coped with huge numbers of immigrants one decade, many fewer the next. Such population changes severely strained city services. (2)

As cities grew, so did their budgets. New York’s expenditures climbed from $377 million in 1905, the first year comparative census figures are available, to $524 million in 1925; Chicago’s, from $63 million to
million: Detroit’s, from $8 million to $124 million. Graph Two shows that even per capita increases were impressive. From 1905 to 1920, per capita payments generally rose more quickly than per capita revenues.

Since both state and city governments depended on the property tax, a general fiscal crisis threatened the industrial belt. Eventually, a coalition of economists, political activists, squeezed middle-class taxpayers, more or less supported by businessmen and farmers succeeded in lessening reliance on the personal property tax, and, in some cases, on the property tax altogether. An entirely new system of state taxation, based on income taxes, was set in place.

The only account of this reform effort, C.K. Yearley’s *The Money Machines* (3), views these innovations as another victory of urban progressivism. This view rests on a -- somewhat limited -- study of the intentions of reformers rather than of the consequences of their reforms. In fact, the impact of state income tax reform suggests that more efficient and more equitable tax systems were not the only objective. Also at stake was control over the new wealth.

In the first place, while the experts justified the state income tax as a logical separation of state and local tax bases, the essence of state revenue reform was the removal or pre-emption of local property from local taxation. Personal income tax laws specifically forbid local taxation of personal property. Business
income taxes, as in New York, prohibited cities from continuing to tax business tangible property. Motor vehicle excise taxes took from the cities a lucrative revenue source they were just beginning to tap.

In the second place, state tax reform pre-empted wealth located largely in cities. In 1918, for example, Baltimore, accounted for 58% of Maryland's real and personal property; Chicago, for 40% of Illinois'; Boston, for 30% of Massachusetts'; and St. Louis, for 30% of Missouri's. Only part of this wealth was returned.

Thus, as business and the urban upper and middle classes lost political control over the big cities, they maintained their grip over city wealth through new state tax systems. While the cities might be run by Democratic machines, in state after state, the Republican parties dominated the legislatures. In the big industrial states, Republican parties were typically an alliance of business, the rich and the countryside.

In addition, as they were overhauling tax systems, the Republicans modified legislative districts to underrepresent big cities. Abolishing districts fixed by population, they instituted districts based on counties or even towns. This change ensured that the cities with despite their high share of state populations, would never run the state houses. As Al Smith once put it, New York was "constitutionally Republican."

36
As early as 1910, the bias against the cities was marked in most states. Baltimore had only forty-four percent of the state representatives it was due; St. Louis, about two-thirds; New York City and Detroit, about three-quarters; Philadelphia and Chicago, about ninety percent. In 45 states, the least populous counties had many more representatives than their population merited while 8 states gave similar representation to the most populous counties. (4)

Contrary to the experts' expectations, the transformation of state and local revenue systems did not improve local finances or local tax practices. It did, on the other hand, avert state financial breakdown. From 1902 to 1925 state revenues climbed eightfold as state reliance on property taxes was halved from 52% to 25% of total revenues. In contrast, local revenue collections quadrupled. (5)

The states, of course, shared some of these new tax yields with their localities. But they were not especially generous. The percentage of local revenues from state-controlled sources actually fell from nearly 14% in 1902 to 12% in 1925 even as state tax collections climbed from one-tenth to almost one-half of local collections. (6)

This drop had several causes. Redistribution formulas did not necessarily replace local revenue losses caused by state preemption. Some states returned corporate income tax collections to localities where the
Per capita payments and revenues

Largest U.S. cities 1905-1925

Group I: cities with population 7,000,000
after 1915 cities with populations 7,500,000.

Group II: cities with population 100,000 - 300,000
after 1915 cities with population 300,000 - 500,000

Group III: cities with population 100,000 - 300,000
after 1915
tax was collected; others, to where the business was located. Sometimes, the formulas were based on the value of the property pre-empted; other times, on the locality's share of total state property valuations. (7)

Legislatures often changed the formulas with little consultation. Wisconsin first returned 90% of its income tax collections to its municipalities; then, as collections rose, it lowered the share to 50%. (8) The common practice of distributing taxes on the basis of local valuations was designed to promote statewide assessments based on market values but it also rewarded the richer municipalities.

Critics disputed the logic of these formulas. The National Tax Association, for instance, urged the states to retain tax collections equal to the state's share of total state and local expenditures, a formula which would have boosted local receipts.

Aggravating uncertain state funding was greater state control over local expenditures. Shared taxes usually meant legislative interference. In 1902, almost 98% of state revenues returned to local governments was unassigned; in 1925, just 47% was. (9) By 1927, over 82% of all state aid to local governments was for education or highways. Legislatures typically set minimum standards for schools and charitable institutions. They frequently mandated spending, in some places, up to one-half of local expenditures, without providing funds. As an example, through its power to set salaries for
specific groups of employees, the New York legislature could dictate over half the city personnel budget, by far the biggest budget item.

The states also imposed taxing and borrowing limits, forbid certain taxes and set the rates of other taxes. Acknowledging progress in state fiscal policy, municipal finance experts warned about severe local revenue imbalances. As one 1928 study put it, "It is the local governments' misfortune that the costlier functions fall to their lot while the more lucrative sources of revenue belong the states." (10)

The states were least generous with their big cities where so much of the state income and hence the new tax base was generated. In 1918, the ten cities with populations over 500,000 received just two percent of their total revenues from the state compared to more than eight percent for cities with 300,000 to 500,000 people and nearly seven percent for cities with 50,000 to 100,000 people. The states earmarked nearly ninety percent of big city financial assistance for education. The largest cities were more reliant on the property tax and had higher tax rates despite higher valuations. (11)

It is, unfortunately, difficult to calculate just how well the big cities fared under the new state tax systems. In the first place, just how much intangible wealth was escaping taxation remained a matter of great controversy. In addition, such calculations would depend
upon estimates of probable growth in intangible (personal) property valuations and collections. Since these had demonstrated mixed trends in the early 1900's, such estimates are difficult. For example, after dropping for decades, New York City's personal property taxes rose in the ten years after 1910. Perhaps the cities would have fared better had the states aided them in improving personal property tax collections instead of removing personal property from the central city tax base.

What's clear is that many big cities saw big drops in assessed valuations after state income taxes were enacted. The Boston Herald reported that the city's residential warcs suffered a seventy percent decline in intangible valuations in the year following state income tax adoption. (12) Boston's total personal property valuations dropped by half and New York's by one-third in the years after income tax reform. In both cities, new state aid was roughly equivalent only to the actual, that is the clearly inadequate, personal property tax levy prior to the new state taxes.

In short, whatever the improvements in state tax systems, added revenues did not generally flow into city treasuries. As expenditures kept climbing and revenue flows grew uncertain, experts once again began to worry. One 1921 study predicted that, despite a decade of reform, property taxes were reaching their limits. (13)
The downtown real estate fever of the 1920's confounded this pessimism. The property tax proved an exceptionally expansionary revenue source — for a while. For the ten largest cities, assessed valuations rose from \( \text{million in 1918 to over } \$46 \text{ million in 1931.} \)

From 1925 to 1931 alone, they rose by nearly 48%. (14) Some cities showed even bigger jumps: Baltimore's assessed values rose by 67%; New York's, by 86%. (15) As valuations soared, tax levies exceeded expenditure increases. The biggest cities benefitted most. From 1918 to 1931, their average per capita revenues rose by 124% and their per capita property tax revenues by 166%, outpacing the 76% rise in municipal costs. For cities with populations between 300,000 and 500,000, the comparative increases were 100%, 130% and 64%. (16) Graph Three shows how assessed valuations outpaced the rise in current expenditures for the ten largest cities between 1927 and 1930.

While occasionally experts, such as Harvard Professor Charles Bullock, warned of the future (17), there was little complaint about mounting expenditures as long as the boom continued. Once again, New York City is a good example. In 1922, the legislative Committee on Inflation and Retrenchment bitterly attacked city budget practices. In 1928, as the boom heated up, perhaps the most comprehensive study ever done of city budget policies found little fault at all. (18) Even business
Comparative Change, Current Expenditures, Property Tax Revenues
Assessed Valuations, Ten Largest Cities, 1926 - 1938
\( (1926 = 100) \)
journals supported city spending.

Though city fiscal problems seemed over, after twenty years of tax reform, big cities were more reliant on real estate -- and state houses -- than ever.

The Rise of the Suburbs

As legislatures chipped away at city tax powers, the multiplication of governments in urban areas further constrained central city tax bases. Suburbs joined state houses as key determinants of central city fiscal policies.

Although the Census did not recognize metropolitan districts until 1910, suburbs, of course, were not a twentieth century product. As early as 1850, states began to modify local incorporation and annexation procedures. Until then, cities had been allowed to annex territory without the consent of -- indeed, over the objections of -- the resident population.

The end to forcible annexation had little impact as long as the city provided superior services or, in the case of rural areas, any services at all. Throughout the nineteenth century, city services were the chief reason voters agreed to become part of the city. In this they were joined by utility companies, land speculators and builders, all of whom would profit from links to existing utility lines or the underwriting of capital improvements by the entire city. (19)

Around 1890, a burst of state laws made suburbs more possible. For example, the Massachusetts, New York,
New Jersey and Illinois legislatures passed laws forcing their major cities to provide services to surrounding suburbs. (20) The Illinois legislature created the Chicago Sanitary District to dispose of the city's waste. The Sanitary District Act also required any municipality bordering the lake, that is, Chicago, to sell water to municipalities not bordering the lake at the same price it charged its own customers. The creation of the Metropolitan Water District in 1895 similarly benefitted Boston's suburbs since the city bore a disproportionate share of the capital and operating costs. (21)

Other devices proliferated after 1900. Counties were permitted to provide services such as sewers, water, police and fire protection. (22) California and Ohio passed laws permitting joint local sewage and water systems, thereby enabling small municipalities to share the otherwise prohibitive capital and operating costs. Zoning regulations spread. (23)

These legal changes initially benefitted two groups especially: wealthy homeowners and large industrialists.

The wealthy had long been leaving the city for many reasons: more space, healthier surroundings, cleaner neighborhoods, more acceptable neighbors -- and lower taxes. Whatever the combination of reasons prompting suburban migration, tax havens quickly became
a primary motive for living outside of the downtowns. By moving from the central city to a community inhabited largely by other wealthy persons, a taxpayer faced lower tax rates than or gained more services for equivalent tax rates. After all, on a per capita basis, the wealthy community enjoyed a very substantial tax base. (This migration is precisely what Charles Tiebout proposed as the model of the metropolitan economy.) In nineteenth century Massachusetts, small towns actually campaigned for rich by the promise of lower rates and lower valuations than in Boston. In 1875, a state tax commission attacked "the club principle," whereby in eight small towns, wealthy citizens enjoyed diverse city services at extraordinarily low tax rates. (24)

The origins of what is now called "fiscal zoning" thus began early in the suburbanization process. Rich suburbs, such as Boston's Brookline in 1854, were among the earliest and successful opponents of forcible annexation. Chicago's Evanston, Cleveland's Lakewood, Pittsburgh's Sewickley and Detroit's Grosse Point are others. (25) Some, such as Beverly Hills or Brookline, were eventually surrounded by territory incorporated into the central city.

Even more than the wealthy, industrialists sought lower taxes in the suburbs. For instance, Standard Oil initially planned to locate its new midwestern refinery within Chicago's city limits but, facing high tax rates, it built the works just outside in unincorporated
territory which it then incorporated into a new town. Two of the town's first three mayors were company officials who worked hard to keep the tax rate low. Just a few years later, Andrew Carnegie incorporated the town of Munhall, site of his Homestead Steel Plant, to prevent annexation and maintain low taxes. (25)

Manufacturing jobs demonstrated some decentralization as early as 1900. In the 13 largest industrial districts, suburban manufacturing jobs nearly doubled from 1899 to 1919, twice the central city increase. (27) Only Detroit maintained its relative share. (28)

While evident from very beginnings of suburbs, resistance to annexation grew in the early twentieth century. Taxation proved to be a major cause of suburban resistance with wealthy suburbanites and big industrialists leading the opposition. (29) The opposition is visible in the dramatic end to central city territorial expansion. For the fifteen SMSAs with more than 750,000 persons in 1930, only Los Angeles, Detroit, Baltimore and Cleveland increased their size markedly after 1900. (30) Worse, these expansions were mixed blessings. In contrast to the nineteenth century, in the 1920's big cities annexed "working class dormitories with little or no industrial wealth." (31) Typically these had higher tax rates and lower property valuations than the central city itself. (32)

Even before the depression, the proliferation of
metropolitan political units and the disparities of their fiscal systems, that is contemporary patterns, were well-established. By 1930, the New York metropolitan area contained 145 municipalities; Pittsburgh, 127; Philadelphia, 119; Chicago, 90. Five of the top ten metropolitan areas lay in more than one county and many, notably New York and Detroit, in more than one state. (33)

Since "the club principle" promoted suburbanization, wide variations in valuations and tax rates accompanied the multiplication of governments. While in the 1920's, the cities were not always the poorest municipalities in the metropolitan areas, nevertheless the tendency for metropolitan areas to divide on fiscal capacity and fiscal need was very real. For example, in 1924, Gross Pointe's per capita valuation of $9064 was more than twice Detroit's; industrial Highland Park's, about 60% higher. Wealthy Shaker Heights claimed a tax base more than thirteen times Cleveland's and a tax rate one-third less. New York and Boston show similar patterns. (34)

At the same time, the 1920's economic boom gave many the financial means to escape the city. The automobile, which freed not only homeowners but land speculators and builders from the constraints of rail lines, opened up vast new suburban areas. Of the big cities, just Los Angeles grew in population as much as its metropolitan area. Of the older big cities, only New
York and Detroit even came close. Philadelphia, Cleveland and Pittsburgh reached one-half of their metropolitan area growth rates; Boston and St. Louis, only one-third. (35) The wealthiest suburbs showed dramatic jumps in population. Beverly Hills' growth topped 2500%; Shaker Heights', 1000%; Grosse Point Park's, 700%. (36)

Most often, it was the least well-off and the more dependent who were left behind in the cities. Crime rates, delinquency rates and welfare rates were all higher in the cities. (37) The poor, the black and the foreign-born were more likely to be city residents. (38) There would soon be more.

Decline in the Downtowns

National economic collapse finished off the property tax boom. The fears of the early 1920's materialized. As Graph Three shows, the depression's impact on big cities was swift and overwhelming. While expenditures fell only slightly in 1931 and 1932, assessed valuations and property taxes plummeted. Moreover, the twenty-eight percent decline in assessed valuations from the peak in 1931 to the depths of 1936 hides more startling drops: Chicago, 49%; Cleveland, 43%; Detroit, 34%. Property tax delinquencies rose to nearly 25% in 1933, further reducing levies. (39) One study claimed that the property tax had "disintegrated." (40)

As the real estate collapse underscored the vulnerability of the property tax, mounting relief
demands exposed the dependency of the urban population. Relief spending climbed to the second biggest budget item in most cities and, never again, would big cities be without substantial welfare populations. (41)

Relief further demonstrated the shaky nature of the supposedly reformed state and local fiscal systems. Initially, the states refused to fund relief, in part because of their own financial weaknesses. Total state revenues declined by 4% during 1931, by 3% during 1932 and by 7% during 1933. In states reliant on income taxes, revenues tumbled even faster. California, Massachusetts and New York's income tax levies dropped 21% in 1931, 27% in 1932 and 16% in 1933. Thus, in 1933, their total income tax collections stood at 40% of the 1930 total.

The states went on a revenue hunt. Twenty, including California, Michigan, Missouri and Illinois, adopted sales taxes. Sixteen states, largely in the south and west, adopted income taxes and fifteen, corporate income taxes. Emergency surtaxes on existing personal and corporate income taxes were also frequent. With the end of Prohibition, nearly every state enacted liquor taxes. By 1936, state tax collections climbed to unprecedented levels. By 1938, they were 50% higher than in 1930 and eighty percent higher than their 1933 low. (42)

But the states did not enlarge local taxing
powers; in fact they constricted them. By the middle of the depression, five states had adopted local property tax limits and seven had made existing limits stricter. Five other states already had limits. The states also exempted more property from local taxation. For example, in response to the demands of its depressed manufacturing firms, Massachusetts exempted all manufacturing machinery from local property taxation. To mitigate the revenue losses of its industrial communities, the state changed its business tax sharing formula; commercial centers, like Boston, lost funds. (43) One survey of the era concluded, "The literature of the 1930's abounds with examples...of drastic curtailment in essential local government services resulting from stringent property tax limitations." (44)

Eventually, the states began providing more funds to the cities. By 1937, state grants to cities with populations over 500,000 state grants had climbed to $235 million from less than $90 million in 1931. Yet problems remained. In some cities, notably New York, Chicago, Boston and Pittsburgh, the additional aid was nearly all earmarked for relief. In others, subventions for education or health were cut even as relief funds rose. Many states provided little relief assistance once the Federal Emergency Relief Administration was established in 1933. Massachusetts, for instance, assumed less than one percent of of its municipalities' relief costs. (45) One 1945 study for the New York
State Tax Commission found that state health and welfare grant-in-aid programs were as rudimentary as education grants had been in the mid-nineteenth century. (46)

For all these reasons, property tax rates and burdens continued to climb. As Graph Three shows, for the ten largest cities, while assessed valuations dropped by 28% and stayed below their 1931 peak, property tax revenues, falling most drastically in 1933, rose again in 1934 and by 1935 matched their 1931 peak. Higher collections were due to higher tax rates, not growth in the tax base.

Central city property owners were increasingly squeezed. The 1920s boom had been concentrated in the downtowns and at strategic points of highway and transit connections. (47) Overall city declines in property values hid even more drastic devaluations. Not surprisingly, central city property owners, realtors and bankers typically led the movements for sales taxes and for property tax limitations. (48)

While business lobbying for lower taxes was not unusual, the depression prompted a significantly different kind of business activism. Despite the boom, many older downtowns were largely occupied by the obsolescent buildings and decaying infrastructure of the pre-1900 growth era. The depression caused foreclosed landlords and delinquent taxpayers taxpayers to abandon untold numbers of such structures. Slums seemed to be
spreading into the central business districts itself. One analysis warned, "Our cities are facing death from dry rot at the center and bankruptcy because of increased taxation...." (49)

National business organizations, even "free market" types, began promoting downtown development schemes. In October 1935, the National Association of Real Estate Boards (NAREB) offered a proposal for "Neighborhood Protection and Improvement Districts" authorizing municipal governments to use eminent domain and taxation powers to promote neighborhood, that is downtown commercial, development plans. (50) In 1936, NAREB, the United States Saving and Loan League, the U.S. Chamber of Commerce, various builders associations and the Federal Housing Administration established the Urban Land Institute to study urban decay and popularize the need for "urban renewal." (51)

This concern over physical decay highlighted a growing fear that city economies might be permanently ailing. In his forward to the 1937 Urbanism Committee Report to the National Resources Board, Charles Merriam wrote that "...the City has become not only one of the fundamental supports but also one of the primary problems of the Nation's economy. " (52) City problems, he stressed in an appallingly long list, encompassed "drastic inequalities of income and wealth," "imbalanced industrial structures," "irrational land use policies," "rapid obsolescence of physical plan and
plant" and "empty municipal treasuries." (53)

Indeed, the signs of decline were disturbingly frequent. Population growth slowed as the suburbs expanded. Philadelphia, Boston, St. Louis and Cleveland registered no population increase during the 1930's. Chicago, Detroit and Milwaukee grew at one-third to one-half their rates in the 1920s. (54)

As worrying, the Urbanism Committee warned a "significant" movement of industry to the suburbs. was taking place. (55) Unlike the 1920s, the migration included sectors other than manufacturing. In New York, Philadelphia, Detroit Cleveland and Chicago, retail sales in the suburbs grew at double the central city rate from 1935 to 1939. The number of wage earners in New York City rose by nearly 6% but in its industrial area, by 20%; in Chicago, the increases were 10% and 34% respectively. (56) An official of the Chicago Association of Commerce reported to the 1940 American Economics Association that cities and states could no longer rely on rapid growth to cure urban ills. A major reason, he emphasized, was "peripheral competition." (57)

Business activism did not end with the depression. As World War II spurred economic growth in ways federal depression policies did not, economists, politicians, bureaucrats, labor unions and businessmen began worrying about and planning for a feared postwar depression. A national focus on government fiscal policies helped make
revenue reform a major issue in legislatures and city halls.

Typical of this new federal concern for local taxing and spending policies was Alvin Hansen and Harvey H. Perloff's 1944 book *State and Local Finance in Depression and Inflation*:

The fact that state and local expenditures amounted to between 10 and 15 percent of the national income and more than 50% of the total public expenditures in the decade before the war bears striking witness to the significance of nonfederal fiscal activities. An analysis of such activities, however, reveals...that the contribution of state and local finance to the progress of the economy has not infrequently been negative. (58)

In prosperity, state and local governments initiated big construction projects, heavy borrowing and sometimes tax reductions, thus accelerating --even aggravating-- economic expansion and inflation. In depressions, they imposed tax and debt limitations, promoting contraction.

By the war's end, politicians joined the academics. Echoing Hansen and Perloff, the Employment Act of 1946 called upon the states and localities to join business and labor in ensuring full employment. In a 1947 study on postwar taxation and finance, the Tax Committee of the Council of State Governments urged states to adopt long-term revenue stabilization plans to permit high tax rates in booms and low tax rates in depressions. Reserve funds and capital plans would be
key components. (59) The strong financial positions of many state governments reinforced beliefs that they could play major roles in federal stabilization policy. State surpluses totalled over $2.3 billion with nearly $1.2 billion in general fund surpluses. New York, Ohio, Illinois and Pennsylvania had each accumulated over $90 million. (60)

The states and cities, however, were more interested in lowering tax burdens than in promoting national economic policies. They feared that a depression would only add to spending demands. Postponed capital outlays and another round of relief costs would just escalate property tax burdens. While calls for economy were made, more prevalent was the view that city governments would spend more because they, not the states or the federal government, delivered the services.

How were property tax burdens to be lowered if demands for greater spending were going to rise? State after state established tax commissions and committees to tackle just that issue. These proposed solutions ranging from traditional calls for better property tax administration to innovative laws permitting cities to levy any tax they desired.

Business organizations joined in these calls for revenue reform. National business journals demonstrated a growing concern with central city tax bases. Magazines like Business Week and Fortune informed their readers.
that, though some cities might be corrupt or extravagant, inflation and pent-up public demands for better services and facilities justified most city spending. Traditional calls for budget cutting were improper. Above all, business should take a positive role in revenue policy-making. As Fortune put it, "Sophisticated companies know that unusually low taxes usually spell a deficiency of public services." (61)

The business press was also less optimistic about state financial health than the politicians. In a January 1946 editorial "Red Ink Coming," Fortune cautioned the state surpluses looked good only at a distance." Cities especially combined the "appearance of prosperity with a bleak financial future." (62)

Business had various strategies for local tax relief. Another Fortune survey concluded that state aid formulas left "something to be desired." (63) The U.S. Chamber of Commerce journal The Nation's Business urged more city home rule. (64) Most of all, the business press realized that without new revenues, cities would never halt overassessment of business property, an issue irking business ever since the depression. Without new revenues, lowering business assessments would only result in higher residential assessments, a policy politicians could never swallow. Thus, in article after article, Business Week contrasted the dismal state of city treasuries relying on property taxes with the
strength of those cities relying on non-property taxes. (65) Such taxes were, in business eyes, "the wave of the future." (66)

This interest in revenue reform coincided with widespread local efforts to transform the face of urban America. The feared depression did not happen. In 1949, Congress approved urban renewal. As the old political machines collapsed, in city after city, a "new breed of reformer" appeared. (69) Often led by, or allied with, the downtown business community, these reformers emphasized rebuilding the downtown rather than the extirpation of corruption. To carry out these efforts, the Allegheny Conference on Community Development was organized in Pittsburgh as were the Committee on Civic Progress in St. Louis, the Greater Philadelphia Movement, the Greater Milwaukee Council and the New Boston Committee. The nation's premier business organization, the Committee for Economic Development, was also establishing local development committees of the "best known businessmen in the district." (68)

Reform, it seemed, had arrived. And with it, tax reform. But how was this "reform" to be implemented?
Footnotes:


(3) C.K. Yearley, op. cit.


Paul T. David and Ralph Eisenberg calculated the relative value of urban and suburban votes after 1910. The value varies inversely with the size of the constituency and 100 equals the average statewide value. Cities were clearly underrepresented compared to the statewide value and compared to the suburbs.

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Table 7. In an ideally apportioned system all values would equal 100.


(9). Newcomer, *op. cit.*, p. 20.


(13). Lancaster, *op. cit.*

(14). Federal, State, and Local Governmental Fiscal Relations, A Report Submitted to the Secretary of the Treasury by a Special Committee Designated to Conduct a Study on Intergovernmental Fiscal Relations in the United States, June 23, 1943, p. 405.


(16). Spengler et al., *op. cit.*


(21). Boston Municipal Research Bureau, "State-Local


(23). Ibid.


(26). Graham Roemyn Taylor, Satellite Cities, A Study of Industrial Suburbs (New York: Arno Press and the New York Times, 1970) p. 129. Lower taxes were not the only magnet for big industrial corporations. Companies could also bargain for less stringent zoning and health regulations. Often, as in the case of St. Louis suburb, East St. Louis, Illinois, the suburbs enjoyed cheaper fuel, lower utility costs and less stringent labor laws due to differences in state regulation. Industrialists also sought greater control over their workforce. A move to the suburbs was often a move away from unions and other sorts of political agitators. Some employers wanted to have on hand a workforce sufficiently large to operate the plant at full capacity but sufficiently tied to the company (through homeownership or isolation from other employment) to stick out the slack periods.

