1. Introduction

Amy Ellen Schwartz

In 1952, Dick Netzer was awarded the PhD from Harvard University with a dissertation titled 'Pricing the Transportation Services of State and Local Governments'. That same year, his first academic article, ‘Toll Roads and the Crisis in Highway Finance’, was published in the National Tax Journal. It was to be the first of many articles, chapters and books on a wide range of topics in public finance, urban economics and, later, the economics of the arts and not-for-profit organizations. The hallmark of this work is the application of microeconomics to real world problems and the careful and thoughtful use of economic data and statistical analysis.

Dick is, undoubtedly, best known among academics for his work on the property tax. The Economics of the Property Tax, published in 1966, provided a comprehensive analysis of property taxation, discussing incidence, distribution and the economic effects on housing and cities. Dozens of articles and papers followed, exploring and addressing questions and problems regarding property taxation and state and local public finance more generally. The Economics of the Property Tax has become a classic, still found on the shelves of public finance economists and on course syllabi more than 35 years later. His article, ‘The Incidence of the Property Tax: Revisited’, published in 1973, earned him a spot in the National Tax Journal’s Hall of Fame in 1997, which included the top ten most cited articles published in that journal.

Of course, Dick is also well known for his work on urban economics, including both the financing of local government and the provision of public services, and the New York City economy in particular. This has included academic research as well as public service that is impressive both for its depth and for its breadth. In 1965, Dick contributed a chapter to a volume entitled ‘Urban Research and Education in the New York Metropolitan Region’. He began, ‘Research on urban economic phenomena and problems in the New York Metropolitan Region, as in most of the country’s other urban concentrations, is sporadic, fitful and disconnected. Organizations, often of a temporary nature, and isolated individuals work on particular bits and pieces of urban economics when and as needed to cope with particular policy issues or as a diversion from other areas of
research.’ He concluded with a call for the community of scholars to meet their responsibilities to the larger community in which they reside and, as a true empirical researcher, for an improvement in the quality and availability of data. These themes still resonate today.

In the years that followed, Dick strove admirably to meet this responsibility. Since his return to New York City in 1960, he has served as consultant, advisor and economic guru for a wide range of civic organizations, public officials, commissions and councils, as well as academic organizations. Notable examples include more than 20 years of service as a member of the Board of Directors of the Municipal Assistance Corporation for the City of New York, of the Board of Economic Advisors for the New York State Assembly Ways and Means Committee, and as a member of the Board of Directors of the Citizens Union Foundation. He has served on editorial boards for the Journal of Urban Economics and Public Finance Review, among others. Equally important have been his contributions to public debate in books, newspaper articles and, memorably, the editorial pages.

Perhaps most impressive is the way he has been able to interweave academic investigation with the practice of public finance. His research and writing clearly reflect the lessons learned and insights gained from practical applications to problems facing cities. His public service clearly reflects the expertise and analytic acumen honed in scholarly research and engagement. In this, he is a role model for subsequent generations of public finance and urban economists seeking to balance academic inquiry and research with public service and practice.

Finally, Dick Netzer is well known for his pioneering work on arts organizations. In 1978, The Subsidized Muse: Public Support for the Arts in the United States, was published, again, the first of many publications dealing with the economics of arts organizations and government policy toward the arts. Although much more common now, there was, at that time, relatively little serious academic research by economists dealing with the not-for-profit sector as a whole, much less the arts sector specifically.

The papers in this volume were written for a conference held in October of 2001 in New York City in honor of Dick Netzer. The topics mirror those addressed by Dick in the course of his career: financing local government, the economics of urban public services and the economics of not-for-profit organizations. Further, they follow in the tradition of Dick’s work by utilizing the theoretical tools of economics and public finance and the best empirical methods and data available to gain new understanding of important problems.

The first paper, by Wallace Oates and Robert Schwab, What should local governments tax: income or property?, explores the relative merits of two alternative tax bases for local government: property and income. It begins
with a brief description of the actual use of the two taxes by local governments in the United States. It then considers the basic theory of efficient taxation in a local setting, the incidence of the two taxes, and addresses various administrative and institutional issues. New empirical work explores the relative disparities in tax base per pupil under income and property taxation for school districts in four large states. The results suggest that tax-base disparities are significantly larger under local property taxation. Thus a move to local income taxation would yield a sizeable reduction in tax-base disparities. The paper concludes that, on balance, local government can probably function reasonably well using either tax base. Both taxes can provide workable and reasonably efficient sources of local revenues. Although the authors do not find either tax base clearly and consistently superior to the other, they note that reliance upon a local property tax may well be preferred if the ‘separation of sources’ of tax bases – in which local governments rely upon the property tax while federal and state governments rely primarily upon income taxation – enhances local control and accountability.