(27). Philadelphia City Planning Commission, Economic Base Study of the Philadelphia Area, Planning Study No. 2, August 1949, Table XI.

(28). Ibid.

(29). Teaford, op. cit., p. 90.

(30). Jones, op. cit., Table 13.


(37). Ibid., p. 182.


(41). Ibid., p. 14. Relief was quite clearly an urban problem. In 1933, one-fifth of the national relief caseload was in the ten largest cities. From July 1934 through 1935, Los Angeles' caseload totalled almost one-half of the California caseload; Ne York City's, 50% of New York State's; Cook county's, 50% of Illinoiois'; Wayne County's. 30% of Michigan's. Relief expenditures remained major costs in the most populous industrial states until World War II.


(45). Federal Emergency Relief Administration, Final Statistical Report, (Washington, D.C. 1941), Appendix I.


(50). Ibid., pp. 112-113.


(52). National Resources Committee, op. cit.

(53). Ibid., pp. VIII-IX.
(54). Jones, op. cit., p. 5.

(55). National Resources Committee, op. cit.


(57). Ibid., p. 308.


(63). Lubar and Silberman, op. cit.

(64). "Cities Are Going Tax Slappy," Nation's Business, August 1949, pp. 73-74.


(66). Lubar and Silberman, op. cit.

(67). Gelfand, op. cit.

Chapter 3: Tax Reform as Political Reform

Perhaps more than any other big city, Boston is the success story of postwar urban America. The resurrection of its capital markets and the explosion of high technology spurred economic growth and a downtown building boom few imagined in 1945.

But the "New Boston" can not be understood only in economic or physical terms. It resulted from the political efforts of city officials and, above all, city businessmen. Through political campaigns, conferences and organization, businessmen laid out the outlines of the "New Boston." Politics, as much as economics, triggered the city's comeback.

Business activism was instigated by the city's tax disaster. This chapter investigates Boston's tax problems and shows how businessmen mobilized a political reform movement to overcome them. Though political reform quickly succeeded, tax changes did not follow. The chapter thus analyzes how the state legislature thwarted city tax reform. While city businessmen began to develop political influence in city hall, their power over state tax policy was limited by the clout of labor, by the indifference of the suburbs and by disagreements among business groups. Chapter 4 then shows how Boston's mayor, in close alliance with city businessmen, solved the property tax dilemma without either city or state tax reform.
tax reform.

**Economic decline and political exhaustion**

Boston’s reputation as "The Hub" had fallen on hard times by 1945. Its economic peak had perhaps been reached just after World War I though not until the depression did outright decline replace slowed growth. In 1929, for example, Boston ranked first of all cities in per capita sales, third in the wholesale trade and had the highest blue collar wages in the country. (1)

The depression hurt. While the city’s diversified economy prevented the disasters befalling Massachusetts’ other one-industry cities like Fall River or Lowell, its economy nevertheless depended on industries like shoes, foundries, printing and furniture which never recovered from the ’thirties. (2) Total manufacturing employment fell by more than one-third as did the collar volume of wholesale and retail trade. (3) Among big cities, only Pittsburgh and Cleveland had a higher unemployment rate in 1940. (4) Federal wartime defense contracts went to cities with a heavy industry base not to Boston. (5) The city’s economic recovery thus lagged behind the state’s, the region’s and the nation’s. Manufacturing pay plunged to the lowest of the thirteen largest cities by 1945; to the third-lowest in non-manufacturing employment. (6)

Boston’s shabby physical condition substantiated its economic transformation. Nearly half its housing stock was more than fifty years old (7); nearly one-
fifth was standard. (8) The 1950 city General Plan declared that almost one-fourth of the city's 16,000 acres should be redeveloped including nearly all of the North End, South End and Charlestown, seventy percent of South Boston and forty percent of Roxbury. (9) Downtown office construction had virtually stopped in 1929. A year after the war's end, construction totalled only $1,000,000. (10)

Population loss accompanied economic decline. Increasing by fifty percent between 1900 and 1930, Boston's population declined slightly for the first time during the thirties. While the wealthy had long been migrating to the suburbs, during the depression the population of the inner, poorer wards of Charlestown, the North End and the South End also crooped.

Many observers rooted the city's deterioration not in its industrial decline but in the decline of its upper class. Pioneers in trade, textiles and railroads, by the twentieth century the Boston rich allegedly had lost their entrepreneurial spirit. Their corporations had been taken over by outsiders, especially, New Yorkers; only one new company, Gillette, had been started in decades. (12) Boston financiers, became conservative money managers for the third or fourth generation rich.

As conservation became the word of the Boston trustee, increasing amounts of Boston wealth was squirreled away and removed from productive
A February 1933 Fortune article, for example, condemned the city's rich for ignoring the city's problems even though it controlled "vast downtown real estate holdings." (Real estate was, in fact, the conservative investment par excellence.) The article continued:

There can be little doubt that the Bostonian of today has suffered a decay and decline of league proportions....The Bostonian of today has withdrawn from productive enterprise. (13)

This condemnation was a bit exaggerated. The upper class' accumulated wealth had attracted some of the country's largest insurance companies, banks and mutual funds. While some enterprises were going bankrupt, a financial giant, the First National Bank of Boston, was organized.

Though not wholly abjuring profit-making, the upper classes co by and large seem to have abandoned the city to the Irish politicians. The last major upper class/business reform effort had collapsed in 1913 when prominent investment banker James J. Storrow narrowly lost the mayoral election to John "Honey Fitz" Fitzgerald. Nevertheless, a strong base of upper-class political influence remained in the Yankee strongholds of the Back Bay and Beacon Hill.

After World War II, Democratic party dominance of city politics seemed as secure as ever. In 1945, James
Michael Curley was elected to his fourth term as mayor of Boston. Despite old age and a federal indictment for mail fraud, Curley showed he could still win the votes of the Boston masses, Irish or not. And he showed that his many critics still could not run a credible opponent. For at least three decades, Curley had dominated the politics of Boston and occasionally state Democratic politics as well. Alone of all the city ward bosses, he developed a citywide following rooted firmly in the poor wards. His view of government suggests why:

...In my day, politics was in a large measure built on personal and family contacts. The newcomers needed immediate help. The Irish leaders were rewarded with votes for favors they rendered, while the Brahmins lost their role of leadership because they exploited, rather than helped, the common people. (14)

Curley's bravado aside, economic decline resulted in what John Mollenkopf has recently dubbed "political exhaustion." Voting turnout dropped. Though turnout for mayoral elections fell by only ten percent from the 1920's to 1945, that for off-year council elections plummeted from sixty percent to thirty percent. (15)

Business political activity was, as noted, limited. The city's leading business organization, the Boston Chamber of Commerce, had seen its membership, once the largest of any chamber, halved in the depression. (16) Its politics had shifted from a heyday of civic reform in Storrow's era to the promotion of narrow
business objectives, mostly focusing on the state legislature. (17) Real estate groups, whether owners, managers or agents, were the most visible business groups as they desperately and unsuccessfully sought property tax limitations during the depression.

The labor movement was similarly quiet. Though union membership had increased during the war, union politics became more conservative. The decline of the more militant (CIO) textile and shoe sectors gave the craft unions greater clout than ever. (National depression CIO organizing drives did not occur in Boston.) Huge job losses only added to the traditional job consciousness of the craft unions. After the war, the Teamsters, the building trades, the International Ladies Garment Workers and the Machinists claimed the largest memberships. AFSCME, the public employees union, was also beginning to flex its muscles. The city's major coordinating organization, the Boston Central Labor Council, was generally dismissed by state labor leaders as inefficient and factionalized by personal conflicts having little to do with substantive concerns. At times, it was controlled by Republicans. But mostly, it was embroiled in the equally factionalized conflicts of the city and state Democratic party (18).

The election of Boston's preeminent ward boss threatened even higher spending in a city long-plagued by financial problems. Curley's first budget increased spending by $11 million, twelve percent, while revenues
rose only by $3 million. (19) Curley added more than
1000 new jobs to the payroll, a nearly ten percent
increase. (20) The Boston Finance Commission complained
to the mayor and city council on April 4, 1946:

The high taxes which real estate
must yield to pay the cost of local
government has been a bone of con-
tention for so long that it is
accepted as a necessary evil....The
resistance, not only to transacting
public business by methods which would
require fewer employees and therefore
less payroll expenses, but even
to closing the door to further and
further expansions of payroll
commitments has become overwhelming. (21)

Nor was the City Council effective. With twenty-
two members elected by wards, it was as embroiled in
patronage politics as the city’s chief executive. It
rarely even exercised its power to veto the mayor’s
appropriations. One Boston Herald political columnist
wrote that the Council was, "by common consent...the
worst legislative body in the world." (22)

Years of operating deficits raised another issue.
Was, the Finance Commission wondered in 1946, "the city
approaching the economic limits to its property tax
burden?" (23) Boston not only had among the highest tax
rates in Massachusetts, it had one of the highest in the
United States.

The rate was but one part of the issue and perhaps
not the thorniest part. City officials had actually
lowered tax rates in both 1941 and 1945. The 1945 rate
was just 5% higher than in 1940. More distressing than
the rate was the steady erosion of the tax base.
Assessed valuations had dramatically declined. The 1944
total property valuation of $1.3 billion (24) was nearly
27%, that is $495 million, less than in 1930. (25)
Worse, the high valuation CBD ward showed the greatest
loss, falling from a valuation of $687 million in 1940
to $409 million in 1944. While ward 3 paid more than 40% of
the tax levy in the 'twenties, it paid less than one-
third in 1946. (26)

As taxable values plummeted, tax-exempt property
actually increased in value by fifty percent, directly
removing more and more city land from the tax levy. (27)
By 1946 about one-third of the city's tax base was tax-
exempt. (28) Government-owned property, federal, state
and local, showed the greatest increase. Land takings
for public improvements such as highways, airports and
public housing also wiped out values. (29) The city
itself had taken over millions of dollars in tax
delinquent properties. Such takeovers did not end with
the depression. In 1936, when the full impact of the
depression would have already hit the real estate
market, the city held title to 722 properties. By 1946,
the number of foreclosed properties had risen to 10,500
valued at more than $7 million. (30)

Exacerbating high tax rates and falling valuations
were the city's highly politicized assessing practices.
Though taxable values were falling, they remained at
The assessors fixed valuations for tax purposes at some percentage of actual or market values. This so-called assessment ratio in essence defined whose property bore the tax burden. For years, the city's assessing practices had been notorious. Mayors especially Curley had openly directed assessors to value downtown commercial and business properties, particularly in the CBD, at assessment ratios considerably higher than those on residential properties. (31) The political calculation was apparent: the higher the assessed values, the bigger tax base: the bigger the tax base, the lower the tax rate.

Two decades of boom and bust had made such practices increasingly intolerable to the business community. While the city had traditionally assessed business properties at higher ratios than residential properties, critics charged the city was now assessing business properties at values higher than actual market values. In the 'twenties, the assessors often employed speculative values, values well above current earnings. While as Graph Four shows, values fell in the depression, business remained dissatisfied. A 1940 study by the Urban Land Institute warned that "excessive valuation with the highest tax rate among the large cities...is gradually sucking all the value out of downtown property." (32)

Such practices were both unconstitutional and illegal in Massachusetts. The Massachusetts constitution
illegal in Massachusetts. The Massachusetts constitution required that all property in a jurisdiction be taxed at the same rate. Massachusetts courts had further declared that the constitution required taxation at "full and fair cash value." (33) Nonetheless, discriminatory assessing, typically overburdening business, was common throughout the state, widely accepted not only in Boston but by local officials elsewhere and by state officials, too. (34)

While illegal, the law itself made such practices difficult to change through the courts. A procedure existed for individuals to contest their assessments on the grounds that they exceeded the fair cash or market value of the property. Yet as the Boston Bar Association noted in 1947, "There is no known remedy by which a group of taxpayers can contest the validity of overassessment." (35) That is, taxpayers could not get abatements because their assessment ratio was higher than for other, similar, properties; they could only get abatements for assessments higher than market values. Laws of evidence and issues of legal standing as well as the question of adequate remedies prohibited taxpayer suits on municipal assessing practices even for wealthy taxpayers. The first attempt to prevent assessors from overvaluing commercial properties was initiated by a group of Boston taxpayers in 1942. This petition, like so many subsequent ones, was denied by the Supreme
Judicial Court. (36)

The evidence for discriminatory assessing in Boston was abundant. In April 1947, the Boston Bar Association reported that several studies showed downtown business property "...was consistently assessed at at least twice its fair cash value." (37) The steady rise in tax-foreclosed properties also suggests the burdens of high taxes. Although the number of abatement appeals had been high for decades (38) by 1946 appeals on Boston properties accounted for 84% of all appeals before the State Appellate Tax Board. (39) 1946, the value of abatements granted in Boston actually exceeded the new valuations added to the tax rolls! Almost all Boston's abatement appeals were brought by downtown commercial property owners. Among the 1946 petitioners were some of the city's major companies: the United Shoe Machinery Corporation, the National Shawmut Bank, the New England Mutual Life Insurance Company and the Boston Five Cents Savings Bank. (40)

But the abatement procedure was proving inadequate. Abated values were not put on the tax rolls. Instead, the assessors retained the higher, unabated, values in order to keep the tax rate as low as possible. The Finance Commission complained that city was operating contrary to all sound fiscal practices. Instead of the assessors determining property values and then setting a tax rate high enough to raise the necessary tax levy, in Boston the mayor determined the
tax rate and the assessors came up with valuations sufficiently large enough to provide the tax levy. (41)
The assessors not only ignored valuations mandated by the Appellate Tax Board, they also ignored valuations they themselves had previously negotiated with petitioning taxpayers!

Abatements, of course, became a key instrument of mayoral patronage and a lucrative source of funds for well-connected though typically unidentified attorneys. As the Finance Commission explained:

....settlement by special influence has been almost routine. What many owners of large properties have eventually entered on their books as the cost of municipal taxation in a particular year depended to a great extent on the influence of their advocates, not necessarily on the value of their properties. (42)

Importantly, though residential property as a whole enjoyed lower assessments than business property, not all residential owners benefitted equally. Patterns of residential taxation were just as discriminatory as overall city assessing practices. Perhaps the earliest published study found that in 1947, Boston assessed its most expensive houses (measured in terms of selling price) at about 50% of sales price and its least expensive houses at about 84%. These disparities were much greater than differences in the suburbs. Single family homes, whatever their selling price, were assessed less heavily than two and three family homes.
(43) That is, the assessors treated the better-off homeowners more favorably than other taxpayers in the city. Homeownership and income -- not voting turnout or party affiliation was most associated with low assessment ratios. Later studies showed that the better-off wards of West Roxbury and Hyde Park, base of the "lace curtain Irish" and home to many city and state politicians enjoyed the lowest tax burdens of any group in the city. (44)

The Beginnings of Reform

Though Curley had won in 1945, his power was weakening. The population of Curley's traditional strongholds in the inner wards was dropping and its voting turnout generally declining relative to the outlying, middle class districts. (45) (In 1937, Maurice Tobin had beaten Curley with the votes of the outer wards.)

Curley had plenty of political enemies. His re-election almost immediately spurred them into political action. Some of the city's larger banks, the Boston Real Estate Board and the Chamber of Commerce began organizing for a new city charter just after the election. Despite general gloom over the city's condition, these groups believed that new political arrangements might help modify city fiscal practices.

Business and middle-income voters turned against the ward system as much as they had turned against
Curley. They worried that ward politics was ignoring the
city's economic development. Councillors elected on a
city-wide basis would theoretically be more concerned
with city-wide issues. The reformers calculated that
city-wide elections would require more money and
organization -- and hence give those with such resources
more clout -- than ward elections. (46)

Curley's imprisonment in 1946 gave them new hope.
Since the president of the city council was also under
investigation and hence could not be temporary mayor,
the legislature stepped in. Instead of holding a special
election, Henry Shattuck Boston's most famous Brahmin
politician and equally Brahmin Governor Robert
Bradford, supported by the Republican leadership,
selected a rather obscure civil servant, city clerk John
B. Hynes, and, in Shattuck's words, "forced him on the
city council." (47) Hynes quickly "endeared" himself to
the business community which as one former Boston state
senator remarked "may have found him more reliable and
malleable than the unpredictable Curley." (48) Though
Curley was pardoned by President Truman after just five
months in prison, his reputation was more tarnished than
ever. He never won an election again.

For the business community, tax reform was the
goal of political reform. In April 1947 the Boston Bar
Association's Committee on Taxation called for
revaluation, or reassessment, of all property for tax
purposes. Judicial remedies, it argued, were ineffective
and costly methods to reduce excessive downtown assessments. If, after the new valuation was determined, "a reasonable tax rate" could not provide an adequate levy, the city should seek new forms of revenue and cut expenditures. (49)

Just months later, the Finance Commission began its own investigation. Confirming the Bar Association's allegations of business overassessment, the Commission reported that from 1937 to 1948, the city paid out $63 million in abatement refunds, a sum only slightly less than the 1948 property tax levy! The Commission also hinted at the corruption in the assessing process. The assessors not only overvalued property to keep the tax rate low; they also wanted "create opportunities for making money." "Millions of tax dollars" in abatements meant huge legal fees for both "reputable attorneys and "their intermediaries." (50)

Curley's budgetary tactics kept assessing in the news. He raised assessed valuations by $125 million from 1946 to 1949, $40 million more than the value of new construction! As municipal costs jumped by the biggest margin ever in 1949, Curley kept raising the tax rate. By 1949 it was thirty percent higher than in 1946.

Hynes, now Curley's main rival in the 1949 mayoral election, made assessing a top campaign issue: "The present system of fixing synthetic valuations produces a fictitious tax rate - it is tending to a complete
breakdown of the city government." (51) While calling Hynes "the Republican candidate from the State Street wrecking crew" (52), Curley made good use of the assessing issue himself. Eighty-four percent of the increased valuations that year fell on the business of "lace curtain" Irish wards, not traditional Curley supporters. (53)

Though Curley managed to defeat the city manager charter (54), he lost the election to Hynes. The old ward boss retained only the support of the poorer wards. (55) Hynes secured the endorsements of business, Republicans, the Boston Herald and the Christian Science Monitor as well as AFL labor leaders. Reform democrats and the CIO split between Hynes and another Democrat Patrick McDonough. (56)

Delighted, the press heralded this "long-sought opportunity for reform." (57) Hynes began his term with pledges of more efficient government and more equitable assessing practices. Within one month of his inauguration, the new mayor promised the Boston Chamber of Commerce he would appraise property fairly with "no false tax rates." (58) Announcing that he would lower assessments gradually, Hynes reduced them by $29 million in 1950 with the greatest devaluation in the downtown business ward. He also lowered the tax rate.

The mayor was praised for devising a budget without "questionable practices," a budget based on "reliable revenue and expenditure estimates. (59) The
Boston Chamber of Commerce featured Hynes on the cover of its monthly magazine Boston Business calling him "Boston's business-like mayor." Its editorial asserted: "His Honor is the first mayor of Boston in many years to work hand in hand ... with the business and professional interests." (60)

During Hynes' first term, many of his supporters set up yet another reform organization, the New Boston Committee. By running candidates for the new at-large city council and School Committee, its organizers hoped to clean up Boston. Initially claiming a city-wide membership, the committee quickly became, in the words of one disillusioned participant, a collection of Republican, "genteel Democrats," and "politically weak labor leaders" dominated by a group of conservative Republicans (notably Boston Brahmin politico Henry (Shattuck) and business leaders. (61) In the 1951 elections, committee-endorsed candidates won five of nine city council seats and four of five school committee seats. Hynes beat Curley again, winning even the poorer wards. The Chamber of Commerce predicted "New Hope Ahead for Boston." (62)

Pressure mounted on Hynes to meet his promises on tax reform. Abatement appeals jumped by almost forty percent in the spring of 1951. Most of the city's big insurances companies, stores and utilities were filing appeals, some for five years of alleged overpayments.
The Mayor now distanced himself from his business supporters. Insisting that he had "inherited" overassessments, Hynes warned that he would not "give abatements merely because someone asks for them."
Revaluation, he said, must await a new source of revenue.
Only new revenues could reduce the city's dependence on the property tax and hence lower the property tax rate for everyone. No wonder the Mayor hesitated. The Massachusetts Federation of Taxpayers Associations estimated that business tax overpayments in Boston, compared to the rest of Massachusetts, might equal as much as $25 million in 1950. Without new revenues or lower taxes, all or part of that tax bill would be shifted onto homeowners.

City tax reform required state assistance. Would the state aid its biggest city? Unfortunately for Hynes, property tax reform was as elusive in 1950 as it had been for nearly 40 years. As the mayor was to discover, there was no coalition for tax reform at the state level. This deadlock forced Boston to solve its tax problems on its own. Before considering these tax efforts, the impasse in state tax policy must be analyzed.

Deadlock in the state house

Like many other states, Massachusetts was forced to confront the sorry state of local finances after
World War II. In Massachusetts, above all, that meant confronting the property tax.

In 1945, the legislative Special Commission on Real Estate and Related Matters issued a major study of local finance. Perhaps the most comprehensive ever, the report tried to make property taxes a key issue in postwar politics. Its conclusion was grim:

Real estate in Massachusetts is grossly, even dangerously, overtaxed.... unless early relief is afforded, collapse of the financial structure of our cities and towns (among them Boston) may well be a prospect in an uncertain and difficult future. (65)

Despite "a growing clamor over property taxes," it went on, local governments kept spending. (66) Worse, they kept spending though the state was "no longer young, no longer growing, and no longer always more prosperous." (67)

Though fiscal problems were not unique to Boston, fiscal pressures were not equally shared, the Commission stressed. High property taxes were above all an urban problem. Cities had been hardest hit by job losses and depression relief demands. The "wallowing off of wealth" in exclusive suburbs further reduced the central city tax base. While statewide per capita valuations fell by sixteen percent in the 1930's, Boston's dropped by twenty-four percent; Lawrence and Holyoke's, by thirty percent; Fall River's, by thirty-eight percent; New Bedford's, by forty-four percent. (68)
The pressures for action mounted. A Special Commission on Education joined the Special Commission on Real Estate in urging a 2% sales tax. The legislature authorized an emergency advisory committee on municipal finance as average statewide property taxes threatened to rise $7 -- nearly fifteen percent -- in 1948. In an unexpected move, Republican Governor Bradford echoed the call for a 2% sales tax. More surprisingly, he proposed overhauling the state aid structure to benefit poorer communities:

I know of no other state in the union which has done less than Massachusetts in recognizing the responsibility of those in the wealthier communities to the people of the poorer ones.

It is the growing industrial area that makes possible the rich and beautiful suburb. (69)

Bradford's proposal met "terrific opposition" and swift rejection by the Republican legislative leadership. Ideologically, the Republicans favored cutting budgets, not raising taxes, especially in the face of a state surplus.

But the problem was not solely ideology. The impasse over property tax reform was long-standing. It reflected divisions not only among Republicans but among the state's principal economic and political groups. Business, a key component of the Republican coalition, had long been split over state tax policy and local tax relief. Disagreements between manufacturing and, largely
Boston non-manufacturing interests, coupled with the absence of a strong middle class progressive movement, had prevented the adoption of a truly general income tax on either individuals or corporations. (71) The narrow income tax base and low collections thwarted the property tax relief that had mobilized income tax reform movements in the first place.

Although several big cities went bankrupt and state solvency was threatened in 1932 and 1933, differences among business groups, exacerbated by the growing political power of labor and the Democrats stymied major reforms. From 1932 to 1934, Boston real estate groups, supported by farmers and bankers concerned about municipal solvency, lobbied hard for a 2½ state sales tax to reduced local property taxes. They were successfully opposed by retail interests and the State Federation of Labor. (72) The state's two leading business associations, the Boston Chamber of Commerce and the Associated Industries of Massachusetts, (hereafter called AIM), a manufacturing lobby located largely outside of Boston, took no official stance because of divisions within their memberships. (73)

That pattern continued after the war. In 1947, AIM supported Bradford's sales tax proposal. The Boston Chamber of Commerce, faced with bitter opposition of its retail groups, opposed the tax.

The Republican party's principal electoral
constituencies had little interest in property tax reform either. In 1945, the Republicans remained a coalition of "Brahmins," small towns and so-called "Swamp Yankees," or middle-class WASPS. Though about one-third of the legislative delegation hailed from big cities in 1945, urban Brahmins were losing their party dominance as Democrats won more and more of traditionally Republican seats. Party electoral support and leadership became increasingly suburban. As upwardly mobile ethnics moved to the suburbs, they voted Republican for the General Court while increasingly providing a huge swing vote in statewide elections. (74)

That voting clout is reflected in the party's candidates for office. From 1942 to 1952, Boston suburban counties provided eighty percent of the Republican nominees for statewide office, displacing both the urban Brahmins and the rural gentry. (75)

Neither the towns nor the suburbs were especially burdened by the property tax. Though poor, Massachusetts' towns had suffered only a 9% drop in valuation during the 'thirties, significantly less than the cities. In fact, statewide per capita rural valuations almost equalled urban per capita valuations by 1940. Per capita tax levies, however, were almost twenty five percent less than urban levies. (76)

In addition, the rural areas benefitted most from state aid formulas. In 1952, the Special Commission on Taxation reported that of the 57 towns receiving more
than $20 per capita in 1951 state aid, 35 had populations less than 1000 people and 51 had populations smaller than 5000 people. These towns were largely in Western Massachusetts and on Cape Cod, overwhelmingly Republican areas. (77) The Republicans had made sure to help their own.

Boston suburbs had been "walling off" their wealth for a century; their attitudes changed little in the 1940's and 1950's. One study of state education policies was struck by the resistance of Boston suburbs, in comparison to those in other metropolitan areas, to state educational assistance. That resistance, it concluded, was rooted in the suburban desire to protect the local tax base:

'emigres' from Boston to the suburbs find the tradition of localism full of convenient ammunition for little or no action at the state level. As they come to cluster in towns inhabited by like-minded and similarly situated neighbors, the disposition grows to 'do-it-yourself'....With ample local resources, the well-off are not disposed to help the less well-endowed communities. (78)

Suburbanites had reason to be confident. Starting the postwar period with tax rates about half of Boston's, suburban tax rates did not match the central city's until the early 1960's. (79)

But even those published tax rates are misleading. Growing suburban property tax bases meant that in many communities, effective tax rates actually dropped. In
1945 and 1956, the state prepared a schedule of equalized valuations which allows a rough computation of changes in effective tax burdens. Since the state's equalized values attempt to approximate market values, Table One reveals that in 11 of 22 suburban towns, equalized tax rates actually dropped. In 9, they rose but five climbed less slowly than Boston's. In 3, they remained essentially static. And, the highest suburban tax rate was still twenty-five percent less than Boston's. Not until the mid-1960's, when the suburbs began to revalue and school costs continue to jump did suburban property owners begin feeling the pinch. (80) Until then, Boston's suburbs had little interest in property tax relief.

Only the growing power of the Democratic party threatened to make tax politics more contentious. The Democrats had very different constituencies -- and fiscal policies -- from the Republicans. As the Democratic vote climbed, it made steady inroads in the legislatures and actually began to win the governorship. In a stunning 1948 victory, Democrat Paul A. Dever was elected governor with the highest percentage of the vote since the Civil War and the Democrats controlled the house for the first time ever.

In contrast to the upper and middle class, non-urban base of the Republicans, the Democrats were the party of the working class and the cities. Though still
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dominated by Boston, the party's base included the Commonwealth's other old, manufacturing cities with large foreign born populations. (81) In 1951, for example, just about three-quarters of the Democratic House members came from the 17 cities with populations over 50,000; an additional 15% coming from smaller cities such as Peabody, Chicopee and Pittsfield. (82) As the Republican became more and more a party of the Boston suburbs, the Democratic base, though broadening, remained the party of the cities within the Boston metropolitan area. From 1942 to 1952, nearly 83% of the party nominees for statewide office came from Boston, Medford, Cambridge and Somerville. (83)

Just as business allied with the Republicans, labor backed Democrats. In 1955, for example, when the Associated Industries named 75 legislators as voting against business, all were big-city Democrats. (84) Labor ties coincided with the urban base of the Democrats. In 1945, 24% of state unions with 30% of union membership were headquartered in Boston. Boston and sixteen other cities accounted for 80% of all membership. (85) In smaller cities, the unions replaced the local party organizations in campaigns. (86) Union political committees (PACs) were key fundraisers in state and local elections. In 1952, for instance, five union PACs raised over $40,000 for the Democratic state committee, the biggest source of committee funds. (87) V.O. Key's comment on the Massachusetts party system
bears repeating: "Impressionistic evidence...suggests that the Massachusetts political division tends to be a class division modified by a religious division." (88)

Problems in the cities made the property tax an urgent issue for the Democrats. In 1947, several mayors asked the MFTA to evaluate the possibilities for local option taxes. (89) 1949, the Mayor of Attleboro, a state senator, filed legislation enabling municipalities to levy any tax imposed by the state itself. (90) Within months of Bradford's sales tax defeat, the Democrats proposed a constitutional amendment for a graduated income tax. As in the depression, this plan had two goals: first, to provide more money to the cities and towns and second, to make the state tax structure more progressive. Now, however, the Democrats had more hope of passing the tax.

Democratic hopes did not seem misplaced. Though rejected by a joint session in 1948 and advancing to a third reading without coming to a vote in 1949, the graduated income tax was passed by a vote of 144-124 in July 1950. The amendment was simple and vague, permitting unspecified graduated rates on the different rates of income derived from different classes of property. Eight Republican representatives, six from central cities, and one senator, from a depressed industrial town, joined the Democrats. Business reaction was swift. Taken by surprise, the Chamber of
Commerce "immediately" began organizing a research and lobbying campaign. (91) Top tax experts of the Chamber, AIM, the executive directors of the Massachusetts Federation of Taxpayers Associations plus lobbyists for the Bankers Associations met regularly to organize strategy.

Businessmen were urged to lobby. When Governor Dever's 1951 budget message predicted that the graduated income tax would raise $100 million, nearly twice the $55 million yield of the flat tax, the opposition had the perfect weapon. AIM, the Chamber and especially the MFTA argued again and again, that low and middle income taxpayers, not the rich, would be hardest hit by graduated rates. (92) Since the amendment did not contain a rate schedule, neither Dever's estimate of yield nor the opposition's estimate of incidence was justified.

The Republican leadership tried to prevent a vote in 1952. (93) For the first time in Massachusetts history, the governor was forced to called the legislature into joint session to have a constitutional amendment considered. Attacking the Republican leadership for "smothering" his proposal, Dever claimed, somewhat belatedly, that he was not asking for higher taxes but trying to make the tax burden more equitable. In "a bitter vote," "the smoothly operating, long planned opposition" defeated the amendment 155 to 115. (94)
A check of this vote is revealing. Just as the Republicans supporting the graduated tax in 1950 were "atypical" in their urban districts, the Democrats rejecting the tax did not represent the usual districts. Six of the representatives were from Boston and five of these were from middle-class wards. Five others represented small town districts, rural manufacturing centers. Two others came from mixed suburban-urban districts. Interestingly, when the next second vote on the income tax took place in 1961, all but one of the non-Boston delegates once again voted "no," though this time the income tax passed.

Business congratulated itself. AIM informed its members that the legislature had finally become very "industry-minded." (95) But business satisfaction was short-lived. Less than a year later, the Chamber's Executive Committee asked its staff the evaluate the possibilities for "...obtaining additional tax revenues for the Commonwealth with particular reference to the possibilities of lightening the tax burden upon business in the City of Boston." (96) The top men of the Chamber were learning that they could block new taxes but could not prevent expenditure increases. With two-thirds of its membership in Boston, the leadership had realized that it "could only complicate matters for the business community...by refusing to admit the need for some basic change in the state's taxation structure." (97) In
1956, after more than 30 years of opposition, the Chamber endorsed a state sales tax.

Despite this shift in the chamber's position, the state deadlock over taxes continued until 1966. Even the chamber would not accept just any state tax, they would support only the sales tax. While business organizations managed time and time again to prevent the graduated income tax, they had to battle labor and liberal organizations, conservative Republicans and suburban legislators for a sales tax. Even the sales tax's advocates, notably the Associated Industries and the Massachusetts Federation of Taxpayers and the teachers unions, disagreed about its exemptions, rate and the use of its revenues. In the meantime, Boston, and most especially Boston businessmen, was forced to fashion tax reform without state financial assistance.
Footnotes:


3. Ibid.


5. Ibid., p. 315.


12. Ibid., p. 226.


24
unpublished dissertation, Graduate School of Business Administration, Harvard University, 1960.


34. Special Commission on Real Estate..., op. cit.


38. Ibid.


41. Ibid., p. 7.

42. Cuthbert E. Reeves, Tax Abatements in the City of Boston, December 1949.


44. Municipal Research Bureau, Municipal Letter, December 13, 1944.


46. Christian Science Monitor, November 11, 1945; Marchione, op. cit.

47. Henry L. Shattuck Papers, Massachusetts Historical Society, File 42.22.


49. "Report of the Committee on Taxation...."


51. Herald Traveler, November 5, 1953.

52. Curley, op. cit., p. 33.


54. Marchione, op. cit.
55. Curley won only East and South Boston, the North and West Ends and Charlestown. (Christian Science Monitor, November 9, 1949).


63. Christian Science Monitor, April 5, 1951.

64. MFTA, Taxtalk, vol. 22, No.5, 5/6 1950.

65. Special Commission on Real Estate, op. cit., p. 22.


67. Ibid., p. 31.

68. Ibid., p. 198.


72. Haig and Shoup, _op. cit._

73. E. J. Brehaut to E.W. Wollmarth, June 26, 1934, Chamber of Commerce Papers, File 370-74A. Brehaut was the Chamber's top staff person and a municipal finance expert.


76. Special Commission on Real Estate..., _op. cit._, Tables II and III.

77. Special Commission on Taxation, _Report._ House No. 2323, April 1952.


80. _Ibid._ and Massachusetts General Court, _Chapter 553._ (1945).


82. Lockard, _op. cit._, p. 156.

83. Litt, _op. cit._, p. 142.


85. Commonwealth of Massachusetts, Department of Labor and Industry, _Annual Report on the State of Labor_, various years.

86. Lockard, _op. cit._, p. 125.


suggests the striking differences between the parties. Though about the same percentage of both delegations described themselves as "professionals," 40% of the Republicans fell into the business-managerial group, nearly twice the Democratic percentage. Moreover, Republican businessmen were executives, manufacturers and financial managers. The Democrats were small businessmen, real estate and insurance brokers, contractors and retail operators. Almost one-quarter of the Democrats defined themselves as sales or clerical workers, nearly four times the Republican percentage. And about 6% were manual workers, compared to 2% of the Republicans. (Ibid., p. 262.

The contrast in party constituencies is further revealed by the high percentage of uncontested seats. That is, while the parties shared nearly equivalent percentages of the total vote, they did not compete in many legislative districts. One study reported that between 1952 and 1962, one-third of the house seats were uncontested compared to the Malcolm E. Jewell, "Party Voting in American State Legislatures," American Political Science Review, 1955, pp. 773-791.

89. MFTA, "Legislative Program, Revision of State-Local Fiscal Relations, prepared in cooperation with Massachusetts Selectmen-Massachusetts Mayors Club," January 1947.


93. Ibid., February 2, 1952; April 8, 1952.

94. Ibid., May 5, 1952 and December 18, 1952.


96. Walsh to E.J. Brehaut, April 30, 1953 in Jones, op. cit., p. 237.

Chapter Four: Tax Reform as Tax Concession

The state tax impasse just added to Boston’s woes. Economic trends worsened as booms started up in many other cities. Population losses accelerated. From 1950 to 1955, 59,000 people left the city, a 7% drop. (1) Virtually no new office space was constructed after 1949. As tax rates rose, assessed valuations in the central business district ward fell. The city’s urban renewal program was floundering. (2) As the downtown decline seemed more and more inevitable, the completion of the first major suburban office park in 1952 threatened to lure Boston firms. In the words the of the Finance Commission, “prospects for future growth looked dim.” (3)

City fiscal practices symbolized the malaise. Hynes proved unable to cut the budget, lower the tax rate or even to modify tax practices. Appropriations had risen 13% since 1950. After his widely-praised 20 cent cut in 1952, Hynes hiked the tax rate by $8 in 1953. And, the supposedly reform reform mayor returned to Boston taxation as usual. Almost 90% of the assessments lowered in 1953 were returned to the 1954 rolls at their higher, unabated values. Abated values reached $100 million, one-fifteenth of the total assessed valuation. Interest charges on abatements cost the city $500,000 and added $7 to the city tax rate. (4)

As pressures from the business community mounted,
Source: City of Boston, Land, Building Valuations and Tax Rates
the mayor agreed to begin revaluation of all city property in January 1953. But, when home owners and "small property owners" protested, the city council refused to vote the funds. (5) Ironically, the system of at-large representation installed by business and their reform allies increased the political clout of the upper-income neighborhoods which had the money to finance and the voting turnout to influence citywide campaigns. (6) These were, of course, the very neighborhoods which stood to lose the most from revaluation. Again in 1954, the council vetoed the plan.

Instead, it voted to investigate the still flourishing "abatement racket." One city councillor from the North End alleged that a small group of "chosen attorneys" were "robbing the city." An IRS probe had also uncovered connections between large property owners, "well-known political figures," and huge abatement pay-offs. The scandals reached into the Hynes administration itself. The New Boston Committee disintegrated as two of its founders, close Hynes' allies, were revealed as major abatement attorneys. (7)

As their reform administration threatened to collapse, prominent city businessmen became worried. As a vice-president of the First National Bank put it, "there was a feeling that Boston was in the hands of supercrock. Nobody had ever seen an honest Irishman." (8) In 1953, businessmen set out to forge their own direct alliances. Businessmen, Irish and
Yankee civic leaders, and members of the Boston Catholic hierarchy met at the First National Bank of Boston. The Dean of the Boston College School of Business Administration, the Reverend Seavey Joyce later described the meeting as "acrimonious." Could the group that "ran" the city and the group that "owned" it work together? Could city government stop serving the neighborhoods and start serving the central business district? (9) The discussion was a success. Later that year, Reverend Father Joyce, some political allies of Hynes and leading businessmen such as First National Bank Chairman Roger Damon organized a conference on city economic problems. (10)

This one conference soon became a meeting ground for various groups with stakes in the city's growth. In 1954, with a grant from the Ford Foundation, the Chamber of Commerce and Boston College initiated the Citizens Seminars on the Fiscal, Economic and Political Problems of Boston and the Economic Community. Several hundred people, including the city and state's most powerful men, attended these sessions. Through panels of politicians, bureaucrats and businessmen, the seminars laid out the city's problems and hammered out solutions. Two issues dominated the early seminars: government reform and urban renewal. Government reform, above all, meant tax reform. The seminars' first speaker, Mayor Hynes, admitted that the tax rate was a key factor the
city's stagnation:

Until the existing log-jam is broken, until we reach the point where Boston is once again attractive to new businesses, and until we reach the point where present Boston business will reconstruct or expand we will not be out of trouble. (11)

The panels also served as pep talks for the business community. The city's decline was not inevitable and that business could do something about it. Business political activity in other cities such as Pittsburgh was praised. As the President of the Chamber of Commerce put it, "Business has a stake in the future of the community...perhaps the greatest stake of any segment of the community." (12)

While the meetings between the Irish and the Yankees quickly became well-established, key businessmen wanted their own, purely business organization. In late 1955, spurred by "dissatisfaction" in "the business community" over the slow pace of change, officials of the Federal Reserve Bank of Boston and the Greater Boston Chamber of Commerce began discussing, in the words of one Federal Reserve participant, "if research-oriented policy studies could bring leadership into focus on metropolitan problems." (13)

With financial backing from one of the nation's premier business organization, the Committee for Economic Development, Boston officials decided such an organization would work. The President of the Boston Federal Reserve and the Chairmen of the Sheraton
Corporation, the First National Bank and the John Hancock Insurance Company, three of the city’s biggest corporations organized the Greater Boston Economic Study Committee. Though conceived a committee sponsoring policy research, members were selected, as the Federal Reserve Official put it, on the basis of "their well-informed judgement in...economic areas" and their ability to "provide liason with the leadership element of the major civic action groups." (14) In short, they were selected on the basis of their economic positions and political connections. When the Study Committee was announced, the Christian Science Monitor dubbed it "possibly the largest bloc of economic power ever assembled..."in the city. (15) All but three members were Boston-based executives and most were associated through common directorships in the city's largest insurance company, John Hancock, and its biggest bank, the First National Bank of Boston (16).

As a committee, the group remained a research organization but it individual members quickly became prominent activists promoting downtown redevelopment and economic growth. Soon after its founding, its head, John Hancock Chairman Paul Clark addressed the Boston College seminars to stress the new commitment of Boston finance to the Boston economy:

Boston is a great financial center, rich in the investment capital, which is so essential for economic growth. Our banks
and our investment companies gather together the savings of millions from all over the nation. Unfortunately, not enough of that capital finds its way into the development of this area. For economic development requires not only capital but also profitable opportunities to invest, and such opportunities have not been sufficient in the Greater Boston area. In all of its work, our Committee will be concerned with how more opportunities for investment and development can be created here. (17)

Other members of the Study Committee worked actively with the Hynes Administration. One became the head of his business committee which promoted new tax policies. Several were leading members of the Committee for the Central Business District, a leading advocate of public-private downtown redevelopment. The most important, and last, offshoot was the Coordinating Committee or the "Vault." Of its seven founding members, two, the President of the First National Bank and the Chairmen of John Hancock, were organizers of the study Committee. The Vault would play a key role in sealing the future of the "New Boston." (18)

Organizing a "Pro-growth Coalition"

Whatever their problems with the Irish politicians, pro-development businessmen had work to do among the "Yankees" as well. Plans to develop the largest privately owned site in the downtown showed only too well that growth could stir big controversy.

In early 1953, a syndicate of New York and Detroit investors optioned the Boston and Albany Railroad and
and announced plans for a $75 million hotel, office and apartment complex. The plans were conditional: the city must agree to a tax bill equalling 20% of the assessed valuation, far less than other properties but, the developers claimed, comparable to tax bills in other cities. While Hynes enthusiastically endorsed the proposal, others opposed it.

Having worked for three years to attract such a plan, Hynes immediately pledged cooperation. But influential businessmen worked to block the proposal. So split were their memberships that neither the actively pro-development Chamber of Commerce nor the Boston Real Estate Board openly favored the plan. "Too many of their members...believe the B&A development would siphon business from their establishments." So bitter was the opposition that Republican Governor Christian Herter established a special commission to study the developers’ proposal.

At the commission's public hearings, the critics went public -- and there were more of them than there were advocates. The real issue was not, of course, the development but the tax concession. The executive director of the Retail Trade Board condemned the concession as discriminatory; he urged tax relief for all businesses. The Real Estate Board's president asserted that the solution to Boston's problems was not tax concessions for a specific development but a
broadened tax base, in his opinion, a sales tax. Owners and managers of downtown commercial property not only feared "raids" on their tenants but also worried that their own taxes would rise as one more chunk of city real estate was given some kind of tax abatement. (21)

But threatened competitors were not the only critics. Henry Long, for almost thirty years the Republican Commissioner of Taxation, called the arrangement a "most devastating assault upon the tax structure of Massachusetts... The bill establishes no end to possibilities that will bring disastrous results." (22) "Others equally possessed of a highly acquisitive nature," he warned, "would attempt similar concessions." (24) The former head of the State Tax Commission called the proposal "unconstitutional, unfair and unwise." (25)

Over the dissension of a vice-president of Boston development firm, Cabot, Cabot and Forbes, the Commission voted 2-1 to approve a development. The Commission proposed a mixed public-private approach. A Back Bay Development Commission would be set up and with the City Planning Board, would acquire the site by eminent domain and auction the project off to the highest bidder. (To protect the present option-holders, the bidder would have to come up with a plan similar to that already proposed.) The Special Commission recommended freezing the assessed valuation at $5.66 million, the land value, until construction was
complete. After that, the development would be assessed at 2.5 times the land value plus an additional tax on income net all taxes, interest and amortization, operating costs and a 6% return.

Legislative action was necessary to permit this method of taxation. The legislature supported the commission but could the legislature authorize such special treatment? Uncertain of its authority, the legislature followed it traditional custom of submitting a list of questions on the proposed legislation to the state's highest court.

In clear terms, the Supreme Judicial Court rejected the plan. Three issues proved especially troublesome. Two concerned the method of taxation. The Court argued that the assessment freeze during construction and the tax formula which guaranteed a rate of investment return "...result[s] in charging the corporation with less than its share of the public expense, produce[s] disproportion, and...[is] unreasonable and unconstitutional." Other taxpayers did not enjoy similar arrangements. "The General Court may not grant to a single taxpayer special and peculiar privileges.

The Court also opposed the public-private nature of the plan itself: "public money can not be used for the primary purpose of acquiring either by eminent domain or by purchase private land to be turned over or
sold to private purpose for private use."

What public purpose was served by the development of the railroad yards?

...there is no suggestion that the area is now a slum. There is only apprehension lest it become one. There would seem to be means, perhaps through building and zoning regulations of preventing that result....Neither does this area appear as yet to be blighted in any other sense than that high taxes and declining values retard development – a thing that could be said of a great many tracts of land in Boston and in other cities in the Commonwealth. The main difference between the area we are now considering and such other tracts seems to be that the location of this tract makes it more prominent than many others, and this is hardly a difference in principle. (26)

Hynes' hopes for a major development were dashed. But the Back Bay plan had a clear message. The city was willing to make tax concessions and the legislature was equally willing to let the city use them. The obstacle was not the politicians but opposition within the Boston business community, opposition which enjoyed added clout because of the tenuous legal standing of such concessions.

On the other hand, The Yankee-Irish alliance seemed to be paying off. In April 1956, the city council approved a revaluation plan. However, they agreed to reassess only income-producing properties and residential properties with more than four units. That decision excluded two-thirds of all city properties,
forty percent of the city's assessed valuations and, of course, most of the underassessed property. A despairing Finance Commission complained that "the best opportunity of increasing the total real property valuation has been by-passed." (27)

Despite the revaluation's narrowed focus, city businessmen believed they had won their first real tax victory. Even if the tax rate rose as business valuations were cut, the plan offered the long sought opportunity to change methods of assessing business property. Appellate Tax Board rulings suggested that the use of standard appraisal methods would lower business tax bills. (28)

The survey was also mandated come up with a "defined, uniform and publicly known policy" of assessing new construction. In its search for new development, the city had few carrots. It could not lower business property valuations across the board or cut the tax rate. The Back Bay project showed, however, that specific tax concessions might induce new construction. As the Assessing Director explained:

Renewal of a city involves tearing out old "low use" structures and replacing them by new "high use" buildings. Actually, the situation in Boston finds a sort of Gresham's law...wherein old buildings keep out new buildings make this problem of renewal most difficult. In Boston, there is a greater proportion of older buildings than in most other cities....New construction is too costly to compete with the typical old
building whose high cost has been written off long ago: the bricks and mortar of these old buildings can be bought at a substantial discount. New construction fails to materialize because of this as well as today's record breaking high building costs and equally record-breaking tax rates.

....[N]ew construction is hampered because the economic rent levels that prevail make it impossible to amortize today's high construction costs, under the prevailing assessing processes. (29)

While concessions might work, the Court ruling on the Back Bay development promised that any new taxing arrangements would be carefully scrutinized.

A second proposal for the Back Bay site accelerated efforts to devise such a formula. Soon after the first court ruling, the Prudential Insurance Company optioned the railroad yards. By early 1957, the company began wooing and winning Boston in earnest. Prudential had the resources: it was the nation's second largest insurance company and third largest corporation in assets. (30) And, it had the proposal. At a luncheon for 1000 city dignitaries, Prudential's president unveiled plans for a 40 story office tower, a city convention hall, a hotel, several apartment buildings and a huge hotel. Asserting the project was the largest of its type in the world, the company predicted it would generate 950 new jobs. (31) Prudential had no firmer allies than the local and national press which quickly accepted and promulgated company claims that the complex would trigger Boston's renaissance.
Like the first developers, from the start, Prudential required a tax arrangement. It position was clear: Boston was one of several New England sites but the railroad yards were the only possible site in the city. (32) In the words of the Prudential vice-president who negotiated with the mayor, other cities "were statistically as good...but not emotionally as good."

(33) For a while, there was no mention of a tax break. As one prominent city property owner put it, the company "got the city drooling" and then demanded the concession. (34) Negotiations almost broke down more than once in 1957. (35) Chamber of Commerce officials shuttled between the mayor and Prudential officials. Greater Boston Economic Study Committee member and Boston Edison President President Thomas E. Dignan headed a committee of business executives boosting the plan.

The city worked hard to find an approach acceptable to Prudential. The Prudential arrangement seems, in fact, to have been a major priority of the revaluation survey. Officially inaugurated in October 1956, the survey did not actually get underway until late 1958. (36)

Instead of revaluing property, the assessors concentrated on developing a formula to appraise new construction. After finding that standard income capitalization approach to valuation left little or no return to Prudential, they turned to less conventional
appraisal methods. After determining that "first-class office buildings, from twenty-five to forty years old, in good condition and good location" were being sold at capitalization rates of 8% (37), they decided to give investors in new construction or in "substantial capital improvements" a return "proportional to that realized by the owner of an older, depreciated property." (38) After deducting this return from net income, the city would take the remainder in taxes. The assessed value would be the tax levy divided by the tax rate. By equating the investment returns of older and new properties, the assessors would not be giving new construction special, that is unconstitutional, tax privileges.

This so-called "proportional return" approach was first used for Prudential. In March 1958, Hynes announced that the city had agreed to a tax arrangement. The company would pay taxes on the land value until 1960. Then, as different components of the project were completed, the tax bill would rise in increments of $150,000 up to $2.55 million by the seventh year. At that point, the Prudential would pay a tax of $3 million or 20% of gross income, whichever was higher. The tax of $3 million permitted the company a 7% return on its investment.

While the assessors claimed the agreed upon tax bill followed the new formula of proportional return,
the agreement signed by the mayor mentioned only the gross income basis of the tax. This method was even less conventional -- and justifiable -- than the proportional return approach. In the first place, it made no attempt to relate taxes on new construction to those of older buildings. Older buildings, as the assessors knew well, paid anywhere from 35 to 90% of their gross income in real estate taxes. (39) Thus, new construction would enjoy significantly lower tax bills. In the second place, because the tax was levied against gross income, not net income, widely different tax to profit ratios would result. Indeed, the assessing consultant who had devised the proportional return formula roundly attacked the gross income method. (40)

The origins of the gross income formula are, unfortunately, obscure. Two subsequent studies of city assessing practices root its use in the bureaucratic difficulties of deriving net income information and the greater ease of using gross income modifiers. Gross income modifiers were not limited to the Prudential agreement but were in the end widely used in the revaluation survey. (41) This argument seems plausible if only because at that point the assessors were not even using standard appraisal techniques, let alone highly technical approaches. City business groups were themselves were advocating use of more standard approaches to valuing new construction. The Greater Boston Chamber of Commerce backed the proportional
return approach and the Greater Boston Economic Study Committee, a formula based on net income capitalization. 

(42) In the case of Prudential, the substitution made no difference since $3 million was equivalent to a 7% return and it was the rate of return that was the major negotiating point between city officials and Prudential. 

(43) Once the formula existed, business groups backed it. The price was a guarantee that all new construction could enjoy similar arrangements. Lobbying for new development was paying off. Many downtown real estate owners were beginning to believe that tax breaks for some developers in the short run could mean lower tax bills for everyone in the long run by expanding the total tax base. 

(44) Hynes was also careful to make highly publicized tax arrangements with other property owners. He agreed to tax the city's first major office building since 1928 on a percentage of gross income formula much like Prudential's. He announced a fifty percent cut in assessed valuations to major retailers in exchange for major rehabilitlitation. 

(45) Existing buildings, too, were to benefit from the city's desire for new growth.

Not all businessmen accepted the approach. About the time Prudential's deal was announced, the President of the Greater Boston Real Estate Board, Francis W. Perry issued a report highlighting "glaring inequities" among central business district properties. 

(46) It
suggested once again scandals in the assessing process. Perry had found that "aggressive" Real Estate Board board members with political connections secured lower valuations than others.

Perry had two objectives. He wanted to facilitate the lagging revaluation survey by showing Hynes that even without the inclusion of residential properties, revaluation could change business tax burdens and hence was not totally pointless. Since some businesses were underassessed compared to others, tax relief could be granted by shifts among business properties alone.

Perry also wanted to keep tax reform alive. The report asserted that requiring new construction to make pre-construction tax agreements would be "very dangerous." "It leaves the field open to whoever can make the best deal with the assessors." (47) In short, what was the difference between tax agreements and tax abatements?

Perry's worries grew once the Prudential arrangement was announced. In an angry letter to the city council, he complained that since downtown property paid five times as much taxes as would the Prudential project, "a complete bankruptcy" through high property taxes was "relatively that much more important to prevent." That a giant company like Prudential needed a tax deal was just more proof that property taxes were too high. (48) But, at first, such outspoken opposition
was rare.

For all its new political acceptability, the tax deal still raised, in the words of the Christian Science Monitor, "the nettlesome question of constitutionality:"

Legally the city and the companies are taking a calculated risk. Any one of the big property owners currently assenting to the concessions for new business or for old one might rise up and smite such arrangements in court. Or a new mayor and new assessors sometime in the future might not be able to abide by the gentlemen's assessing agreements.

The alternative to this uncertainty, the article pointed out, was legislation permitting taxation on a gross income basis. Yet, this proposal presented other difficulties:

This according to real estate specialists would open the door for chaos with every property owner or new builder given access to a system of taxation which may become grossly inequitable if given blanket application. (emphasis added) (49)

In short, whatever the Mayor's recent actions, the new policy was not going to benefit all property owners.

Hynes' announcement that he would not seek re-election fanned more uncertainty. His most likely successor was State Senate President John E. Powers, a leading advocate of the graduated income tax, a major architect of the 1957 sales tax defeat and an outspoken ally of labor. Even though Powers had recently introduced a bill permitting tax concessions for new construction, he was generally viewed as a business
threat.

The potentially disastrous mayoral race prompted yet another business organization. In the summer of 1959, several prominent businessmen including Charles E. Coolidge, an important attorney; Ralph Lowell, Chairman of the Boston Safe Deposit and Trust Company; Gerald Blakely, wunderkind of the development firm of Cabot Cabot and Forbes; and members of the Greater Boston Economic Study Committee First National Bank's Brace and John Hancock's Clark began meeting about the city's worsening condition. They decided to establish a Coordinating Committee of senior city businessmen to meet with city officials.

Its first job was the election. After interviewing Powers and his chief rival, John Collins, on the city's many problems, "We became very alarmed," said one participant. (50) Within days, the business community began raising big campaign funds for the relatively unknown but pro-development Collins. (51) In an upset, Powers was defeated. (52)

Not surprisingly, the Committee, soon nicknamed the Vault, quickly established itself in the new administration. The Committee met often with the mayor (55) and its members particularly Coolidge served in many key position, official and unofficial. Unlike Hynes, Collins proved to be efficient, thoroughly downtown and profit-oriented. As one mayoral confidant
recalled, the "prime profit-making device" used by Collins and the Vault were pre-construction tax arrangements. (54)

Collins' victory offered no real security for Prudential. One former Chamber of Commerce official recollected that Collins himself once threatened to ignore Hynes' tax deal. (55) Business opposition menaced again. At a January 1960 realtors' convention, the President of the Massachusetts Associations of Real Estate Boards, Bertram Drucker, an owner and manager of many buildings in Boston, insisted that tax concessions be stopped. Tax deals were "virtual subsidizations" by the taxpayers. Drucker was backed by other big Boston real estate owners such as Max Kargman and Alexander Reale. Lower tax rates meant lower rents and "unfair competition." (56) Dissent even surfaced in the Greater Boston Economic Study Committee when Sheraton President Ernest Henderson condemned the arrangement: "I am opposed to this form of subsidizing competition which does not get to the root of Boston's real economic problem." (57)

Prudential's Board of Directors became disturbed by rumors that "real estate people" were not only only 'restive' but "organized." As one official put it, the "rumblings" of late 1959 reached "a crescendo" by February 1960. (58) Prudential demanded a more binding arrangement from the city.

The state once again obliged. Governor Foster Furcolo handed the problem to the Attorney General,
former City Councillor (and, today a major abatement lawyer) Edward McCormack. McCormack recalled that: "The Board of Directors decided that unless the informal agreement....could be codified or in some other way made irrevocable, the project would be abandoned." (59)

The court’s earlier ruling on the Back Bay Plan presented him with a legal dilemma that matched the political one. McCormack rejected introducing legislation that based tax concessions on the project’s public, urban development benefits. After all, the Court had dismissed those benefits in the nearly identical 1954 project. He also decided not to use legislation based on the new construction assessing formulas. That approach, he argued to the legislature,

would test the validity of the assessing arrangement itself which, while felt to be fair and equitable and constitutionally reasonable and proportional was a dangerous procedure because it would not only endanger the Prudential formula but possibly impair similar arrangements throughout the city and in other parts of the state is the ruling was adverse. (60)

In short, the state’s top legal officer himself was not convinced that the city’s new tax policy was legal!

Massachusetts Turnpike Authority Chairman William Callahan, who had long promoted the project in the hopes of boosting his own turnpike through the Back Bay, offered a solution. He proposed buying the site from
Prudential, constructing an underground truck terminal and garage and leasing the airrights to the company for 80 years. Prudential would pay a $3 million rent to the city through the Authority. Thus, neither the tax arrangement nor the public benefits of the project would be scrutinized.

McCormack then wrote a bill implementing Callahan's plan. The wary legislature once again submitted it to the Supreme Judicial Court.

On May 26, the Court rejected the legislation. Acknowledging that the garage was a public purpose, the Justices wrote that the Authority was not compelled to construct it and therefore no legal basis existed for the Authority's use of eminent domain. The garage aside, the Justices went on, "Recitals in the order demonstrate that the underlying reason [for the legislation] is apprehension as to the tax status of a building project presently underway on the garage site." (61) On this issue, the Court pointed out that the project was not sufficiently different from the 1955 case to warrant a different opinion.

But the justices, two of whom had not participated in the earlier decision, seemed to have caught development fever as well. In what Business Week called "an unprecedented move," they hinted rather strongly that legislation tying the project "to some...public purpose" might well be constitutional. (62) Conditions had changed since its earlier ruling, "...now there may
be a possibility.... of...such a purpose....[The railroad] yard....lies in the path of ...growth....which perhaps should not be long deferred." (63) Other court rulings had, in fact, upheld the public purpose of urban redevelopment and special tax concessions for corporations carrying it out. The legally-sanctioned mechanism for such projects was the state's urban redevelopment law, Chapter 121A.

McCormack, Prudential's attorneys from a prominent law firm Hale and Doar, city attorneys and Turnpike Authority attorneys worked "hush-hush" for several weeks to amend the state redevelopment law. (64)

Two hurdles faced the lawyers. In its 1955 opinion, the court had not found the site blighted and thus had denied the public benefits deriving from its development. In its second ruling, the courts suggested that a broad concept of blight might apply. (65) The lawyers thus modified Chapter 121a's definition of "blighted ... area " from a physical to an economic one. For instance, "a substandard area" was defined as one "detrimental to the sound growth of the community." A "decadent area" was redefined as one unlikely to be developed "by the ordinary operations of the market." The shortage of "decent, safe and sanitary buildings" for commercial purposes as well as for habitation was included.

The second hurdle was the company's resistance to
using the law at all. Prudential favored legislation applying only to its project: "We don't want too much administration over how we operate the project." (66) But McCormack and the Hale and Doar attorney believed that only a general law would pass the legal test. To satisfy company qualms about public scrutiny, Boston's project review procedure was distinguished from all other municipalities'. Elsewhere, the State Housing Board held hearings; in Boston, the Redevelopment Authority was made the judge.

These changes satisfied the Court which, in its third ruling on the Back Bay project, upheld the modifications to Chapter 121A. With a new pro-business mayor in City Hall, that court decision quickly signalled a drastic new tax policy for new construction. Though the Prudential arrangement was legally acceptable as the implementation of a state law, it was politically acceptable only as part of new policy for all.

*Christian Science Monitor* reporter Michael Liuzzi commented on this view:

> In Boston, tax deals are considered to be above board and out in the open -- part of public policy. They have become formalized, systematized and integrated into the city's new tax assessing system for all commercial property. (67)

**Tax Reform as Tax Concession**

This new policy sealed the fate of tax reform in Boston for at least twenty years. The most consistent
and organized advocate of tax reform, business, no longer needed it. Business leaders and organizations began publicly blaming the state for Boston's tax problems and quietly taking advantage of tax concessions. Not until the tax limitation law, Proposition 2 1/2, did the city revalue and stop using informal tax agreements. (68) It still employs Chapter 121A concessions for commercial development.

Boston Mayors John Collins and Kevin White actively used both the state redevelopment law and informal tax agreements to build the "New Boston." Both mechanisms allowed developers roughly equivalent, constant and lower tax liabilities, pegged at about 20 to 23% of gross income. There was, of course, a great difference between the two concession. One was an implementation of a state law. The other was essentially the very tax arrangement rejected by the Supreme Judicial Court in the first Back Bay Development Plan in 1955. Mayors meet with prospective developers and agreed on the tax bill. That so-called letter of agreement was sent to the assessors. (69) Since the legislature has never empowered the mayor to sign such letters, their legal status is, according to the City Treasurer's Office, "questionable at best." (70)

Despite their legal risks the informal tax agreements became necessary components of the city's new tax policy. On the one side, many developers would not accept the dividend cap of the urban redevelopment law
nor public scrutiny of their projects. On the other side, the city wanted to employ Chapter 121A agreements selectively; if the law were "blatantly used" (71), its tax concessions might be found unconstitutional or be more strictly defined by the courts. Informal agreements were more flexible.

Why have such informal agreements never been legally challenged? In the first place, the city has never publicized them. Not until the 1970's, after some scandals (70) did the Boston press investigate the Chapter 121A tax concessions. Rarely has it even mentioned the informal agreements.

More importantly, those most knowledgeable are the city's top businessmen and big corporations, the major beneficiaries. Several of the institutions represented on the Vault, notably but not exclusively John Hancock, the First National Banks of Boston and Cabot, Cabot and Forbes, have used tax concessions. (72) Just like Hynes, both John Collins and his successor Kevin White extended the benefits of tax concessions to many developers, thereby increasing support for them. By July 1979, Boston mayors had signed 97 Chapter 121A agreements for commercial developments. (73) By 1977, they had signed 80 tax letters of agreement. (74) One HUD study estimated that more than three-quarters of the new office space built between 1960 and 1977 was covered by tax letters as were over one-half of the retail and
hotel space. (75)

For those not benefitting, a legal challenge would have been "time-consuming and expensive," (76) for the very reasons deterring taxpayers suits on assessing practices. As one owner of older properties correctly put it,"We'd be challenging the First National Bank of Boston. "(77) Another property owner told the Boston Globe that "No one wants to antagonize the assessors by filing suit on his own," and jeopardizing his abatement appeals. (78) In theory, all property owners could hope for a tax concession; all he or she needed was the money to build.

The lure of tax benefits was very real indeed. HUD reported that buildings under tax agreements enjoyed assessment ratios of 17.5% and effective tax rates of 4.4% compared to a city-wide rates of 31% and 8%. (79) New commercial buildings were especially favored over old ones: they paid roughly 20 to 23% of their gross income in property taxes while older ones pay between 30 and 45% (80)

The benefits to the city were less clear, at least once economic revival heated up. The city's tax concession policy remained, as it began, a negotiating process between a city defensive about its tax rate and developers with projects to sell. Nearly every study has charged that Chapter 121A agreements were poorly monitored at least until 1978. (81) In 1977 when the City Treasurer launched an investigation of
121A agreements, he found the city did not have copies of all the 121A contracts it had signed! (82)

Only one attempt to calculate the economic impacts of tax concessions has even been released. This HUD study was was highly critical:

...the city has not been able to capitalize fully on the extraordinary level of downtown commercial growth; if the new office buildings built under Tax Letters of Agreement and worth about $600 million were taxed under assessing standards applicable to older properties, they would generate about $45 million in tax revenue as compared with a tax revenue of $23.5 million. (83)

It emphasized that tax concessions no only lowered tax bills but insulated property owners from tax increases. Over time, the tax burden was shifted onto residential properties. Despite the commercial and building boom, the central business ward's share of city tax collections continued to decline from 31.5% in 1950 to a low of 23% in 1970 before rising to about 26% in 1976. (84) That result was hardly planned by business but in the end, they managed to obtain, indeed, to create tax reform for themselves, if not for the City of Boston.
Footnotes:


6. There were four "reformed" city councils elected in the 1950's. On each, there were always at least two and sometimes as many as four members from West Roxbury; Brighton typically had one and sometimes two; South Boston, always two; Dorchester one and sometimes two.


15. Headed by Paul H. Clark, the Chairman of John Hancock, the GBESC included Joseph A. Erickson, President of the Federal Reserve Bank of Boston; Lloyd Brace, President of the First National Bank of Boston; Ernest Henderson, Chairman of the (Boston-based)
Sheraton Corporation; Reverend Seavey Joyce, Dean of the B.C. College of Business Administration; Charles F. Adams, Chairman of Raytheon; Raymond H. Blanchard, President of Hood Rubber; Thomas F. Dignan, President of Boston Edison; Carl Gilbert, President of (Boston-based) Gillette; Harold D. Hodgkinson, President of Filene's; Sidney Rabb, Chairman of Stoo & Shop, Inc; Philip Theopold, Senior Partner in Minot, DeBlois and Madison, a major real estate firm; Samuel Wakeman, manager of the Bethlehem Steel Fore River Shipyard; and Erskine White, President of New England Telephone.


20. Ibid.


22. Ibid.


24. Ibid., October 11, 1954.


26. Ibid.


28. Oliver Park, The Realtor, October 1959, p. 6. According to Park, the survey relied primarily on the capitalization method of appraisal, which though more complex than standard methods of cost replacement or sales resulted in more reliable valuations. A second reason for choosing this approach was the Appellate Tax Board's Reliance on it.


32. Ibid., July 26, 1956.

34. Interview with Francis W. Perry.


37. Park, op. cit., p. 7.


40. Ibid.

41. Ragonetti, op. cit., and Jacobs, op. cit.


43. Park, op. cit., p. 52.


46. Interview with Francis W. Perry.

47. Ibid.


51. Ibid.

52. According to the source cited in Ibid, the Vault itself intervened to help Collins more directly by staging a Treasury Department raid on an illegal bookie joint and tying it to Powers.

53. Ibid.


55. Interview with Thomas Mosher,


59. Massachusetts General Court, Senate 634, June 1960, p. 2.

60. Ibid.


62. Ibid.

63. Ibid.

64. Interview with Harold Vaughn.

65. Ibid.


68. Proposition 2 1/2 limits a municipality's property tax levy to 2.5% of the full and fair cash value of property within its borders. Since the levy is directly dependent on the tax base, Boston had a real incentive to limit its tax deals to keep its tax base high.

69. McCollum, op. cit.

70. Ragonetti, op. cit., p. 41.

71. Ibid., p. 57.

72. In 1977, 121A agreements were temporarily suspended.


75. Ibid., p. 15.

77. Perry interview.


80. Ibid., p. 17.

81. Ragonetti, op. cit.

82. Ibid.

83. Second Project Monitor, op. cit., p. 31.

84. Ibid., p. 16.
Chapter 5: Closing the Budget Gap: The Rise and Fall of Revenue Reform

Today, a decade after its near default, New York still symbolizes the urban fiscal crisis. "A city turned wastrel," declared one recent study of city finances. (1) In 1945, New York's image was sharply different. Backed by a revenue structure of sales, business and property taxes, New York had escaped the heavy short-term borrowing so common in other big cities during the depression. While, as elsewhere, property tax valuations and collections fell in the 1930's and 1940's, non-property tax revenues grew. National fiscal experts applauded the city's tax structure and other states eyed the New York City model as a way to lessen local dependence on the property tax. (2)

The city's apparent fiscal health was fortified by widespread confidence in its economic future. Alone of all big cities, New York's economy triggered an office boom after the war, a boom that lasted well into the 1960's. At least among economists and planners, New York was viewed as the "prototype of the mature urban economy." (3)

This reputation hid a more difficult reality. Almost as soon as the war ended, the city faced a revenue shortfall. Despite its broad taxing powers, closing the revenue gap proved difficult. In part, confidence in the city's economic strength fostered confidence in its long-run fiscal health, whatever the
present difficulties. In part, competition among the city's many political groups complicated budget policy-making. But the city's famed political "openness" (4) was not the determining factor. Powerful groups benefitted from the revenue status quo and managed to prevent major changes. In contrast to Boston, no group every backed tax reform.

The New York City Model

On the surface, the city's tax structure looked simple. Its authority to levy real estate taxes was more restricted than the state's other cities. Its authority to levy non-property taxes was less restricted. This simplicity obscured another aspect of the city's tax structure: it had been imposed upon the city. City administrations had shared little in the design of their own tax structure. Whatever its appeal to policy experts and Tammany critics, New York City's revenue structure was hardly a carefully devised response to city financial needs.

Strictly speaking, it was New York City's status as the state's only single-purpose government that accounted for its property tax restrictions. The state constitution limited the property tax levy of cities with populations greater than 125,000 persons to 2% of the 5 year average of assessed valuations. (In November 1951, the basis of calculating the limit was changed to 2% of the city's full valuation as determined by the
state. The limitation did not include payments for debt service. Counties were permitted additional levies of not more than 1.5% of assessed valuation and school districts, up to 2%. Only New York City, which encompassed 5 counties, did not enjoy the supplementary taxing power.

The city's power to incur debt was limited to 10% of the 5 year average of its assessed valuations. (This limit was changed in November 1949 to 10% of full valuation.) While other cities were equally restricted, overlapping counties and school districts gave them much higher limits. The other four cities with populations greater than 125,000 persons possessed effective borrowing limits of 16% and those with populations less than 125,000 persons, of at least 19%. (5)

A product of decades, these restrictions were rooted as much in political as fiscal considerations. The state legislature had long been malapportioned to maintain Republican state control in the face of New York City's growing population and Democratic political strength. As late as 1944, a legislative redistricting benefitted suburban and even rural areas, which had been losing population since the 1920's, at the expense of New York City. (6) Tax limitations were not merely designed to protect city taxpayers from high-spending Democratic politicians. They also reflected the state's interest in the city's tax base. New York City contained more than 60% of the state's assessed valuations and
paid 68% of its income tax collections and 64% of its business tax collections. Attempts by city fathers to meet city fiscal needs could, if left unregulated, imperil the state's own tax resources. (7)

While the legislature had long been shaping the city's property taxing power, a crisis brought about its non-property taxing power. In that crisis, a key group of New York City businessmen, its biggest bankers, assumed critical control over city finances. In 1933, the city nearly went bankrupt. To avert default, the Mayor of New York, John O'Brien, signed a agreement with the city's biggest banks. In exchange for a line of credit, the city agreed not to borrow for relief, not to raise its property tax levy for 4 years and to earmark tax collections for short-term debt repayment. A committee of banks including representatives of Bankers Trust, Chase National, Guaranty Trust, National City and J.P. Morgan and Co. was established to supervise city finances. (8)

With property taxes constrained and borrowing forbidden, the city's escalating relief and welfare needs necessitated new taxes. In June 1934, Mayor Fiorello LaGuardia realized that the city might require $100 million, almost one-fifth of the budget, to finance relief for the next six months alone. When the legislature permitted the city to levy any tax legal for the state itself, LaGuardia proposed an income tax, a
gross receipts tax on business and a utilities tax. Banks were specifically excluded from the business tax: the mayor needed bank loans in anticipation of relief taxes.

That exclusion was not enough. The banks had their own tax program. Chase National Bank Chairman Winthrop Aldrich urged payroll and sales taxes, believing consumption taxes to be good revenue producers even in a depression. The banks loaned $4 million in anticipation of business tax collections but refused a loan against the income tax. (9) They were hoping to force LaGuardia into a sales tax. (10)

They did. When relief funds ran out, LaGuardia abandoned the income tax for two, more regressive, consumption taxes on sales and utilities.

The city's business tax structure also carried the burden of its origins. National banks were excluded along with state banks, trust companies, mutual savings banks, and savings and loan associations. (11) In addition to this strange set of exemptions, the business tax bore no relation to ability-to-pay. Companies paid city business taxes even when they operated at a loss. Since it was not related to profits, the tax burdened high profit companies less tax than low profit companies. In the midst of the economic downturn, city business organizations bitterly protested this tax.

Such protests were brief. As the bankers had calculated, even in a depression, these new taxes were
were good revenue producers. As the table below indicates, the city's non-property tax revenues permitted property taxes to drop. In 1942, the revenues were so high that both sales and business tax rates were halved.

**New York City Revenues, Major Taxes**  
(millions of dollars)  

<table>
<thead>
<tr>
<th></th>
<th>Real Estate</th>
<th>Sales</th>
<th>Business</th>
</tr>
</thead>
<tbody>
<tr>
<td>1934</td>
<td>497</td>
<td></td>
<td>3.2</td>
</tr>
<tr>
<td>1938</td>
<td>483</td>
<td>47.4</td>
<td>10.1</td>
</tr>
<tr>
<td>1942</td>
<td>468</td>
<td>52.1</td>
<td>8.7</td>
</tr>
<tr>
<td>1946</td>
<td>446</td>
<td>46.5</td>
<td>13.6</td>
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</tbody>
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The city looked financially strong in part because falling expenditures lessened revenue needs. City tax collections could drop by $34 million from 1938 to 1946 because total expenditures fell by $100 million during the war. (In constant dollars they declined by nearly 25%.) Once expenditures started their climb upward, so would revenue needs. Then, the city tax structure looked much less satisfactory. The complex city tax structure itself added to the difficulties of tax reform.

**The End of Political Reform: Tammany Hall Returns**

Political changes made tax change more difficult. The postwar political reform movements common in other big cities did not happen in New York. There, a reform administration ended and the old machine, or at least its remnants, came back into power. Instead of a
movement for political change, city political groups became more divided in their struggle for power.

Twentieth century New York City had nurtured a multitude of political organizations. From 1920 to 1959, over 50 political groups appeared on New York City ballots. (14) Voting turnout averaged from 80 to 90% of registered voters, about twice the Boston percentage. (15)

Renewed competition was sparked by LaGuardia's announcement that he would not seek reelection in 1945. As the New Republic put it, a "mad scramble" broke out. (16) LaGuardia's own "motley coalition....Republicans, New Deal Democrats, independents, communists" split into "a dozen, quarreling little sects." (17) In the next decade, some LaGuardia's backers especially left organizations and upper-middle class reform groups like the City Club and the Citizens Union, declined in influence. Others notably labor unions and reform Democrats gained power.

But even powerful groups were hardly united. Labor is an outstanding example. In the 1950's, the CIO and the AFL together claimed 1.5 million members, making unions potentially the biggest power base in the city. (18) Politically, labor was very divided. The AFL traditionally sided with the Democrats, opposing LaGuardia, the otherwise labor candidate, in 1937 and 1941. The Central Trades and Labor Council with its strong bloc of teamsters, longshoremen and building trades sometimes endorsed Republicans. Some CIO leaders
joined the garment unions to found the American Labor Party, LaGuardia's base of labor support.
Later they formed the Liberal party to thwart Communist influence in the ALP. Even the barely budding public employee associations divided into warring camps. (19)

The Democratic Party was another divided stronghold. While claiming two-thirds of the registered voters, the party had been split along borough lines since at least the 1920s. The Bronx organization, under FDR ally Edward J. Flynn was, in fact, more powerful than Tammany, the Manhattan organization. With his death in 1953, Tammany staged a comeback.

The comeback was only partial. The prospects of power after 12 years of LaGuardia added to intraparty feuding. The rise of a new reform movement intensified tensions. Unlike past reform efforts, this one concentrated on changing the party from within by running against machine candidates in district and assembly elections. The reformers never displaced the machine completely. Instead, they split the party even more.

The party machine was weakened further when charges of corruption and scandal forced Democratic Mayor William O'Dwyer to resign just after his second term began in 1950. In a stunning upset, City Council President and Acting Mayor Vincent Impellitteri won the next election over the Democratic-Liberal candidate. It was the first time in city history that a candidate had
triumphed without the support of any major party.

Improving Republican fortunes added to political rivalries. In the 1930's and 1940's, winning only one-quarter of the city votes in state elections, the GOP nevertheless captured at least one and sometimes two of the five borough presidencies. The fast-growing, middle-class, home-owning districts of Queens and Richmond looked like fertile GOP territory.

Given its control in Albany, the Republican minority often enjoyed more clout over policy than its share of the voters would suggest. While typically only one-third of the Republican legislative seats were elected from New York City (20), New York City money -- especially Wall Street money -- had long been the party's lifeblood. (21)

The city GOP did not enjoy the same close ties to business. While New York City business consistently allied with the Republicans in the state house, its links to the city Republican organization were more tenuous undoubtedly because the Republicans were much less likely to control city hall. Most often, the city's business organizations did not endorse candidates but lobbied for specific policies, including tax policies. Three city business organizations dominated these efforts: the New York Chamber of Commerce, the Commerce and Industry Association and the Citizens Budget Commission. (22)
As the "mad scramble" of 1945 continued, the return of Tammany Hall looked more and more certain. (23) One issue especially worried him. LaGuardia had left the city in "good financial shape." What would happen with Tammany back in power?

O'Dwyer's first budget seemed to promise Tammany Hall financial policy as usual. And, it showed that big new taxes could provoke bitter controversy especially among businesses groups.

The end of thirteen years of depression and war let loose demands for more services and projects. Robert Caro recounts,

If O'Dwyer was not to be branded as the mayor during whose administration New York City went bankrupt, new taxes were needed — and they were needed fast....

The situation....staggered O'Dwyer, who had limited administrative experience, none in dealing with citywide problems and with Albany. (24)

To finance his budget increase, O'Dwyer and his top financial advisor Robert Moses proposed $53 million in new taxes. With labor attacking his sales tax rise, liberal groups calling for more state aid and business organizations attacking his "monstrous taxing spree" (25), the mayor found his only support in the financial community.

The reasons for this endorsement lay in the bankers special relationship with the city. Unlike other
city businesses, many New York banks were buyers, sellers and owners of New York city debt. In a memo to O'Dwyer, Nelson A. Rockefeller, Chairman of the Executive Committee of the Mayor's Business Advisory Committee, warned of a "serious deficit" "growing out of essential expenditures ... without adequate sources of revenue." (26)

Another group of financial advisors, including a vice-president of Chase National Bank and two officials of the Wall Street firm Dun and Bradstreet, agreed. Real estate valuations and hence tax collections would lag behind expenditure pressures.

For the present at least, other sources of income must be found or adjustments made if revenues are to equal the higher costs of providing the services. (27)

"Unbalanced budgets" would undermine investor confidence and the city's credit. Given the city's huge share of outstanding municipal debt, a fall in its credit standing could damage the entire municipal bond market. In fact, the bankers went on, the city needed expanded taxing powers preferably a payroll tax on employees and a betting tax. (28)

The financial community's acceptance of higher taxes stems not only from their worries over city credit. Commercial banks like Chase did not pay the very business taxes O'Dwyer proposed to raise. A payroll tax would have burdened banks and financial businesses much
lesds than the highly competitive, labor intensive, unionized manufacturing sectors. (29) With the firm backing of Wall Street, the Republican in Albany quickly gave the Tammany mayor the tax program he had requested.

The Rise and Fall of Transit Reform

But it was transit, not taxes, which first posed the difficulties of major revenue changes. Whatever their squabbling over tax increases, business groups at first agreed on the need for transit reform.

Two controversies surrounded the city's purchase of the subway system in 1940 and business groups intended to solve both. Some critics argued the fare was too low. The subway purchase itself added greatly to the city's debt burden and debt costs. (30) Transit debt service rose from $31.5 million in 1940 before the purchase to almost $58 million in 1944. (31) Running the system proved more costly than expected further inflating annual costs. From 1942 to 1946, operating costs climbed from $97.5 million to $123 million. In 1946, the system's net operating revenue was just $4.3 million, well below the 1942 total of $21 million. The city's contribution to transit rose by nearly 50%. (32)

Second, the method of financing the subway purchase added to problems. Because the city had approached its debt limit in the 1930's, initially the purchase negotiations had provided for an independent transit authority to issue bonds financing the acquisition. That plan had wide support both as a
financing and as a management strategy. Political manuvering
snarled this arrangement. When the Democratic
legislature mandated a city referendum on any fare
change, transit security holders and their bankers,
several of whom made up the 1938 constitutional
convention committee reviewing the issue, insisted that
city debt be issued instead. They argued that city
bonds, backed by the city's unlimited property taxing
power, offered a more secure investment than the bonds
of a new authority supported only by the uncertain
revenue flow of voter-approved transit fares. (33) Thus,
the city assumed responsibility for all debt.

Business groups were especially opposed to the
transit purchase package. In April 1940, two months
before the city actually took title to the system, the
Citizens Budget Commission urged a 7 cent fare. As a
representative of the some of the city's biggest
property owners, the CBC worried that real estate would
shoulder an increasing transit burden. The Commerce and
Industry Association endorsed a fare rise in 1944.

Others urged a more drastic solution. In February
1944, about 50 of the city's most prominent businessmen
including the President of the giant Bowery Savings
Bank, the Chairman of Metropolitan Life and real estate
man Peter Grimm, organized the Citizens Transit
Committee. (34) It sponsored unsuccessful legislation
for an independent transit authority with a self-
supporting fare. Whatever the position of the banks, some businessmen still wanted an independent transit authority to end real estate support of all transit costs, debt service or otherwise.

Business gained allies as O'Dwyer hiked the budget by $100 million in 1946, 1947 and 1948. The mounting transit deficit became an obvious target to avoid more taxes. The city's contribution to the system climbed from $48 million to $82 million from 1946 to 1946. (35) In a confidential letter, the executive vice-president of the Commerce and Industry Association warned O'Dwyer that "the business community" believed only a fare increase could "relieve the city's financial position." (36)

Despite the mayor's apparent indifference, business had a powerful ally in Robert Moses. Moses had his own reasons for higher transit fare. Under the state constitution, if transit could be made self-supporting, $425 million in transit debt would be exempt from the city debt limit and available for Moses building schemes. Moses believed that by raising taxes and threatening to terminate popular public works projects, he could trigger public support for a fare rise. (37)

As their opponents organized, five cent fare advocates dwindled. LaGuardia's retirement cost the five cent fare a powerful ally. One by one, prominent supporters switched: the New York Times abandoned the
five cent fare as did the League of Women Voters, the City Club and the Liberal Party.

Most importantly, the Democratic party gave up on the fare. Moses strategy had worked. In July 1947, the Mayor's transit study committee urged an 8 cent fare, a recommendation supported by the city's most powerful politician, Bronx Boss Ed Flynn. Despite the party's official commitment to a five cent fare, many Democratic politicians now believed that higher taxes were less popular than costlier subway rides. (38)

The Democratic conversion rested also on a shift in labor's position. City employees had come to realize that an escalating transit deficit could menace their future wages. In April 1946, the Federation of State, County and Municipal Employees urged a self-sustaining fare. Competing with the CIO to unionize city employees, the AFL Central Trades and Labor Council was the first major union organization to back a fare hike. (39)

In 1948, after the legislature rebuked his state aid request, O'Dwyer doubled the fare.

This success at transit reform did not result in further budget victories for business organization. In fact, business unity on transit proved short-lived. Raising the subway fare did not solve city transit problems. In the first year of the higher fare, passenger revenues rose 58% but falling ridership, in part due to the fare rise, caused them to decline after that. Operating expenses climbed as salaries rose by
almost forty percent from 1948 to 1950. An operating surplus of $13 million in 1949 became a $1 million deficit in 1950 and a $3 million deficit in 1951. By 1952, the city contribution to transit amounted to $70 million, one-half the projected 1952 budget gap. (40)

As problems mounted, cracks appeared in the city coalition. Much as they had done in the 1930's, business groups split. Real estate groups demanded an end to all real estate contribution for transit. Yet, when prominent businessmen revived their call for an independent transit authority in 1950, Moses, in a switch, opposed them. Persuaded, as he put it, by "leading bankers and investment bankers," he argued that an authority was "impractical." Without the power to set a fare high enough to cover costs, the authority's bonds would not be marketable. Since he put the fare at 17.5 cents, Moses argued the legislature would never concede such power. This, of course, had been the argument against a transit authority in 1938. Moses also rejected Governor Thomas E. Dewey's plan to have the Triborough Bridge and Tunnel Authority assume operation of the transit system. (42) Real estate's most powerful ally had gone over to the bankers.

Business conflict continued when, in 1953 Mayor Impellitteri proposed his own financing scheme. Under his plan transit fares would pay 60% of all costs; a new business income tax, 20%; and real estate, 20% or all
debt service whichever was higher. The Citizens Budget Commission and the Real Estate Board of New York quickly endorsed the proposed. (In 1953, the business income tax might have saved real estate taxpayers as much as $64 million.) The financial community warned once again that it could not market the bonds of an authority dependent on a special tax for a major share of its revenues. (43)

As business groups argued, many civic and labor groups now opposed a higher fare or a transit authority which promised one. Even Republicans believed a higher fare could spell "political devestation." Political negotiations were unsettled by conflicting estimates of an adequate fare. (44) In 1952, the legislature declined to vote on the fare issue and authorized the city to borrow money to pay off transit deficits instead.

As the projected 1953 revenue shortfall approached $125 million and the transit deficit, $43 million, further procrastination looked impossible. Over the objections of almost all city groups but with the solid backing of his firm ally, Wall Street, Governor Dewey simply forced a transit authority on the city. He denied the city any new taxing power as long as it contributed to transit operating deficits. In a distinct blow to real estate groups, he maintained the city's repsonbility for debt payments.

By 1953, unity over city financial policies had collapsed. The transit battle revealed that the city revenue structure could provoke bitter battles in which
the state GOP could wield considerable authority.
Transit finance had been "reformed" but over the
objections of every group except the financial
community. (45)

Cementing a Spending Coalition

Disagreement over taxes did not hinge upon or
promote disagreement over new spending. In 1953, Robert
Wagner Jr. was elected Mayor. Wagner was a liberal
Democrat and, at least initially, a loyal Tammany man
who had supported party financial policies while Borough
President of Manhattan. From the start, Wagner saw new
programs as the way to maintain the support of major
city political groups, who often feuded.

More significant than Wagner's machine ties were
his close alliances with the city's many labor groups,
both private and public. In 1953, Wagner's election was
far from certain. In that first election, Wagner was as
much the candidate of TWU president Mike Quill and
Liberal Party and Hatters Union chief Alex Rose as he
was of Tammany boss Carmine de Sapio. Nine years later,
in his most difficult campaign, Wagner had lost the
backing of the Democratic party but still had solid
labor support. As ILGWU President David Dubinsky
recalled, "the unions picked Robert Wagner up off the
floor and helped him to rout the machine." (46)

Wagner consistently promoted the city employee
movement. For example, in return for Mike Quill's strong
support in 1953, Wagner granted his union exclusive bargaining rights in the transit system. \(47\) Wagner also issued an interim affirming city workers' rights to organize. In 1955, he requested that dues check-off be allowed and in 1958 he issued an executive order imposing collective bargaining.

These policies facilitated union organizing efforts, higher wages and pensions and thus bigger city budgets. While public employee union membership totals are not available for Wagner's three terms, one study asserts that after 1958, it rose "dramatically."\(48\)

Membership in the American Federation of State, County and Municipal Employees (AFSCME) climbed from 500 members to 18,000 from 1952 to 1959. \(49\)

The increase in the city work force and its personnel budget are quite apparent. In FY 1954-1955, Wagner's first budget year, the city work force totalled 176,000. In FY 1965-1966, his last, it stood at 270,000. Personal service expenditures climbed from $765 million to almost $2 billion. \(50\) Salaries increased. Patrolmen and firefighters, for example, won pay increases of about 17\% in Wagner's first term; 14\% in his second; and 32\% in his third. \(51\)

Another source of Wagner support, reform Democrats, also added to spending pressures. Often allied with the city's traditional good government groups, reformers echoed their concerns with inadequate city services and underprivileged residents.
"Economy" was less frequently mentioned. An outstanding instance of this neglect is the 1952 report of the Committee on Management Survey, the first major study of city finances since the 1920s. The Committee's thirty-one members represented a broad array of civic groups. Only one, the Citizens Union, joined business organizations in their call for management economies to reduce city fiscal problems. (52)

Wagner himself had little commitment to the possibilities of budget reduction. According to top aide Warren Moscow, the mayor doubted the possibility of $75 million in budget cuts as proposed by the Management Survey Committee's efficiency experts. As Moscow put it, "...what might be saved in one area would always be needed in another." (53)

To show his independence of the allegedly free-spending machine, Wagner could not, however, appear to ignore the plan. Moscow recollected the new mayor feared that "newspaper editorial writers would hang the report around the neck of a new city administration." By appointing the Committee's top management consultant Luther Gulick as his new City Administrator, Wagner held out the hope of economy.

.....letting Gulick carry the ball for efficiency would be a definite plus, no matter what the final fiscal results, for if he could not save that amount it would be proved that no one could, and if he managed the miracle, the administration
would get the credit. (54)

City business organizations were not consistent economy advocates, either. Many of these involved public investments to support what the President of the Real Estate Board called "a splurge of office construction" that was the greatest in the city's history. This new construction, he stressed, was "....due to the fact that New York City has solidified its domination as the business management center of the country." (55)

Business groups were not solid economy advocates. They were strong supporters of Moses' many construction projects and even strong supporters of projects, like transit rehabilitation, in which the Construction Coordinator had little interest. Robert Fitch has analyzed how the city's financial and business elite created the Regional Plan Association in the 1920's. The RPA's mission was the coordination of private and public development in order to centralize the metropolitan economy's financial and headquarters functions in Manhattan. (56) In the mid-1950's, after twenty years in the doldrums, the Association was revived, largely by Manhattan commercial banks. (57) Once again, the bankers wanted to concentrate primary commercial functions in midtown and lower Manhattan.

A striking example of business-sponsored redevelopment activity is David Rockefeller's Downtown Lower Manhattan Association, first established as a
committee of the Chamber of Commerce in 1954. A creation of the Rockefellers, the DLMA was a big advocate of public spending. As such, it demonstrates how big New York City business promoted public expenditures to support private development. While mid-town was flourishing in the postwar office boom, lower Manhattan saw the migration of many banks, insurance companies and law firms. A big owner of real estate in Wall Street, Chase began construction of its own new office building and helped finance others. (58) By 1963, over $500 million in private investment had been spent. To support another $500 million the DLMA called for over $1 billion in public money. (59)

Moscow himself dated the death of substantial budget cuts to the early Wagner years:

.....the responsible proponents of economy gave up the ghost. They stopped even thinking about ways to cut costs.... (60)

Despite Wagner's skepticism, City Manager Gulick actually implemented many management changes. Yet, Moscow recalled, the savings "never became visible...the new practices cost money and any savings from them were gobbled up by increased spending concepts." (61)

Wagner's last mayoral campaign, in 1961, demonstrates how this early unconcern over budget reductions persisted.

In this campaign, Wagner was not the Democratic organization candidate but challenged him, State
Controller Arthur Levitt, in the primary. While the press from the liberal Nation to Hearst's Journal-American attacked the mayor's links to "the labor bosses," Wagner also enjoyed strong business backing ever. His finance chairman was prominent realtor and CBC Chairman Robert Dowling and his campaign manager was a prominent lawyer, Simon Rifkind. He raised over $1 million, a record.

In fact, businessmen were active participants in the campaign. Both Wagner's Democratic and Republican opponents lured strong business backing. As Controller, Levitt was supported by many normally Republican businessmen and bankers. As a Republican, Lefkowitz was "given probably the biggest bundle ever thrown into a GOP mayoralty campaign..." including a $300,000 donation from Governor Rockefeller himself. The campaign chest for all three candidates topped $3 million.

Despite lavish business support, despite the fact that Levitt was undeniably the state's expert on city finances and despite agreement that "fiscal integrity" was the top campaign issue, spending cuts were carefully avoided. In fact, after Wagner defeated Levitt in the primary, he and Lefkowitz ran on tax-cutting platforms. The mayor was re-elected with his biggest victory ever.

Many scholars date the rise of big budgets to Wagner's third term. The following table shows why.
Annual percentage increases in spending were fairly constant in Wagner’s first two terms, averaging 7.2% from 1954 through 1957 and 7% from 1958 through 1961. In his last term, that increase jumped to 9.6%. (69)

**New York City Expense Budget Increases**

<table>
<thead>
<tr>
<th>FY</th>
<th>% Increase</th>
<th>$Increase (millions)</th>
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<tr>
<td>54</td>
<td>7.3</td>
<td>110</td>
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<tr>
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<tr>
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<td>7.2</td>
<td>243</td>
</tr>
<tr>
<td>65</td>
<td>12.9</td>
<td>309</td>
</tr>
</tbody>
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But, the table also reveals that stable percentage increases still meant growing dollar increases. Wagner’s lowest budget rise was, after all, still a $72 million dollar increase. From his very first budget, Wagner had to find tens of millions of dollars in new revenues every year. Could the city develop a revenue structure adequate to its spending policies?
Footnotes:


9. See the coverage in the *New York Times* during the summer and fall of 1934.

10. As A.A. Berle, then New York City Chamberlain, wrote to President Franklin D. Roosevelt, "The banks have virtually stated that as a condition of any relief credits they want a sales tax..." A.A. Berle to Franklin D. Roosevelt, October 23, 1934, FDR Personal Papers File, 1306, Hyde Park, New York.
11. This exemption of national banks was publicly justified by noting that federal law forbid taxation of national banks on a gross receipts basis. Yet, since the bankers were dictating city revenue policy at the time, it is more likely that they came up with the gross receipts alternative to prevent themselves from being taxed. There were, in the 1930's other means to tax business at the local level.

12.


17. Ibid.

18. Ibid.


21. Thomas E. Dewey's rise to Republican dominance illustrates the alliance of upstate rural votes and Wall Street dollars. Dewey's initial support was upstate. Yet, even before his victory as governor, several prominent New York City bankers, including Rockefeller in-law and chairman of the Rockefeller-controlled Chase National Bank had become, in Warren Moscow's world Dewey's "financial angels." The Rockefellers became major contributors to Dewey and to the Republican state Committee. When Dewey quit politics in 1954, he became a partner in a law firm whose major client was Chase.


22. The original Board of Directors included a vice-president of the Guaranty Trust, several directors of the Chase National Bankk and Rockefeller publicist Ivy Lee.
23. Spivack, op. cit.


28. Ibid.


30. Although $315 million of the purchase price was exempted from the city debt limit, it still added to annual debt service costs and hence to annual appropriations for transit.

Several factors contributed to this debt cost. First, the city paid a high price for the companies' share. One Transit Commissioner alleged the companies were worth $270 million, not the $327 million paid. (34) The five cent fare also added to debt costs; a higher fare would have retired debt more quickly.

*Brooklyn Eagle*, April 30, 1938. The city paid 82.5, 82.5 and 95 for three majority blocks of securities that were quoted on the market at 51.25, 28.25 and 27 before the settlement was announced and 67.5, 45 and 34 after it was announced, Moody's, 1939, p. 1978; *New York Times*, December 21, 1937; December 31, 1938.

31. The Financial Problem... p. 322.

32. Ibid.

33. The initial proposal for a debt exemption came from the subcommittee of the 1938 Constitutional Convocation one of whose eight members was Chase Chairman Winthrop W. Aldrich.

In addition to the debt exemption, the the subway bonds were non-callable and at relatively high interest rates.

35. The Financial Problem...


37. For Moses role, see Caro, op. cit.


40. The Financial Problem..., pp. 322 and 326-327.


45. The city made no major contribution to transit until 1966 so the authority was a success as a financial device. Dewey completely ignored the advice of the Committee on Management Survey to set up a zone-fare system.


49. Ibid.

50. "New York City Finances: A Ten Year Review," New


52. See the Committee on Management Survey, Modern Management for the City of New York.

53. Moscow, The Last of the Big-time Bosses, pp. 137.

54. Ibid., p. 117.


60. Moscow, The Last of the Big-time Bosses, pp. 217-

61. Ibid.


64. Egan, op. cit., December 12, 1961.


Chapter Six: Closing the Budget Gap: Who Should Bear the Burden?

As Wagner took office, it was clear that Dewey's transit authority was not the antidote for city financial ills. More taxes seemed inescapable. Indeed, as part of the transit settlement, the Republicans added to city taxing powers by approving a rise in the constitutional tax limit and authorizing a 0.5% city payroll tax. Predictions of budget gaps soon became a recurring theme of city politics. Closing budget gaps met solid opposition.

Listening to the Experts: Huge Budget Gaps and Big New Taxes

Study commissions of financial experts and the politically connected were frequent occurrences in New York City history. O'Dwyer, albeit unwittingly, initiated the postwar tax reform effort with a commission of his own. Hoping to justify higher state financial assistance (1) in 1950 he established the Committee on Management Survey. The Committee's several reports are interesting. The most comprehensive analysis of city budgetary policies since the 1920's, they delineate in formidable detail the city's financial problems. As importantly, disagreements between Committee members, representatives of a broad spectrum of city groups and committee staff, economists who had analyzed city finances for decades, over solutions to city revenue problems illustrated a major barrier to tax reform. Any tax adequate to solve the city's revenue
problem faced formidable opposition. (2)

With its present revenue structure, the Committee concluded, the city confronted a growing revenue-gap and

....the inescapable task of raising substantial amounts of new revenue, unless indeed increased efficiency can save considerable sums of money. (3)

Under the most opportune economic assumptions of high employment and low inflation, the city's budget gap would reach $165 million within the year and fall to $93 million in 1956. Under inflationary conditions, the gap would rise to $306 million in 1956. (4)

The Committee emphasized that this budget gap was not due "to an excessively high standard of municipal living." In constant dollars, per capita expenditures had remained stable since 1938. New York City's costs were in line with those of other cities. While poor management contributed to budget problems, the Committee mostly blamed factors beyond city control: inflation, population growth and the public's demand for more and better services. (5)

Since these pressures were only partially controllable, the city needed revenue policies able to cope. The Committee staff rejected the conventional Tammany approach; major increases in state aid. The state, it argued, did not discriminate against the city. While New York paid about 60% of all state taxes and received only 49% of all state grants, its tax effort
was in fact less than many rural communities. At the same time, since the city paid more in state taxes than it received in state aid, it would gain more revenues by depending on its own tax structure rather than depending on state aid financed by state taxes. (6)

Instead, the city should overhaul its own taxes. As a first step, the staff recommended an increase in real estate taxes in part because of the "extraordinary reduction in the real burden of property taxes." (7) The staff recommended higher assessment ratios, an increase in the constitutional tax limit from 2 to 3% or even its abolition. That step, plus minor increases in other taxes and fees, would probably end future budget deficits.

In case deficits proved higher, the staff urged future consideration of a city income tax. An income tax would prove a lucrative revenue source responsive to inflation. A flat tax could yield as much as $120 to $256 million depending on the rate; a progressive one would burden low-income groups less. The tax also offered a rare opportunity to directly tax commuters who would pay about 10% of the collections.

The Management Survey Committee objected. It unanimously opposed any increase in real estate taxes. Since real estate was "no longer a rapidly growing segment of the ...economy," greater reliance on it was a poor revenue strategy. As an indirect tax on tenants in
the case of residential property and consumers in the case of commercial property, the real estate tax also had low "voter-sensitivity." (8) It was easy for politicians to raise the tax. The city should utilize an entirely new revenue source and adopt an income tax.

Despite its economic reasoning, the Committee's recommendation was a political statement. Maintaining the constitutional tax limit was one issue on which city groups agreed. The limit was especially important to business properties which, as in Boston, were hit with higher assessments than residential properties. (9) City real estate investments had long attracted some of New York's biggest fortunes.

At the war's end, for example, the city's most valuable property was Rockefeller Center, also the biggest Rockefeller family real estate investment. (10) Other major corporate city real estate owners included huge utilities like New York Telephone, Consolidated Edison and the New York Central Railroad; insurance giants like Prudential, Metropolitan Life and Equitable; and the city's savings banks. (11) In the next twenty years about 200 new office buildings were constructed in Manhattan. Their owners included the city's major banks and insurance companies and many of the country's largest corporations. (12) A powerful and growing bloc of corporations wanted to keep property taxes low. Their most articulate spokesman was the Citizens Budget Commission.
This resistance to a higher real estate tax limit was not confined to business. City politicians demonstrate a marked sensitivity to a rise in the tax limit as opposed to other tax increases. While each postwar mayor proposed increases in the constitutional tax limit, each was blocked by New York City legislators in Albany. It was the one tax issue which mayors always lost. The only increase in the constitutional tax limit was imposed by Dewey as part of the transit settlement. (13) Reliance on real estate taxes thus dropped from 87% to 65% of city tax revenues from FY1945 to FY1965. (14)

The dilemma over a major new tax source continued in the next years. Two years after the Committee on Management Survey report, the Commission on the Fiscal Affairs of State Government offered the state's view of city's budget problems. Chaired by an official of Dun and Bradstreet, the Commission too warned of city budget shortfalls. At the same time, it predicted the state itself might face a $250 million deficit by 1961. Much like the Committee on Management Survey staff, the Commission recommended a hike in the constitutional tax limit to net roughly $220 million annually in new revenues. (15)

In 1956, a joint State-City Fiscal Relations Committee was established to devise a coordinated policy. This Committee, too, predicted combined state and city revenue shortfalls. With the state's own
finances growing shaky, the city should be permitted to levy any tax it wished. The best long-run strategy, the Committee concluded, was an income tax. (16)

This theoretically joint report met a hostile reaction. Robert Moses derided its "weatherbeaten cliches," without "a constructive, acceptable idea." (17) Giving the city unlimited taxing power had little appeal to the Republicans. The Assembly Majority leader called the report "tax chaos." (18)

Growing suburban clout narrowed the city's tax options. By the early 1950's, the Republican machines in the New York City suburbs were the state's most powerful. (19) The upstate-rural bloc had cared little about the specifics of many city policies as its support for the payroll tax indicated. Many suburban voters, on the other hand, worked, owned property or ran businesses in the city.

However fanciful an income tax seemed to its critics, the search for a major new tax was not completely far-fetched. The city enjoyed the power to levy a .5% payroll tax. While its yield was only $60 million, far less than the deficit predictions, it was as large as gross receipts tax collections, the city's third largest revenue source.

The payroll tax enjoyed political support in high places. In the midst of a 1954 budget battle, a group of city bankers, real estate executives and businessmen met both Governor Dewey and Mayor Wagner to promote a
payroll tax. (20) The financial community had supported the tax since the 1930s. High ranking state budget officials urged the city to adopt the tax, too. (21) Wagner himself had endorsed it as way to save the ten cent subway fare in 1953.

But the tax faced widespread opposition as well. Labor adamantly objected as did the New York Times, the Committee on Management Survey staff and other liberal-reform groups like the City Affairs Committee. Democrats considered enacting a payroll tax on employers not the authorized tax which was to be shared between employers and employees. Even business groups divided. The Chamber of Commerce, Commerce and Industry Association and the retail-based Board of Trade agreed a payroll tax would hurt the city's economy. (22) In short, labor feared business would manage to shift the tax burden onto wages while business feared unions could force employers to bear the burden.

The experts' proposals for tax reform did not look promising. But their critics could not, and did not, discount the likelihood of their deficit predictions. As each year brought another scramble for new funds, predictions of revenue gaps did not disappear but grew in size and frequency.

**Listening to Business: No Change in Business Taxes**

In the initial battles over postwar budgets, business organizations were often leading and lonely
advocates for cutting spending. To businessmen, the pattern of real estate assessments demonstrated all too well that city administrations often viewed them as easy tax targets. O'Dwyer reinforced this view when he raised the gross receipts tax twice in three years.

Wagner looked no different. When the legislature stalled his 1954 state aid request, the new mayor announced an overhaul of business taxes. These changes, he asserted, would not only raise more money but also spur economic growth by making business taxes more equitable. The mayor soon dropped his effort at business tax reform even though it enjoyed the support of financial experts and state officials. Business tax reform antagonized city business groupys who persuaded the mayor to drop his efforts.

Wagner urged two changes: a business income tax to replace the gross receipts tax and an extension of the sales tax to commercial services. Since the existing sales tax law did not prohibit such taxation, this proposal had the distinct advantage of only requiring Board of Estimate approval. Fifteen million dollars in new revenues could thus be quickly raised.

Wagner's call for business tax reform had some support. In 1952, the State Controller released a study of local gross receipts taxes which had been urged by upstate chambers of commerce. It found heavy burdens on low mark-up, low profit manufacturing sectors notably
food, apparel and textiles. The study urged abolition of the tax on the grounds that it "discriminated against local economic activity." (23) The Committee on Management Survey had also condemned the tax. (24)

Wagner's changes did not interest New York City businessmen especially the banking industry. While they had often, as in 1946, endorsed higher taxes when other business groups did not, the bankers were outraged. Both taxes threatened their no-tax status. A spokesman for the New York Clearinghouse, a Wall Street lawyer since the 1920's, claimed, "No legislation having greater potential for injury to ... banking institutions...has been presented in my time." (25)

But what other taxes were possible? The financial community urged the city to use its payroll taxing power as did the state. Battling business in public, Wagner's economic advisors consulted them in private. In one meeting, for example, the Mayor's Economic Advisor and Budget Director talked taxes with prominent real estate men Peter Grimm and Charles F. Noyes, developer William Zeckendorf and industrialist Walter Chrysler. Noyes urged a "non partisan committee of business leaders to examine the whole revenue question." (26) Opposed to the business taxes, Noyes realized that the city needed more money and wanted businessmen to define the alternatives. (26) Taking Noyes' advice, Wagner postponed his tax decision and established an advisory committee headed by well-known
Bank President David Rockefeller.

Such negotiations actually involved just part of the "business community." While the city's top business groups, the Chamber of Commerce, the Commerce and Industry Association and the Citizens Budget Commission claimed a citywide membership, certain types of business appear more often on their governing committees than others. Major city commercial banks and national corporations or headquarters firms tended to dominate all three. Manufacturing firms were very uncommon. (27)

This pattern of representation was not, it should be stressed, due to the insignificance of manufacturing. New York City was still the nation's premier manufacturing city in the postwar period. In 1950, for example, New York manufacturing employed about three times as many people as did finance, insurance and real estate. (28) Of the leading manufacturing industries, apparel, printing, food and chemicals, however, only the latter consistently appears on business organization boards.

Apparel, printing and food companies are not merely missing from business organization boards, they typically do not appear as lobbyists in budget hearings, as participants in study commissions, or as leading moneymen in political campaigns. The city's most important manufacturing industry, apparel, seemed ill-equipped for political action at least in comparison
with finance. While New York City finance was growing, apparel was definitely in decline. Finance, insurance and real estate gained almost fifty thousand jobs in the 1950s while apparel lost more than ninety thousand. (29) New York City financial firms and corporations were often huge national and multinational giants. Apparel and printing industries were increasingly composed of small, competitive firms with limited financial clout. Often such firms "failed one year and reorganized the next." (30) This pattern of representation had distinct consequences for city tax policy.

As the Mayor postponed his tax plan, city business groups worked on their own. In great detail, the Commerce and Industry Association analyzed the effects of a sales tax extension. It claimed that such a tax could provide $50 million, far above Wagner's $15 million estimate. Since many service firms could easily migrate, the tax might ultimately result in greater economic losses than it would tax revenues. Hardest hit would be construction companies, which would foot 30% of the total tax bill and the financial community, which would pay 15%.

A business income tax would wreak equally far-reaching changes. In the first place, the tax would collect $20 million more from business than the gross receipts tax. In the second, the burden of business taxes would shift. In marked contrast to its sales tax analysis, the Committee did not claim an income tax
would damage the city economy. Instead, it hypothesized that the shift in tax burdens would hurt. Since an income tax would be related to profits while the gross receipts tax was not, more profitable businesses would pay more:

To the extent that local taxation is a factor in driving business out of the city, the higher taxes will add fuel to the fire. Businesses sustaining losses or having small margins of profits will be the beneficiaries. Do we want to drive the most successful businesses out and keep the less successful businesses here? (31)

While the Commerce and Industry Association discreetly did not name which industries were the "most" and the "less successful," a 1954 report by the state's Budget Director, Tax Commissioner and Controller did. The city's banks would pay at least $12 million of the $20 million in new income taxes. (32)

In 1955, Wagner again made the business income tax the centerpiece of his tax program. By this time, business groups, led by the Mayor's advisory committee, had a clear position. Higher taxes, the Committee, the Chamber of Commerce and the Citizens Budget Commission agreed, were inevitable. But higher taxes should not fall on banking or construction, hardly a surprising recommendation by a committee chaired by a banker and a realtor. The existing gross receipts tax should be retained -- and raised -- to produce the desired $18
retained -- and raised -- to produce the desired $18 million in new revenues. It was, and at the same time, the sales tax was modified and limited to taxing retail services.

Wagner made no further efforts at business tax reform. When tax hikes seemed inevitable, business organizations urged a higher gross receipts tax over a higher real estate tax limit or a higher sales tax. For example, when another city revenue crisis threatened in 1959, Wagner first urged a sales tax increase but, in the face of business opposition, adopted a business tax increase instead. (33)

State policy threatened this arrangement. In his successful 1958 gubernatorial race against Averill Harriman, Nelson Rockefeller made state economic problems a top issue. To appease upstate businessmen and their largely conservative legislators, he established a commission to evaluate the impacts of state taxes on economic growth. As one of its projects, in December 1960, this State Tax Structure Study Committee issued the first detailed analysis of of existing city business taxes.

The Committee's findings disputed the position of city business organizations. The gross receipts tax, it concluded, echoing the Controller a decade earlier, was burdensome because it was not related to ability to pay. The tax hurt many vital sectors of the city economy notably business with low profit to sales ratios like
apparel, food and printing. It hindered new firms, which typically bore high losses in early years, and small firms, which could not vertically integrate to escape payments at various points in their production processes. In some sectors, the city tax was actually higher than combined federal and state income taxes.

Given these impacts, the Committee went on, the "tax may act as impediment to a healthy business climate...." It especially encouraged "low margin firms with substantial competition with outside tax free businesses to transfer operations...." (34) This migration reduced jobs, payrolls and eventually tax revenues.

The committee analyzed two possible changes. A net income tax much as Wagner had proposed in 1954 and 1955 could be adopted. There was, the Committee admitted, "little support" for this change primarily because of the dramatic shifts in tax burdens. (35) The Committee rejected the tax fearing that to produce collections equivalent to the gross receipts tax, the rate might have to be disastrously high.

The committee recommended a less sweeping method to incorporate ability to pay. The city should graduate tax relief in relation to net profits. Low-profit firms would thus be less burdened. (36) In 1962 and 1963, the legislature passed bills empowering the city to make such changes but the city ignored the bill.
organizations remained committed to the existing tax structure. In 1962, the CBC and the Chamber of Commerce sponsored another study. Once again, the burden on labor-intensive manufacturing industry was revealed. And once again, business groups opposed any modification.

(37) Not only was the city's business tax policy at odds with the state's desire to promote manufacturing. It also seemed a less and less promising revenue strategy. Gross receipts tax collections had climbed from $13.6 million to $176 million from 1946 to 1959. However, in contrast to the real estate and sales taxes, higher collections were due as much to rate hikes as to growth in the tax base. For example, after the doubling of rates in 1955, collections rose by 31% in 1956. In the next four years collections rose by less than 10%.

(38) The city was depending on its weakest sectors for its business taxes and letting one of its strongest, banking, escape with almost no business tax payments at all.

Wagner's Strategy: Change City-State Financial Relations

The mayor was faced with a seemingly insoluble budget problem. Spending was popular but major tax change met strong opposition. Reform in the city tax structure looked unlikely. Only state assistance could prevent a crisis. Year after year, Wagner went to Albany in search of greater state money. While avoiding tax conflicts in the city, Wagner's strategy made the city
ever more dependent on a Republican party more or less hostile to it.

In his efforts, the mayor received only mixed support. Democrats, liberals and labor groups traditionally urged greater state financial assistance. Some critics, including the Committee on Management Survey staff, argued that the city would be better off without any state aid and paying no state taxes. As Borough President of Manhattan, Wagner had claimed

...the City could live within its means, without any state aid or services, if it were just allowed to keep the tax money raised by the state within its borders. (39)

Business groups were less sympathetic. In general, they wanted budget reductions, not state aid for bigger budgets. Even when they did not expect budget cuts, business organizations nevertheless opposed state aid. For example, a detailed Chamber of Commerce review of one Wagner aid request resolved,

We are forced to the realistic conclusion that, under present circumstances, we can expect a continuous expansion in municipal spending....[T]here is little possibility of a successful economy effort at this time. The most that can be hoped for is to slow down and moderate budget increases. (40)

Once, in 1956, city business groups travelled to Albany to provide qualified endorsement to a Wagner aid request in exchange for the mayor's promise to come up with a long range financial plan. When he

179
did, the groups rejected the plan itself.

Slowing city expenditure growth was not the only reason for business opposition. Greater state financial assistance threatened higher state taxes. City businessmen, like upstate businessmen, advocated lower state taxes, especially business taxes. (41) As importantly, the city tax structure based on sales and gross receipts taxes burdened high-income, high-profit taxpayers less than the state tax structure based on income taxes. Only real estate income was less heavily taxed by the state. (42) Since real estate was but one source of income for most taxpayers, high-income, high-profit taxpayers would, all things being equal, prefer a rise in city taxes to state taxes.

Thus, Wagner lacked business support in his negotiations with the GOP. The mayor’s political task was complicated by this and by splits among Republicans themselves. Once Dewey left office in 1954, Wagner faced a Republican Party and, a legislature, increasingly divided over state-city financial relations.

Traditional GOP fiscal conservatism was re-invigorated by upstate economic decline. Upstate New York was heavily dependent on manufacturing yet non-manufacturing job growth, mostly in the New York City area, had provided the net increase in jobs since 1947. (43) Decline worsened. In the recession of 1958, for example, 100,000 manufacturing jobs, nearly 12% of the total, were lost and until 1966, there was almost no
manufacturing job growth. (44)

Upstate Republicans became more opposed to state budget expansion and, above all, to New York City assistance. After all, New York City was enjoying a economic boom. Upstate industrialists began promoting the view that state fiscal policies were causing their economic problems. (45) In 1957, the Associated Industries, a manufacturing lobby, demanded a study of the economic impact of state taxes. A few years later, as state budget battles grew more bitter, one upstate industrialist, David Jacquith, founded the Conservative Party. Long a bastion of the GOP, the upstate manufacturing interests seemed to be deserting the party. Reconciling these conservatives was a major task.

The state's own budget difficulties added to problems. In 1954, a state commission headed by an official of the Wall Street rating firm Dun and Bradstreet predicted the state faced years of budget deficits unless new taxes were enacted. (46) Those predictions came true, too fast. In his first budget message, in 1955, Democrat Governor Averill Harriman announced that the state had already amassed budget deficits of $470 million since 1947, a sum equal to the state purposes budget in 1955. (47) By 1959, the state's $200 million annual shortfall was larger than the city's.

For conservatives, New York aid requests became a
bigger and bigger threat to state fiscal policy. By 1957, conservatives argued that to grant aid to New York City would require substantial increases in state taxation. When Wagner demanded $267 million in aid for FY1962, conservative Senate leader Walter Mahoney inquired what state tax the mayor favored. State aid, Mahoney pointed out, is no sparkling bonanza which miraculously materializes in Albany. It comes out of the hard-earned dollars of the taxpayers. (48)

Though squeezed by conservatives, New York's bargaining position was not hopeless. With less than a majority in either house, the conservatives could be outvoted by an alliance of liberal, typically metropolitan, upstate legislators, the New York City suburbs and New York City.

In contrast to Massachusetts, the New York City suburbs began demanding state financial help in the early 1950's. The rapidly growing and economically booming City suburbs faced very different fiscal problems than depressed areas upstate. Growth brought higher taxes. From 1950 to 1954, expenditures climbed by 109% in Nassau County and 81% in Suffolk County compared to a 39% rise in New York City and a 30% rise in the state outside the city and its suburbs. (49)

As local taxes soared, Democrats began winning local and county elections in traditional Republican strongholds. Typically, they, and eventually their
Republican rivals, called for state funds to lessen local tax burdens. (50) The fiscal conservatism which once united the Republican machines of Westchester with Erie melted away.

Growing suburban clout offered New York City a powerful ally in its perennial requests for more state funds. Yet depending on state financial largesse was an inherently unstable strategy. First, the alliance was predicated on suburban demands not city needs. Thus, education aid, of which New York received just 36% of all funds, accounted for more than half of all New York state aid increases during Harriman's tenure. Social welfare, of which New York received 71% of all aid, rose only slightly more during Harriman's governorship than it had in Dewey's last year. Second, the conservatives and the suburbs could often unite against the city. In an era of rising tax burdens, why should the rest of the state pay for New York?

Nelson Rockefeller's governorship demonstrated the difficulties of Wagner's fiscal strategy. Despite a pledge against higher taxes in his campaign, Rockefeller earned only wary support from conservatives. (51) Rockefeller's Wall Street backers had early cut the funds to, thereby engineering the defeat of, their leader Senator Walter Mahoney. (52) When Rockefeller won the biggest victory of any Republican gubernatorial candidate in New York history without the support of the
upstate bosses, it was clear that he had "stemmed...the slowly rising tide of Democratic growth in the usually Republican suburbs." (53)

Breaking his campaign promises, Rockefeller then proposed a $277 million income tax rise. A conservative revolt began. These party divisions offered Wagner an opportunity. Though much of the tax increase would fall on low-income taxpayers, Wagner split with other Democratic leaders and endorsed the plan in the hope of getting more money for New York City.

Initially Wagner's support looked crucial. After several skirmishes with up-state Assemblymen, Rockefeller won his program with threats of patronage loss, promises of new programs (54) and a few budget cuts -- notably in aid to New York City. The mayor not only saw his supplemental aid cut but lost education funds as well. (55) A skillful Republican governor could thus unite the GOP against the city.

Despite that defeat, year after year, Wagner returned to Albany with ever bigger aid requests: $250 million in 1961, $326 million in 1962 and $267 million in 1963. Rockefeller's aides typically did not support Wagner. As State Budget Director Norman T. Hurd wrote the Governor in 1960, "...the city should show more evidence of its ability and willingness to help itself." (56) To the Governor's staff, Wagner's requests were "subject to political inflation," bigger under Republican governors than Democratic ones. (57) Even
Rockefeller's strong desire to carry New York City in his 1962 reelection campaign did not help. In January 1962, Rockefeller rejected Wagner's demand for $326 million in new state aid, saying it would force a 25% increase in state taxes. (58)

The graph on page 186 shows how state grew faster than the state budget during the early Rockefeller years. New York City's budget grew even faster.

New York City continued to depend on the suburbs for its aid increases. From 1953-1954 to 1962-1963, total state aid rose by $327 million, a 133% rise. Education loomed largest: it rose by 212% to account for $200 million or 61% of the total increase. Social services assistance rose by $43 million and health and hospitals by $45 million. Those three categories of aid provided more than 80% of the total growth. General assistance actually fell. (59)

Even these patterns looked shaky. Like its Democratic predecessors, the Rockefeller administration was increasingly hamstrung by growing state budget problem. (Graph six indicates the escalating growth in both state aid and the state purposes budget under Wagner.) To balance his budgets, the Governor began to use some questionable budget tactics: accelerating revenue collections, draining stabilization funds and borrowing for current expenses. (60) In 1962, such
NYC/NYS Budget Growth

NYC expense budget

NYS local assistance budget

NYS state purposes budget

FY beginning

"fiscal devices" provided more than one-third of the state revenue increase.

Wagner began using his own gimmicks. With his state aid requests often scaled down by the legislature, the mayor began to inflate revenue estimates and to borrow against them to "balance" his budget. (61) His FY61 budget ended in a $45 million deficit; his FY62, in an $87 million deficit. About $100 million in operating expenses were hidden in the capital budget. (62) The legislature obliged by increasing the city's authority to bond its operating expenses, permitted such borrowing for new purposes and extended the life of such bonds. (63)

An End to Taxation as Usual?

Tax reform intruded directly on the budget process when Wagner proposed the city's first $3 billion budget in 1963. Though an unexpectedly large increase, the $309 million rise was, in fact, budgeting as usual: per capita costs had climbed by almost one-third from 1960 through 1963 alone. The 1963 budget provided for a $160 million rise in salaries, a $58 million rise in pension contributions, a $30 million rise in debt service and, for the first time ever, a significant, $50 million, rise in social services.

Unable to avoid a big tax increase any longer, Wagner's financing plan was a well-tuned political balancing act. First, $267 million in state aid was requested. That not unexpectedly rejected, the mayor
announced an increase in the sales tax to 4%, the first in 12 years, to raise $100 million. The existing commercial occupancy tax, a levy on business renters, would be revamped to raise $60 million. Both consumers and business would pay for higher budgets.

Several lessons were immediately clear. No one, except public employee unions, endorsed the mayor's tax plan. Hundreds attended the city council hearings; 125 speakers attacked the package and only two backed it. (64) Business organizations, which faced two new tax increases, were especially outraged. Both taxes, however, passed. The Republican Party showed less interest than usual in city tax problems. Having run on another "no -- state-- tax" platform in 1962, the Senate approved the tax bills with twenty minutes debate. (The year before, an election year, the legislature had rejected a much lower commercial occupancy tax hike.)

The City Council showed equally little concern for the opposition. Whatever the dismay over new taxes, spending proposals were popular. As long as public employees, civic groups and the New York Times, to name the most articulate advocates, endorsed higher spending, economy plans like the CBC's call for a $94 million budget reduction had little appeal. As the tax battle went on, the New York Times attacked "the faint at hearts," those groups which demanded better services but protested higher taxes to pay for them. (65) One such
"faint at heart" can be seen in the business community itself. David Rockefeller's Downtown Lower Manhattan Association forecast the occupancy tax would "obstruct the progress of New York as the management center of the nation." (66) Seven months later, the DLMA released a study calling for $1 billion in public investment by 1985. (67)

Worse, new budget shortfalls and hence the need for new revenues, looked more and more inescapable. No longer did small tax rises or even budget reductions appear adequate. Nearly every group agreed the sales tax would prove disastrous, costing millions of dollars in sales and thousands of jobs. But what other city tax could raise adequate money?

Proposals that were once seemed politically unlikely now looked fiscally imperative. Those proposals revealed just how divided political groups remained on tax policy. To the dismay of business groups, the City Club and the Liberal Party urged a rise in the real estate tax share. The Chamber of Commerce urged a payroll tax. City Comptroller Abraham Beame proposed one but on employers not on employees as the Chamber urged. Labor groups, such as the Liberal Party, advocated an income instead.

As the proposals for tax reform multiplied, Wagner created to a study commission to come up with an administration plan. This commission was slightly different than its long line of predecessors: it was almost entirely
businessmen. The Commission's Chairman was Earl B. Schulpst, the Chairman of the Bowery Savings Bank, the city's largest. Joining Schulpst were six other representatives of the financial industry, a prominent real estate man, and the President of Macy's. (68) Since the Commission also included one of the apparel industry's most powerful union leaders, its membership encompassed the industries most likely to win and to lose from major business tax reform.

State tax changes made city tax reform all the more necessary. In fact, Wagner's usual revenue strategy was collapsing rapidly. Rockefeller had balanced his 1961, 1963 and 1963 budgets by various gimmicks plus $600 million in non-recurring revenues. (69) By spring 1964, he had as one reporter put it, "pumped the last well dry." (70) Just after a disastrous election in which the GOP lost both the Senate and the Assembly for the first time since the depression, Rockefeller announced a $279 million deficit in the FY 1965 budget. (71) Supported by business groups (72) he proposed a state sales tax.

Once again Wagner split with Democratic leaders to endorse a big Rockefeller tax. Newspaper stories and much subsequent political analysis has detailed how Wagner traded his support of Rockefeller's tax plan for the Governor's aid in a party leadership battle. (73) But, these reports overlook the equally important fiscal
trade the two made.

Unfortunately, the state sales tax did not settle the 1965 city budget problem. After city business groups protested a combined city-state sales tax rate of 6%, Wagner lowered the city sales tax from 4% to 3% and Rockefeller agreed to return stock transfer tax collections to the city. The city net revenue gain was nil: it lost $121 million in city sales taxes and received $80 million in stock transfer taxes and $38 million in state sales taxes. (74)

Wagner needed another way to balance the budget which had a $312 million shortfall. In a new twist, he recommended deficit financing: a $256 million bond issue to be paid by a hike in the real estate tax limit from 2.5% to 3% and a change in the formula for calculating equalized valuations. The city also asked for authority to issue revenue anticipation notes against tax collections of future, not just the present, fiscal years.

Deficit financing was not, of course, not a new technique. The 1965 borrowing was notably chiefly in its size and in its public nature. Wagner's budget message made the point clear: "The best tax is no tax. A good loan is better than a bad tax." (75)

Anti-Wagner Democrats at first blocked this bill questioning its legality as well as its fiscal propriety. Reportedly fearing "a fiscal disaster," city bankers and top businessmen met with the Governor to
press for the borrowing. Rockefeller rounded up Republican votes. (76) As Wagner's two top legislative allies, men who owed their leadership positions to Rockefeller, remarked, "A group of bankers had bailed us out in 1933...," why not in 1965? (77) Wagner's bills passed.

Short-term borrowing was possible in July 1965 because the city's creditors were able to make a big profit. And the city was willing to pay dearly. In contrast to past practice, only one syndicate bid on the note issue. Interest costs rose by 1/4% over April and the bankers' spread was 40% higher. (78)

In the long run, borrowing did not appear to be a good solution, even for bankers. The city was borrowing partly against revenues from a real estate tax rise which could not be enacted for two years and might never be passed. What if the voters rejected it? Such was the argument of major realtors like Harry Helmsley who organized the Citizens Tax Council to sponsor a legal suit challenging the bond issue. The realtors' suit prevented a portion of the bankers' bond sale. (79)

At the same time, the municipal bond market softened. Throughout 1965, demand was sluggish and interest rates rose 30%. Big New York City banks, which accounted for six of the ten banks with the highest percentage of their assets in municipals, reduced their municipal holdings for other, higher interest loans. For
example, the Rockefeller Chase Manhattan, which ranked second in municipal holdings sold one-sixth of its total 1964 municipal purchases in the first quarter of 1965. Other banks, which did not divest, were left with "growing inventories, underwritten but unsold." (80)

In this declining market, New York City's position looked especially weak. Municipal selling by big New York banks hurt since those banks organized the syndicates which bid on city issues and often held city bonds in their own portfolios. After Wagner's borrowing plan was announced, Dun and Bradstreet dropped the city's credit rating to its lowest investment grade, the first cut since the 1930's. By October, when the city next sold an issue, demand was markedly less than July. (81) The city was still willing to pay high interest rates, but the underwriters could not sell.

The drop in the city's credit rating only made Wagner's so-called "borrow now, pay later" plan more controversial. In March 1965, the New York Times reported that a poll commissioned by "liberal business leaders" found both Wagner and Rockefeller's popularity had slipped. Republican Congressman John Lindsay could defeat him. (82) Shortly after the borrowing crisis, Wagner announced he would not seek re-election.

Making Tax Reform Happen

John Lindsay looked like an excellent prospect for tax reformer. He had run on a platform to shake up city hall. While only narrowly defeating the Democratic
candidate Abraham Beame, his Republican victory was viewed as a stunning upset. As a fusion candidate, Lindsay had attracted the endorsement of the Liberal Party and the votes of traditionally Democratic Jews, Catholics and blacks as well as reform Democrats. As a Republican, he had won strong financial backing from Wall Street, big corporations and GOP moneymen. (83) Despite that, he had feuded with the party bosses, including Rockefeller, and was not considered tied to them. The new mayor enjoyed broad support but, as he claimed so often, seemed free of the "power-brokers," whether business or labor.

Unfortunately, Lindsay had given little thought to the substance of city fiscal problems. As candidate, he avoided the thorny issue of revenue needs. One campaign White Paper pledged an "end to tax chaos" but little else. (84) More dramatic was the promise to cut $300 million in "fat" from Wagner budgets. (85)

The candidates's neglect of tax issues was fostered by his top advisors. Press aide Oliver Pilat recalled that during the campaign, aides viewed taxes mostly as a political issue to badger the Democrat candidate, Comptroller Abraham Beame. At one strategy meeting, for example, Lindsay campaign manager Robert Price warned

We may have to be downright demagogic on the sales tax.
We may have to make some irresponsible declaration

194
in the next six weeks. The name of the game is politics.

Lindsay's brother, a Wall Street lawyer, disagreed.

You have all sorts of expensive programs, John. You ought to say how you will pay for them. You owe that to the public.

In the end, the candidate took Price's advise to "duck it." (86)

"Ducking it" was less possible after the election. The Temporary Commission's report was gloomy. A "financial crisis" was "... approaching." (87)

Unfortunately for Lindsay, this crisis was no longer a potential, future shortfall but an existing deficit. Without an end to current expense borrowing, the Commission warned, the credit markets would be closed. To end such borrowing, the city needed $480 in new revenues immediately. (88)

To raise that sum, almost one-sixth of the current budget total, the city needed new taxes. Like earlier commissions in 1952 and 1956, the Commission rejected greater reliance on the real estate tax. Instead, it called for a package of reforms: a 2% city income tax to raise $250 million, $70 million in new gross margins or value-added tax on business, $20 million in new bank taxes and various hikes in fees. The Commission tackled the two central issues of city tax reform head on: the need for a big new tax and business tax reform.

At the same time, the Commission made clear it was not pleased to recommend this tax package. But, there
was no escape from new taxes. An income tax, the
Commission pointed out, would have the least harmful
economic consequences, secure some contribution from
commuters, and take into account ability to pay. But
above all, it was the only adequate alternative:

The city needs a major
new source of revenue to
cope with its immediate
fiscal problems....

The remaining choices are....
a 7% sales tax; a substantial
rise in the real estate tax;
a doubling of the city's
businesses taxes; or a
1 1/4% payroll tax. (89)

The Commission's report was just the first piece
of bad news. A transit strike and a costly wage
settlement brought budget problems directly to the
public. Alternatives to tax reform vanished. The mayor's
request for $600 million in additional state aid brought
"gasps of disbelief" and a quick veto in Albany. (90)
The legislature also refused to appropriate $70 million
that Governor Rockefeller had promised to fund part of
the transit wage settlement. (91) That sum was now
the city's responsibility. On January 28, the city had
to pay the highest interest rate since the dark days of
May 1932. (92)

In early March, Lindsay released his own tax plan.
From the first, it was ridden with controversy. The
first problem was the budget total. $4.6 billion, the
biggest raise ever. The bigger the budget, the more
"adequate" the tax program necessary. Thus Lindsay needed even higher taxes than the Temporary Commission had deemed necessary: $385 million in personal income taxes at half the state's rate; $70 million in new business income taxes at the state rate, 5.5%; a 4.5% tax on banks; $62 million in stock transfer taxes; and $15 million in new water fees. Lindsay also endorsed the 3% real estate limit passed by the legislature as part of Wagner's 1965 budget plan. In short, the mayor hiked every tax but the two raised by Wagner in 1963.

The enormity of the budget reflected the new mayor's commitment to fiscal reform and to bigger programs. Lindsay submitted the first truly balanced budget in six years. (93) More than $400 million was allocated to replenish city reserve funds, to eliminate current expense borrowing and to pay off Wagner's note offerings.

Just like Wagner, however, Lindsay wanted as big a budget as possible. As the debate over taxes continued, Lindsay's budget director drew up a list of $240 million in cuts and believed more could be achieved. City Budget Bureau staff objected that substantial cuts after the elimination of $170 million in transit subsidies and fiscal reforms "would undoubtedly throw the city into acute crisis." One memo insisted that more reductions were not necessary:

Cognizance should be taken of the fact that there is sufficient recognition in
Albany of the need for tax revenues. And the recognition should perhaps be taken into account before you talk of a total of $420 million in cuts. (94)

Top aides also apparently never believed that budget reductions would bolster the case for new taxes. As one memorandum from mayoral assistant Jay Kriegel put it, budget cuts were to be used to "create a municipal emergency" in negotiations with Albany. (95)

The administration memos ignored the unpopularity of the tax request. One reporter called the City Council's budget hearings "a baptism of fire." (96) Few believed spending was "cut to the bone" or that 85% of the increase was due to "unavoidable costs. " (97) The City Council, not a traditional economizer, alleged the tax proposal demanded $100 million more than necessary to pay for city costs, a charge Lindsay later admitted. (98)

Early on the budget total cost the mayor one potential ally. Long an advocate of the fiscal reforms Lindsay wanted, the Citizens Budget Commission now insisted on their elimination. Whittling tax demands was more important. The CBC's Executive Director told the City Council:

We agree with the goal ...of getting the City on a pay-as-you-go basis....In the past, we have had one-shot fiscal gimmicks calculated to produce more revenue on a one-shot basis to meet continuing expenditures. Now we have some
one-shot fiscal reforms that
could lead to new taxes.... (99)

A second problem proved more intractable. Lindsay not
only wanted a huge new tax increase. He wanted to make
the tax system more equitable. That goal split Lindsay’s
political allilance of haves and have-nots. While the
administration borrowed heavily from the Temporary
Commission, it urged several tax changes which the
Commission had rejected, almost unanimously. (100)

Two differences provoked the most controversy. The
Commission had argued that a graduated income tax would
promote the migration of upper and middle-income
taxpayers while a flat tax incorporating state
deductions would be slightly progressive but not
encourage tax avoidance. The Commission had vetoed a
business income tax because to produce adequate funds
would require a dangerously high tax rate. Its gross
margins tax would lessen the tax bills of low-profit
firms somewhat but, since it was not solely related to
profits, it would reach more firms at a lower tax rate.
The differences in these business tax strategies are
suggested by the table on the next page.

Lindsay, on the other hand, intended to put the
burden of tax reform on those who could afford it. Under
his plan, the better-off taxpayers and more profitable
firms would pay more. For example, individuals with
taxable incomes under $11,000 would face smaller tax
bills under the mayor’s plan; the rest would pay more.
### TABLE 1

**PERCENTAGE DISTRIBUTION OF ALTERNATIVE NEW YORK CITY BUSINESS TAX BASES, 1963-64**

<table>
<thead>
<tr>
<th></th>
<th>(1) General Business and Financial Tax and Utility Tax</th>
<th>(2) Column 1 plus Commercial Occupancy Tax</th>
<th>(3) Net Income Tax</th>
<th>(4) Gross Margin Tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>Construction</td>
<td>3.8%</td>
<td>3.1%</td>
<td>2.1%</td>
<td>4.0%</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>13.7</td>
<td>20.6</td>
<td>21.8</td>
<td>26.5</td>
</tr>
<tr>
<td>Food and Kindred</td>
<td>1.7</td>
<td>1.4</td>
<td>2.6</td>
<td>3.1</td>
</tr>
<tr>
<td>Textile Mill Products</td>
<td>1.4</td>
<td>1.4</td>
<td>1.0</td>
<td>1.0</td>
</tr>
<tr>
<td>Apparel</td>
<td>5.0</td>
<td>5.2</td>
<td>2.8</td>
<td>6.1</td>
</tr>
<tr>
<td>Furniture and Fixtures</td>
<td>.4</td>
<td>.4</td>
<td>.2</td>
<td>.5</td>
</tr>
<tr>
<td>Paper and Allied Products</td>
<td>.5</td>
<td>.6</td>
<td>.6</td>
<td>.7</td>
</tr>
<tr>
<td>Printing and Publishing</td>
<td>3.4</td>
<td>3.6</td>
<td>4.0</td>
<td>5.8</td>
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<tr>
<td>Chemicals and Allied Products</td>
<td>.9</td>
<td>1.0</td>
<td>3.1</td>
<td>2.0</td>
</tr>
<tr>
<td>Rubber and Plastics Products</td>
<td>.4</td>
<td>.4</td>
<td>.2</td>
<td>.3</td>
</tr>
<tr>
<td>Leather and Leather Products</td>
<td>.4</td>
<td>.4</td>
<td>.2</td>
<td>.6</td>
</tr>
<tr>
<td>Stone, Clay and Glass Products</td>
<td>.2</td>
<td>.2</td>
<td>.3</td>
<td>.3</td>
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<td>Metal Products</td>
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<td>.1</td>
<td>.8</td>
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<tr>
<td>Machinery, Except Electrical</td>
<td>.7</td>
<td>.7</td>
<td>1.3</td>
<td>1.5</td>
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<tr>
<td>Electrical Machinery</td>
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<td>.9</td>
<td>1.2</td>
<td>1.3</td>
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<tr>
<td>Transportation Equipment</td>
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<td>.4</td>
<td>1.0</td>
<td>.9</td>
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<td>Wholesale</td>
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<td>6.1</td>
<td>6.0</td>
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<td>Transportation and Utilities</td>
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<td>8.9</td>
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<td>20.6</td>
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<tr>
<td>Services</td>
<td>8.6</td>
<td>11.9</td>
<td>22.3</td>
<td>16.8</td>
</tr>
<tr>
<td>Other, Not Classified</td>
<td>*</td>
<td>.3</td>
<td>.5</td>
<td>N.A.</td>
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<tr>
<td><strong>Totals</strong></td>
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<td><strong>100.0</strong></td>
<td><strong>100.0</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

**NOTE:** Details may not add to totals because of rounding.

**SOURCE:** Department of Finance and estimates based on data from State Tax Commission and U.S. Department of Commerce.

* Less than 0.1 percent of the total tax payments.

**N.A.** - not available.
Finance, services and certain manufacturing industries would bear a greater share of business taxes; wholesale and other manufacturing such as apparel and printing, less. (101) (Table 5 shows the share of business tax payments for existing taxes, the Commission plan and the Lindsay plan.)

The political implications of this strategy did not daunt the mayor at first. They should have; reaction was immediate and overwhelmingly negative. As Lindsay remarked, "It must be fair because everyone is equally mad." (102) But what kind of tax program could Lindsay pass with "everyone" against him? And, everyone was not equal in the city's tax battles. Having split his own supporters, Lindsay never managed to mobilize another base except in the press.

Lindsay's most articulate opponents were business organizations, many of whose members had supported the mayor's candidacy. Though he had won strong Wall Street finance support, the New York Stock Exchange threatened to move to New Jersey. The Chamber of Commerce, the Commerce and Industry Association and the Citizens Budget Commission all attacked Lindsay's tax reform.

Within a few weeks, prominent businessmen offered their own tax plan and a new organization to promote it. With the chief executive officers of 26 large corporations (103), the new Economic Development Council represented many of the city's most powerful firms. Their tax plan revealed the Temporary Commission to be
not surprisingly attuned to business thinking. It seconded the Commission's proposals with one difference: no change in business taxes. (The revenue loss would be made up through a hike in the subway fare.) Lindsay's package, on the other hand, was "onerous." The tax on business income was "...a cure worse than the disease" (104); the graduated income tax, "a heavy...burden on managerial talent." (105)

Just days later, officers of the city's ten largest banks announced their support of a 2.5% bank tax, about 40% of the Lindsay tax. (106) Even more than the high profit companies on the Economic Development Council, the city's banks were vulnerable to a big tax rise. Could they keep the increase as low as possible while still paying, as they put, their "fair share?"

In the decade since the successful battle against Wagner's business income tax, the special tax status of banks had lost its appeal. In an era of revenue crisis and ever rising taxes, business had, in its own words, come to support bank taxation. (107) The Citizens Budget Commission, a real estate group, endorsed Lindsay's 4.5% tax. The New York Times led a press campaign. It charged that the bankers were charging the city high interest rates on bond sales as a penalty for the taxes. (108) The strongest case for bank taxes was made by the Temporary Commission, whose members except for the bankers paid city business taxes. In fact, its staff
work showed that tax inequities were not confined to labor-intensive manufacturing or trade. They impacted the financial itself. While commercial banks for example, paid 2.3% of their net income attributable to New York City in taxes, securities firms paid 8%. (109)

The mayor ignored such divisions in the business world. When he denounced "big business" opposition, it turned to its old ally, the Republican party in Albany. The GOP response demonstrated all too well that business was split. The bank tax was left intact but the stock transfer tax rise was halved. Under pressure from big manufacturing firms, Governor Rockefeller persuaded Lindsay to incorporate the state's business incentives into the city's tax. (110) These changes halved the projected gains from switching to the income tax and benefitted high profit companies which Lindsay had made a target of business tax reform.

But only these industries were successful. By endorsing an income tax, cutting the bank tax and vetoing the business tax and the real estate tax rise, the Economic Development Council had directly challenged the Republican leadership. Any tax savings for New York City business would probably come out of the pockets of suburbanites.

As the tax battle soon showed, Lindsay enjoyed less influence in Albany than the city businessmen. Being the first Republican Mayor since LaGuardia offered him few advantages. While the Republicans had won back
the Senate in 1965, the leadership was no friend of Lindsay, whose liberalism was viewed as the epitome of all that ailed their party. Feuding with Rockefeller did not help.

Negotiating was hampered by the fact that 1966 was a state election year. One year earlier, just before a court-ordered election, Rockefeller had forced an unwanted sales tax down many Republican throats with the support of New York City Democrats. Now, in 1966, the New York City suburbs, home of the very voters slated to pay the commuter tax, were the election battleground. (111) Neither party wanted to run on the tax plan. The city’s power base was further weakened by a new apportionment scheme which, while providing New York City with a few more seats, gave even more to the city’s suburbs. They now controlled nearly twenty percent of both houses. (112)

Legislative leaders doubted Lindsay’s huge tax program was necessary. Republican Senate leaders reiterated their conventional policy: the city must rely on its own resources. It should raise real estate taxes and, given the transit settlement, the subway fare. Commuter taxes were out of the question. A $135 million rise in real estate taxes, a $60 increase in business taxes, $69 million in stock transfer taxes and $84 million in new transit money would net adequate revenues. Rockefeller, who more than the party leadership,
depended on suburban votes for his re-election, endorsed this strategy. (113) The Senate Majority leader dubbed the income tax "dead." (114) But his plan was soon as "dead:" New York City Republicans joined with Democrats to defeat the real estate tax increase.

Lindsay ignored the Democrats even though they controlled the Assembly and offered him a promising alternative. Upstate Democrats were willing to expand taxing powers for all state cities, including New York. They opposed, any city contribution to transit since city fares were lower than those paid by their constituents. (115) Despite the likelihood of a revenue gain for a subway fare rise, and even after realizing they would "lose" on the transit issue while the tax issue was still undecided, Lindsay and his aides refused to concede the 15 cent fare. (116)

With the tax proposals of both parties stalled, an income tax was the only hope for adequate funds. But what kind of income tax?

Here the contradiction between Lindsay's tax plan and New York City tax politics became more and more apparent. Unfortunately, what Lindsay insisted upon as fair, just and thus necessary, taxation based on ability to pay, was also the revenue centerpiece of the entire program. The trade-off between equity and adequacy -- indeed of both equity and adequacy -- was soon to happen.

Lindsay was well aware of the the legislative
agonism to taxing incomes, especially commuter incomes. It was long-standing, rooted in the state's own reliance on income taxes (117) and in the politics of the Republican party itself. Lindsay's justification for his particular tax, that without equivalent levies, New York City residents would migrate to the suburbs, made little sense outside city borders. Even Democrats disputed this. While agreeing that commuters should pay some tax, State Controller Arthur Levitt argued the payments should not be equal since commuters did not utilize city services to the same extent. (118)

But a hostility to income taxes did not rule out all taxation on non-residents. New York still enjoyed its payroll taxing power now estimated at $110 million. (119) Though less lucrative than the income tax, the payroll tax enjoyed political support. After all, it did not require a vote. The Senate Minority Leader, a Long Island Democrat, long a foe of commuter taxes, urged the payroll tax to avoid a legislative vote. In May, Deputy Mayor Price negotiated a $401 tax million settlement with Rockefeller and GOP leaders based on a combined non-resident payroll/resident income tax. On the advice of Liberal Party boss and Hatters Union President Alex Rose, Lindsay vetoed the plan. Within days, he realized a compromise was inevitable. He agreed to a that commuters should pay less but rejected any kind of payroll tax. That of course retained legislative
control over the tax plan.

Much like the transit crisis in 1953, the tax crisis was ended swiftly -- and by the Governor. In a three day and night marathon session at the Governor's Mansion in mid-June, Lindsay learned what tax reform was about. (the very end, he had counted on a press campaign for his victory. (120) He quickly learned otherwise.

"These talks, the mayor confided to an aide, "are much tougher than the transit strike. I've never been involved in anything like this." (121) The final settlement was worked out by three top Rockefeller staff, who came up with a revenue total and several ways to fund it.

The state gave Lindsay $283 million in new taxing power $237 million less than he had initially requested. This plan included $137 million in city income taxes, $23 million in new commuter taxes, $58 million in new business taxes, $35 million in stock transfer taxes, and $30 million in increased water charges. Left announced, though deemed "inevitable," was a transit fare hike to provide another $84 million. (122)

The New York Times, the mayor's strongest public supporter, called the settlement "a half victory...but on principle a great victory." (123) Lindsay proved less enthusiastic. To the press, he claimed, "The essence of compromise is that you give more than you want to...." (124) In private, he worried that "....we had to give away half of New York to do
it." (125)

What had the mayor given away? He had lost $100 million in fiscal reforms and the 15 cent subway fare. He had won on equity, at least partially. The city was empowered to levy a graduated income tax on residents at half the initial rates. The top rate was about two percent, just about what the Economic Development Council had urged. A 1/4% earnings tax would be levied on commuters when city agreed to an abolition of its 1/2% payroll tax.

But to preserve even that modicum of equity, the mayor was forced to scale back his tax demands and inflate his revenue estimates. Of the $237 million cut from the initial tax package, perhaps $180 million were the result of actual expenditure reductions. The rest was negotiated as part of the final settlement. Estimates of state aid and city tax collections were upped by $102 million, increasing the revenue package by one-third. So uncertain were city and state officials on the final revenue package that to break the deadlock, Rockefeller promised to come up with state funds should the commuter tax yield prove lower than expected. (126) It did by one-third.

The whole cycle of questionable budgets quickly started again. The Temporary Commission on City Finances complained that the legislature's "unfortunate cutbacks" left the city with a $35 million gap in 1966 and a
probable $400 million budget gap in 1967. (127) City bankers were even more pessimistic: they called the budget "illusory," with spending underestimated and tax yields overestimated by $87 million. Standard and Poor's lowered the city's credit rating. A bond issue in July carried the highest interest rates in 34 years; no large banks made purchases. (128)

At the same time, Lindsay's dogged defense of tax equity made little change in the tax bills of lower-income New Yorkers. (It did prevent higher tax bills as both the Temporary Commission and the Economic Development Council urged.) Their actual tax bills remained constant even as the total tax collection was cut nearly in half. Behind the debate over equity was a tax battle over the tax burdens of the wealthy. Under the graduated tax, a taxpayer with a $4500 income would have paid $7. Under the final agreement, a resident earning $5000 would pay $7, a commuter, $5. But a taxpayer earning $15,000 would have paid $216 in graduated income taxes, only $81 in the final plan. The commuter would pay just $32.50. A person with a $27,500 income would have paid 20% more under the initial Lindsay tax than a person with a $50,000 income under the final tax. (129)

Conclusion

As is well known, one of the immediate causes -- and signals -- of the city's financial collapse in 1975 was the explosion of its short-term debt. By 1975,
short-term debt had reached $14 billion up from $1.28 billion in 1970. Short-term borrowing had become the easiest way to close the revenue - expenditure gap, a much easier way than raising taxes or cutting expenses. Most frequently, the city’s resort to this revenue strategy is blamed on the political coalition backing Lindsay. By bringing blacks and other disenfranchised groups into his administration while proving unable to discipline the traditional power brokers like public employee unions, the administration institutionalized rapid spending.

This investigation suggests political difficulties on the revenue side of the budget as well. Short-term borrowing was not, as this study shows, a policy invented in the 1970's. A Security and Exchange Commission Staff Study concluded in 1977 "Long before 1974, the financial community realized that the city's fundamental problems was the insufficiency of revenues to meet expenses...." (130) The study then cited bank memoranda, dating as far back as 1966, which warned of the "disaster" of "deficit financing." (131)

The Commission on State-City Relations traced city revenue problems back even further:

Without question, the expenditure-revenue gap....identified in 1952, further confirmed in 1966, remains the fundamental dilemma of the city fiscal crisis....

Each study reviewed in this report concluded that New York City
could not expect any reversal in its consistently expanding revenue gaps and would be forced to enlarge its revenue sources and reform old tax structures.... (132)

The city's inability to "reform old tax structures" pre-dated the spending explosion normally associated with Lindsay. This case study has attempted to show that this failure at tax reform was caused by the opposition of major groups within the city to change and by the inability of politicians to come up with plans capable of overcoming such opposition.
Footnotes:


2. The Finance Project was directed by two economists, Robert M. Haig and Carl Shoup, who had studied New York City finances since the 1920's. Commission members included representatives of the Commerce and Industry Association, Citizens Budget Commission, Citizens Union, Tammany Hall, real estate, labor, the press, Macy's, Chase National Bank and Robert Moses.

3. The Financial Problem, p. 89.

4. Ibid., pp. 410-412.


13. In the midst of a 1952 budget crisis, the legislature passed a rise in the real estate tax limit from 2% to 2.5%. Dewey cut it back to 2.25% in the transit authority negotiations to ease the burden on real estate interests which did not win the exemption of debt costs from the city budget. In 1955, the legislature raised the limit back to 2.5% and that was
passed by the voters.


19. Undated, untitled memo, Ogden Reid Papers, file 47-516, Stirling Memorial Library, Manuscripts and Archives, Yale University.


24. op. cit., volume 1.


27. In 1952, of the 33 members of the executive committee of the chamber of commerce, the directorships or business affiliations of seven can't be traced. Of the remained, 14 were officers or directors of financial institutions; 5 were officers or directors of national firms (of these were also bank directors). Executive Committee members included J.D. Rockefeller Jr.; Frederick Ecker, the Chairman of Metropolitan Life; the President of IBM; the Executive Vice-President of the New York Clearinghouse; President of the Executive
Comitteee of First National City Bank and the Chairman of the Chase Advisory Committee. Of the 13 non-financial members, one was affiliated with a paper company and one with a textile firm.

In 1962, of the 35 members of the executive committee, 25 were affiliated with financial institutions including the President and Chairman including the Chairman of the Board of Chase; Chief Executive Officer of Duna on Bradstreet; Chairman of Naitonal City; President of Chemical Bank. Of the 10 non-financial members, only 1 was a labor intensive manufacturing firm.

On the Commerce and Industry Association Board of Directors in 1957, 7 of the 25 members were affiliated with the financial community; 10 with national corporations; 4 were lawyers; 1 was a food manufacturer.

The CBC had greater real estate and real estate representation; fewer banks and national companies; equally small manufacturing.

28. The Effects of Taxation on Manufacturing in New York City. Ninth Interim Report to the Mayor by the Temporary Commission on City Finances, December 1976, Table 1.


33. While manufacturing did not get the tax relief granted upstate, the gross receipts tax offered its own possibilities for lower taxes for those with political connections. In 1953, the city had shown its willingness to tinker with the gross receipts tax, largely out of the glare of publicity, when it exempted investments trusts from the financial tax. In 1957, it lowered the tax burden on specific industries, again mostly financial, with low profit margins.


Of the 21 industries with above median "relative net burdens," 8 were apparel industries, 4 were food and 2 were furniture. Of the 21 14 were labor-intensive manufacturing industries. Least burdened were drugs, petroleum, paper, soft drinks and chemicals. The burden on dressers, the most heavily burdened industry, was almost 19 times that of drugs. Equally large disparities plagued wholesalers and retailers. Food and clothing wholesalers and independent grocers were especially hard hit.

36. Ibid., December 1960, p. 18.


41. Business groups proved successful in their search for local taxes. Business tax rates remained stable until the mid-1960's. A 1965 study by the controller concluded that the business tax share had "declined substantially over the past twenty years."


44. McClelland and Magdovitz, op. cit., pp. 400-401.


55. Edward Katcher, Post, April 1, 1959.


61. Temporary Commission on City Finances, Better Financing for New York City, August 1966, p. 3.

62. Ibid., p. 27.


68. The other members of the Commission included an accountant, three academics with long ties to New York City and a former head of the state department of education.

69. Among the non-recurring revenues were the acceleration of business income taxes and the counting of 14 months of pension withholding in 12 months.


88. The Commission also recommended $200 million in operating economies and $145 million in additional state and federal aid.

89. TCCF, *op. cit.*, p. 56.


93. TCCF, *op. cit.*, p. 5.

94. Gene Becker to Mayor Lindsay, "Reducing the Budget," Lindsay Papers, Box 347, File 213.

95. Jay Kriegel, memo, June 4, 1966, Lindsay Papers, Box File 387.


100. The President of the Amalgamated joined by another Commission member who was a CPA alone supported the graduated income tax and the business income tax.


103. The Economic Development Council included the Chairmen of the Board of Macy's, Abraham & Straus, Chase Manhattan, Continental Insurance Co., Equitable Life; New York Life; New York Telephone; the Presidents of the New York Stock Exchange; Brooklyn Union Gas., First National City Bank; the Chairman of Con Edison; and the former President of General Foods.


105. Ibid., p. 11.


108. Bertram Podell to John V. Lindsay, May 2, 1966, John V. Lindsay Papers, Municipal Archives, New York City.


112. Lehne, *op. cit.*


116. Kriegel, Memo, June 4, 1966, Lindsay Papers, Box 359, Folder 387.


118. Ibid., p. 21.

119. "Personal Income Taxes," Lindsay Papers, Box 359,
Folder 387, Yale.

120. Kriegal, op. cit.


122. Ibid., p. 194.


125. Ibid., p. 194.


127. TCCF, op. cit., p. 9.

128. Alden, "City Warned by Banks on Estimates of Funds," Ibid.


Chapter Seven: Tax Reform and Tax Coalitions

In many ways, this dissertation ends where it should begin -- with some general propositions about tax policy. Curiosity about urban policy, not theoretical concerns, prompted the study. That curiosity was further sparked by the urban fiscal crisis literature which, despite differences in approaches and evidence, consistently showed that economic interests are key players in urban fiscal policy-making. Unfortunately, whatever its significance for spending analysis, the fiscal crisis literature was muddled in its approach to taxation.

This study had to start from scratch. How do economic interests influence tax policy? Do Do governments singlemindedly pursue the tax demands of economic elites as is often argued? If not, what strategies do elites pursue to realize their demands? What, in particular, is the influence of voters? How do politicians or public policy-makers negotiate or deal with conflicting pressures?

Because so little had been written about these issues, this investigation was necessarily empirical. Its questions, of course, were rooted in existing models of tax politics but none of these models nor indeed a combination of them seemed adequate.

The major finding of this dissertation is theoretical. Both cases suggest a new approach to tax
politics, an approach quite different from those discussed in Chapter One. Tax reform, the cases suggest, is most usefully considered as a process of organizing political coalitions rooted in economic interests. Economic interests, typically mobilized by changing tax burdens, not political parties or even existing political organizations, define the tax reform process. Much of this chapter will discuss tax coalitions and tax reform.

Business is the key play in both cases. But business is not a "community." It is important to understand how business operates in the political process as well as the extent of its influence.

**Tax Reform as Coalition-Building**

How can tax coalitions be linked to tax reform? First, the analysis can begin by considering the existing tax structure as a kind of political agreement on how to finance the city.

But agreement among whom? To find out, we can attempt to trace the origins of different taxes. In New York City, for example, the city's bankers imposed the city's non-property taxes in the middle of the 1933 financial crisis. That crisis explains the curious incidence of the tax system; the bankers' unique, among business, advocacy of higher budgets; the bankers' solid opposition to business tax reform. Chapter Two argues that twentieth century central city fiscal problems were caused in part by state tax reforms. These reforms were not merely attempts to rationalize the tax system but
also efforts by state governments, typically controlled by a Republican alliance of business and the wealthy to remove income-based wealth from the control of city machines.

An alternative to examining tax origins is to examine tax incidence. Investigating tax incidence first identifies the major taxpaying groups and suggests who is relatively burdened or benefitted by the tax structure. This is a fairly simple task in Boston where there is only one tax, the property tax, at issue.

New York illustrates a more complex case of tax incidence. Obviously, different taxes define taxpaying groups in different ways. It is however possible to map out the incidence of each tax and to rank the preferences of groups. Such preferences correspond to the effective tax burdens, at least among the activist groups. For instance, the banking industry remained generally unconcerned about most tax increases. But it was relatively unburdened by the sales tax and the gross receipts tax. It was quick to oppose an extension of the sales tax or a modification of the business tax.

New York also illustrates that the tax system may consistently burden some groups. Small, labor intensive manufacturing was hit hardest by the gross receipts tax, by the sales tax and by the real estate tax. Low-income renters were hard hit by the property tax, by the sales tax and by subway fare increases.
A process of tax reform begins when this existing tax structure -- or the agreement on it -- breaks down. Both cases are thus largely analyses of the breakdown of the existing system and attempts to replace it.

**Tax Burdens and Tax Reform**

Even two cities intimate that a tax structure may break down for many reasons.

First, the system may in fact not work well. "Objective fiscal problems" especially the failure of revenues to keep up with spending may cause dissatisfaction with the tax system. City officials often exhibit this type of dissatisfaction. Tax reform is thus presented as the search for rational solutions to city, i.e. shared, tax problems.

Such a rational or technocratic manner of defining tax reform is quite common especially in the documents of experts who populate the process. To a certain degree, key participants in both cities shared this view of tax reform. In New York City, was increasingly clear that the city's tax structure was not adequate for its spending demands. Making the tax structure adequate was the focus of tax reform in New York. Boston's Mayor John Hynes came to realize that he needed a new policy to attract new development.

But the need for a better tax structure is not the only cause of discontent. Boston illustrates quite strongly another cause, taxpayer groups become unhappy with their tax burdens. In Boston, the displeasure of
business was key to the entire tax reform process. Such taxpayer dissatisfaction may coexist or indeed reflect the objective tax problem: New York City's manufacturing sectors.

The sources of changing tax burdens are often not the result only of city policy, i.e. higher taxes, and thus do seem beyond its control: rapid suburbanization in New York; sectoral decline in the apparel industry; economic decline in Boston. sectoral decline; economic decline.

While the cause of changing tax burdens may be "exogenous," to use a term common to the literature, the trigger for tax reform efforts is not. Pressures for change build slowly; tax burdens climb for a while. Taxpayers suffer without action until the opportunity for change appears. For instance, whatever the economic cause of taxpayer dissatisfaction in Boston, taxpayer involvement in tax reform was triggered by a political opportunity, the change to get rid of Curley. Lindsay's tax reform plan hinged on the collapse of Wagner's strategy, a collapse rooted not the city power balance but in the state power struggle and budget problems.

Moreover, efforts to find alternatives to the existing system and to create new alliances in favor of these alternatives are distinctly political efforts. Since the causes of taxpayer dissatisfaction may
differ, as in New York City, the task of finding allies is not simple.

Thus, even the theoretically rational policy search must deal with the fact that for most taxpaying groups, tax reform is viewed as an effort to shift tax burdens. At times, a taxpaying group may share the city's definition of tax reform. Such concurrence has benefits for both. It legitimates the tax demands of the group as an instrument of city policy. It also provides the city with an ally in the tax reform process. Boston businessmen eventually linked their goal of lower business property valuation with the city's goal of attracting new investment.

A taxpaying group may remain at odds with the city's "objective" needs. New York City's gross receipts tax quickened the decline of its competitive manufacturing industries and let some of its strongest industries escape with low taxes. Thus, the tax hurt the economy and was a less effective tax on business than alternatives. High profit industry and banks bitterly opposed any such tax change.

Thus, spending pressures are not the only factor shaping tax demands. In contrast to the fiscal crisis literature, these cases demonstrate that taxation is not determined by spending levels or spending patterns. The relationship between spending and other pressures will be considered in a later section.

Why Tax Coalitions?
Coalitions are not, of course, unusual subjects for political analysis. But, as Chapter One points out, coalitions have not been a common subject in the study of local tax politics. Most scholars tend to focus on broad categories of economic interests — notables, business, capital, labor, consumers — or on the individual as more or less rational voter or taxpayer. Thus, the cases did not begin with a model of coalitions but ending up recognizing them. The cases themselves, the problems and process they present, made coalition analysis seem the most appropriate.

Three examples illustrate the possibilities of the coalition approach over the standard arguments.

A dominant theme of standard works on local taxation is the overwhelming importance of economic changes to tax changes. The origins of — the timing of — Boston's tax change suggest otherwise. The city had suffered economic decline for years. Economic decline exacerbated the city's long history of high tax rates and discriminatory assessing practices. Yet there is no evidence that tax problems dramatically worsened in 1945. What prompted tax change was a political opportunity and a change in the attitude of prominent Boston businessmen to the city's politics. The re-election of James Michael Curley in 1945 galvanized both leading executives and the middle class Irish. In addition, Boston Brahmin politico Henry Shattuck was
vital not only in mobilizing businessmen but, by his own admission, picking Curley's replacement.

What about arguments asserting that exogenous economic or political crises determine major tax change? New York City's near bankruptcy in 1933 demonstrates that however dramatic the impact of a national depression and it was very dramatic, specific tax policies result from the actions and struggles between economic interests within the city itself. The city credit crisis, coupled with the collapse of city political leadership, gave the bankers an unusually unchallenged role in city hall. They took advantage of that political opportunity to impose a tax system to their liking. A change in political leadership did not end the bankers' control. LaGuardia's tax program was killed because the bankers refused to loan money against any tax of which they disapproved.

Finally, the model proposing that governments singlemindedly promote economic growth at the behest of economic elites falls short. In the first place, it assumes that elites have similar stakes in economic growth, an agreement which the Boston case disputes. Even business groups often disagree on the tax changes necessary to foster growth. How could Paul Peterson, an advocate of this model, explain the consistent opposition of New York City business groups to a tax change to aid economic growth? Banks, in the 1950's at least, were less footloose than the city's
manufacturing industry. They were also less threatened by competition in other jurisdictions. The city's business tax reforms made economic sense -- for the city. But they threatened the tax privileges of big business.

What's in a Tax Coalition?

Two groups are central to tax coalitions in both cities: city businessmen and homeowners. These categories are not homogenous. There are conflicts within each are as frequent and bitter as those between them.

Businessmen and business organizations are the most politically active of all taxing groups. In fact, as a later section will show, taxation offers a rare opportunity to witness how business operates in local politics.

Yet, despite business activism, homeowners are the most privileged taxing group in both Boston and New York. If there is an inescapable choice between taxing homeowners or taxing business, politicians will tax business. Such a conflict dominates tax reform in Boston. New York City demonstrates even more strongly that if there is an alternative to raising residential assessments, politicians will use it.

The privileged position of homeowners suggests there is some validity to the voter-centered model. Indeed, since there is little active political activity
on the part of individual taxpayers, the sensitivity of local politicians to their tax demands appear to link in the fact of electoral competition. On the other hand, homeownership, not voting, is associated with favored tax status. In Boston, where the data is best, voting turnout is not associated with lower assessments nor is it associated with homeownership. (Nor is income associated with turnout.) One relationship is clear: the higher the value of the house, the lower the assessment ratio. Just some voters benefit from tax policy.

**Tax Coalitions are Different**

John Mollenkopf and Martin Shefter have both relied on coalitional analysis in their recent examinations of urban politics. Mollenkopf examined what he called pro-growth coalitions, alliances of central city politicians, "a new breed of bureaucrat," large corporations, city real estate, merchants and the construction trades, to trace urban renewal policy in central cities. To explain New York City’s recurrent fiscal crises, Shefter has fashioned a theory of spending coalitions. At times in New York City history, he argues, "out" politicians allied with disaffected business and new ethnic groups have come to office and then maintained their power through major spending programs. Such spending coalitions have eventually led to financial collapse after which a different group, typically opposed to big spending, takes over.

The tax coalitions in these two city's differ from
both the pro-growth and the spending coalitions. In contrast to the urban renewal alliances, one group of voters, homeowners, are key players. Electoral competition is a potential threat.

While voters are more important in Shafter's analysis, tax coalitions are more likely to be alliances of the have's. "Duds" do not dominate tax politics. In tax coalitions, taxpayers with greater control over economic resources benefit most from tax change. In Boston, the tax status of the better-off homeowners was preserved while developers with capital won a new policy of tax concessions. In New York higher-income taxpayers benefitted from the cut in income tax rates. For years, higher profit companies and a wealthy industry, banks, enjoyed lower business taxes.

At the same time, while tax coalitions are alliances of the have's, putting them together and keeping them together is not easy. There's no question that tax reform causes conflict. Such conflict reflects the power, both economic and political, that the "have's" wield. In Boston, conflict broke out between business and wealthier homeowners; to end that conflict, business split, bigger companies cut a deal. In New York, high profit, higher income people were better off under the existing system than the one urged by LaGuardia in 1933; they were better off with the Rockefeller-negotiated system than that urged by Lindsay. The Lindsay business
income tax did better the high turnover, competitive manufacturing and trade sectors at the expense of banks. This victory was due more to the business consensus that banks should be taxed than to any political muscle on the part of manufacturing.

In both cities, curiously, the existing tax structure benefitted the better off as did the process of tax change. Thus, tax reform is about winners and losers among the haves, too.

New York City suggests that the tax conflicts and alliances depend largely on the tax issue in question. Though it often split with other business groups in its advocacy of higher taxes, the bankers assumed the lead in battles against business tax reform or the commercial sales tax extension. When the business income tax looked inescapable, the manufacturing sectors who had long allied with the banks, maneuvered to secure a better tax deal for themselves. This instability of alliances does not characterize either Mollenkopf or Shefter's coalitions.

In contrast to their vital role in both Shefter and Mollenkopf's coalitions, politicians or public officials do not necessarily take the lead in putting together tax coalitions or resolving tax conflicts. In Boston, the dominant role was taken by prominent businessmen. In New York, Mayor Robert Wagner avoided confrontation with taxpaying groups and thus avoided the necessity of making alliances to solve revenue problems.
Much of his effort was spending playing off state factions. Tax reform was dumped on Lindsay who never tried to build an alliance to support it.

Finally, tax coalitions are unusual because they involve alliances across levels of government. That is, the analysis of city tax structures and groups must include a similar analysis of state tax structures and groups. Financing city budgets through state tax change is always a hypothetical, therefore political, alternative to city tax reform itself. State and city tax structure impact different groups differently and are thus different alliances of taxpayers. In addition, some taxpayers may be more politically influential in the state house than in city hall.

For instance, consider the New York City business tax split between larger, capital intensive manufacturing and banks and competitive, labor-intensive manufacturing. The former industries dominated city business organizations and blocked a change in the tax structure which burdened the competitive sectors. In the state government, that is within the Republican party, the competitive sectors were less disadvantaged. Manufacturing was more important to the state economy and the role of taxes in its decline was a big issue in Albany. At the same time, the GOP was trying to prevent the growth of the Conservative Party, which threatened its support among upstate manufacturing interests. Thus,
there were economic and political reasons for the greater influence of manufacturing in Albany. Eventually, the state pressured the city to change its business taxes. But a key reason to examine the state and city tax structure as alternative financing mechanisms is that major taxpaying groups carry out such calculations. In Boston, the Chamber of Commerce assumed leadership in the struggle for property tax reform. However, the Chamber refused to endorse the mayor’s call for a state sales tax to finance property tax relief. The powerful retail interests in the Chamber were more willing to tolerate a high property tax burden than a sales tax burden.

**Tax Coalitions and Tax Policy**

Focusing on coalitions not only deciphers tax politics, it also illuminates tax policy.

For example, neither city came up with a tax policy that was adequate to solve its tax problem. The "objective" tax problem remained to a degree. This policy failure, as it were, did not result from disagreement on the nature of the city's fiscal problem. No group doubted that business property was overtaxed in Boston and that such heavy taxation discouraged new construction and economic growth. No group, even those business groups advocating economy, doubted the city's revenue shortfall and the need for new taxes to close it.

Thinking about tax reform as a process of tax
tax burdens makes a distinction between the city's "objective" problem and the relationships of different taxpayers to that problem. Taxpayers view tax reform largely as an attempt to shift tax burdens, their tax burdens. The substance of tax politics is tax burdens and tax shifts not tax reform.

Such an interpretation intimates that tax reform works when it improves the tax burden of an economically powerful and politically organized group, such as big business in Boston. It fails when it depends on an unorganized constituency, such as low-income voters. Yet as a further step, relying on a economically powerful group for the success of tax reform might necessitate changing the definition of tax reform, i.e. substituting tax concessions for wholesale revaluation. Boston suggests that such compromises, while politically necessary at the time, might limit the success of reform and add to the city's fiscal problems.

Analyzing coalitions also helped account for decisions that were avoided. An important factor shaping the property tax reform process in Boston was the legislature's refusal to channel money to the cities. In the press, this refusal was attributed to Republican ideology; to legislative bickering; to petty ignorance. But, if the platform of limited budgets and tax cuts is probed, one fact is clear. The Republican party's constituent groups, both electoral and organizational,
were quite satisfied with the existing tax structure. After all, they had largely designed it. When as in New York, an electoral bastion, the suburbs, became dissatisfied, the party platform shifted swiftly.

Business and Tax Reform

Businessmen and business groups played key roles in both tax reform processes albeit strikingly different ones. Recent writings on fiscal politics have speculated on various reasons for successful business influence. Peterson for example roots it in business control of economic growth; Alford, Piven and Friedland in institutional arrangements. Neither explanation fits the cases of Boston and New York.

Boston demonstrates an outstanding example of a wholesale, sustained business political effort. From the outset, businessmen saw tax reform as part of a broader effort at political change, both within the business community and the larger city. In part, the legal difficulties of tax change made political action imperative. Businessmen not only mobilized businessmen by reinvigorating existing organizations like the Chamber of Commerce. They also reached out to all major city institutions from the Catholic Church to labor to the press. The collapse of the traditionally dominant Democratic party created a kind of political vacuum which prominent businessmen seized as the opportunity for a power comeback.

Boston businessmen thus utilized a wide variety of
political influence from endorsing political candidates and serving as mayoral advisors to establishing policy research committees. Business political activity was both highly public, as with the B.C. seminars, and quite private, as with the Vault's campaign interview with Powers and Collins. Within a decade, businessmen and business groups became the most visible political actors --on any issue not just taxes-- in the city.

New York City businessmen demonstrate a totally different kind of political activism, one narrowly focused on business issues and largely independent of other political groups. Sweeping political efforts did not appear necessary in New York. Business was much more organized than in Boston. There were at least three prominent citywide business organizations and many neighborhood and trade associations. And, while often at odds with Democratic politicians, city business organizations still enjoyed more cordial relations with Tammany Hall than their Boston counterparts did with James Michael Curley. Personal vendettas against big corporations were not a way of life in New York City. Even the returning Tammany mayor, William O'Dwyer, persuaded Nelson Rockefeller to briefly serve as his business advisor.

Nor did New York business face the economic disaster that seemed Boston's fate. New York's boom was not equally shared. But, in general, the healthy sectors
of finance, headquarters and corporate services
dominated city business organizations and thus,
maintaining prosperity, not halting decline, was the
central problem. That seemed to involve preventing
government interference rather than overhauling
government itself.

Once mobilized, Boston businessmen and their
political allies, who included the mayor, the governor
and much of the legislature, proved adept at overcoming
the difficulties of tax reform. These difficulties were
not, after all, insignificant: the city council vetoed
revaluation, the legislature disagreed over new state
taxes and the Supreme Judicial Court ruled property tax
concessions unconstitutional. Much as they had used
Curley's jail sentence to get rid of him for good,
businessmen capitalized on Prudential's and the city's
interest in a Back Bay development to secure, if not the
desired tax policy, at least a policy more favorable to
business interests.

While economic decline and political opportunity
abetted business involvement in Boston, the existing tax
structure furthered the consensus. Nearly every
businessman in Boston was hurt by property tax
assessments. In New York, the tax structure divided
businessmen. Each tax had differential impacts on the
business community: the gross receipts tax burdened low-
profit companies; the financial tax did not touch banks;
the retail sales tax hurt manufacturing companies but

238
not services.

Tax differences prompt political differences. On tax issues, the idea of "the business community" is not analytically useful. Divisions among business flared constantly. Leading bankers urged a payroll tax which the Chamber of Commerce and Commerce and Industry Association opposed. Both these latter groups joined by the Citizens Budget Commission consistently rejected any change in the gross receipts tax despite mounting evidence that it hurt key manufacturing industries. As the city's problems worsened in 1965 and 1966, new divisions appeared. In 1965, large realtors blocked a city bond sale agreed to by Wall Street. In 1966, ignored by the mayor, different industries carried out their own lobbying efforts in the state capital.

Despite its more sustained agreement, "unity" was not inherent in the Boston business community either. It depended on the tax issue at stake. For twenty years, the city's leading business representative, the Chamber of Commerce, took no position on a state sales tax because it membership was divided. When the Chamber realized that only new state revenues could provide city tax relief, it became a sales tax champion. Unity collapsed as well. While the demand for revaluation joined businessmen, tax concession divided them. Business grumblings pushed Prudential to a more formal tax arrangement. In the end, such controversy
enhanced business' bargaining position because it was already politically mobilized. A court suit did not seem out of the question. To quiet opposition, the mayor agreed to make tax concession a central component of city policy. The mayor needed their support.

How much of their political success is due to the small size of the Boston business community compared to New York City's? This question can not be answered because New York City businessmen never attempted to organize the kind of political effort that Boston businessmen did. What is striking is the essential role of a few key individuals and institutions in creating the "New Boston." From the initial charter reform effort in 1945, to the New Boston Committee, to the B.C. seminars, to the Greater Boston Economic Study Committee to the Vault, top executives of the First National Bank of Boston, John Hancock, the National Shamunt Bank, New England Telephone and Gillette are visible. In Boston, such men could literally sit around a table and discuss the issues, an event hard to imagine in New York.

On the other hand, New York City businessmen were readily consulted on tax issues and when they mobilized, they often prevailed. Transit fare hikes, the veto of the commercial services tax and the retention of the gross receipts tax were solid business victories.

Finally, in both cities, big companies were the major business representatives. In both, major city banks, utilities, retail companies and real estate firms
are well represented in business groups. These were industries that in the 1950's were still heavily dependent on local economic activity. Even big New York City banks depended on local markets. Size seems as important than local economic linkages. Headquarters firms also appear frequently on organization boards: Gillette and Raytheon in Boston, Standard Oil, Otis Elevated, Lever Brothers, Nabisco, and General Electric in New York.

**Future Research**

These arguments are clearly not definitive conclusions but rather propositions with which to further study local tax politics and the role of economic elites -- whether organized or individual -- in tax politics.

It seems equally appropriate to point out a few questions which the cases raise but do not help answer. First, how can the link between spending and taxing policies be conceptualized? The fiscal crisis literature generally argues or assumes that spending pressures, policies or politics determines tax change. This study found that spending was just one of several factors. But it was one; in New York, the major one. Unfortunately, the New York case provides little insight into the relationships between spending policy-making and tax policy-making even among the groups visible in both, business and study commissions. Only Robert Moses seemed
to have a strategy for both.

Yet, the fact that certain groups appear influential in both spending and taxing suggest the two are not, in fact, separate. Perhaps Shefter's model of spending coalitions could be applied generally. After all, if coalitions dominate tax politics, why not spending politics? On the other hand, most fiscal crisis literature offers a fragmented view of spending politics as in Alford, Piven and Friedland's analysis where business groups protect their programs; popular group, their programs.

Whether or not coalitional analysis applies, the relationship between spending and taxing remains to be examined. For instance, do shifts in spending demands alter tax coalitions? Do politicians consistently separate them for electoral advantage as much of the public choice literature argues? Can tax coalitions be merged with spending ones so that, for instance, popular needs become justifications for regressive taxation?

A second question involves a different kind of analysis. What is the relationship between business and wealthy taxpayers? We can assume that business executive and shareholders are also wealthy individual taxpayers. A tax conflict among the haves may not be a conflict between two different groups of taxpayers, e.g. business and homeowners, but a struggle over different ways to tax the identical group. Depending on the industry, a business tax may be shifted onto consumers or labor,
that is may not be borne by the wealthy individual executive or shareholder. An income tax is not shifted. While that calculation makes all tax politics complicated, local tax analysis is more complicated since several taxing jurisdictions are often involved. A business taxpayer may not live in the city; hence he/she might prefer raising taxes on individuals to raising taxes on business even if the business tax can be shifted.

Third, the importance of political organization remains problematic. This dissertation has asserted the importance of politics to tax changes. For instance, it has argued that political opportunity is critical to the onset of tax reform. But the impact of political organization, that is the combination and integration of groups in the local political system, is less clearcut. New York had many more political groups and more political activity than did Boston. Yet in both cities, only business groups actively participated in tax reform.

For business, political organization is important. Even the biggest corporations, that is those with the most economic power, took political action. Tax politics seems to require both economic power and political activity.

Thus, while tax policy largely involves the haves, that dominance does not seem inevitable. As the business
case suggests, political organization seems critical to policy success. What is striking is that most taxpayers -- for most are taxpayers even if they do not vote -- are unrepresented. New York is a fine example. Numerous groups advocated the needs of the underprivileged but they did not advocate means to pay for them.

What happens to tax conflicts, alliances and outcomes when groups other than business and homeowners get actively involved? What positions do labor organizations, for example, urge? Do they take up the positions of business (as with progrowth coalitions)? Do they identify themselves with their members as property owners? In New York, labor unions took up the cause of public employees.

More importantly, to what extent can political organization offset a lack of economic power? Under what circumstances? Can low-income people be mobilized into the tax process? If so, must they compromise with the haves? Can local tax systems be made more progressive?

These questions bring us back to Goldscheid and his debate with Schumpeter. While Goldscheid's notion of capital-dependent state may seem overly deterministic, in fact his argument can be interpreted differently. Goldscheid theorized that in a capitalist economy, the state lacked resources of its own. Hence, it could not create wealth. Political relationships, not economic ones, prevented the state from self-sufficiency. Goldscheid's image of "empty coffers" points to the
interconnection of political and economic power that keeps cities poor. The importance of political power to tax problems, we believe, means that the poverty of cities is not at all inevitable but can be changed by new political relationships.

the hope of change.
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