The second paper, by David Sjoquist, Sally Wallace and Barbara Edwards, What a tangled web: local property, income and sales taxes, considers a related question in local public finance, exploring the impact of alternative taxes on the property tax. In particular, the authors examine whether the adoption of local sales and income taxes have led to reductions in property taxes. The paper begins with a discussion of the theory and existing empirical literature regarding the effect of tax-base diversification on existing taxes. Using a pooled time-series, cross-sectional sample of the largest 101 US cities across the period 1963 to 1990, they find that the adoption and presence of a local sales or income tax leads to a decrease in the level of property taxes per capita.

The paper by Andrew Haughwout explores the land value tax, long advocated by followers of Henry George because of its efficiency, as a possible revenue source for New York City (Land taxation in New York City: a general equilibrium analysis). The centerpiece of the analysis is a computable general equilibrium model of the New York City economy, calibrated to the city’s fiscal and economic environment, that can be used to simulate revenues, economic growth and employment outcomes over alternative tax schemes. The effects of replacing part or all of the city’s current tax system with a land tax are simulated and suggest that significant increases in overall output in the city are possible. Since some of the key underlying parameters are unknown, the paper describes the research that is needed for a thorough evaluation of such a policy change. The paper concludes with a discussion of the benefits of moving to land taxation in New York, including a discussion of the political economy of local taxation.
Two papers consider aspects of the expenditure side of the city budget. Ingrid Gould Ellen, Michael H. Schill, Amy Ellen Schwartz and Ioan Voicu (The role of cities in providing housing assistance: a New York perspective) evaluate the case for city intervention in the housing market, specifically by providing housing subsidies. The increasing reliance upon states and cities to implement social policy makes it particularly important to consider how the responsibility for housing policies should be divided among federal, state and local governments. This paper examines available theory and evidence and concludes that the role of cities is determined, in large part, by the nature and magnitude of external benefits; the federal government should play the central role in funding housing programs aimed at redistribution. The authors then turn to estimating the magnitude of these benefits for New York City’s housing investments in the last two decades of the 20th century. The results suggest that investment in affordable housing generated significant external benefits. The implication is that cities have a potentially important role to play in housing assistance, based upon the spillover effects of housing construction and rehabilitation in distressed neighborhoods.

Public ownership in the American city, by Edward Glaeser, addresses a related question that seems particularly important to consider in the modern rush to privatize the provision of public services: why do many American city governments directly provide public services, when public provision is so often linked with waste and inefficiency? Glaeser both presents theoretical models to explain public ownership and examines the history of public ownership in New York City to understand the causes and consequences of direct provision. American local governments own and manage a wide portfolio of enterprises, including gas and electricity companies, water systems, subways, bus systems and schools. Existing theories of public ownership, including the presence of natural monopolies, can explain much of the observed municipal ownership. Glaeser argues, however, that the history of America’s cities suggests that support for public ownership came from corruption then associated with private ownership of utilities and public transportation. Private firms that either buy or sell to the government will have a strong incentive to bribe government officials to get lower input prices or higher output prices. Because municipal ownership dulls the incentives of the manager and decreases the firm’s available cash, public firms may lead to less corruption. On the other hand, public ownership may lead to inefficiency and excessively large government payrolls.

The final two papers turn their attention to the not-for-profit sector. The nonprofit sector in K-12 education, by Charles Clotfelter, considers the role of the not-for-profit sector in providing and shaping primary and secondary
education in the United States, specifically addressing the implications for segregation and equity. In 1999, private schools enrolled 5.4 million students, representing 11 per cent of all elementary students and 8 per cent of secondary school students in the United States. In contrast to many other nonprofit organizations, the services provided by private schools are best viewed as substituting for the corresponding public services, rather than supplementing them. The implications of this distinction are important. Private schools increase the sorting of individuals across schools as families choose schools according to their tastes, thus serving to increase school segregation. Whether the effects are beneficial (because of positive effects of decreased residential segregation) or deleterious (because of adverse effects of racial or economic segregation) is a critical question to consider, particularly in light of the public support given to private schools, through tax advantages, and the additional support contemplated by voucher advocates. Clotfelter begins with a review of relevant theoretical and empirical research, focusing on the potential for the nonprofit sector to induce segregation. Empirical analysis suggests that private schools increased racial segregation and, quite likely, economic segregation also. Clotfelter concludes that the likely impact of private schools on public schools is negative, because of the impact on the peer group in public schools, undermining the case for government subsidies to private schools.

In The partially subsidized muse: estimating the value and incidence of public support received by nonprofit arts organizations, Joseph Cordes considers the nature and distribution of the subsidies for not-for-profit organizations, focusing particularly on the tax benefits. The paper discusses conceptual and measurement issues that arise in estimating the value of these subsidies, and uses a new comprehensive data set on the financial characteristics of more than 7000 nonprofit arts organizations to estimate the economic value and incidence of direct and indirect subsidies to the arts. The estimates indicate that in 1999 these organizations received on the order of $3 billion in direct and indirect subsidies, of which about two-thirds is attributable to tax incentives for giving, and the nonprofit exemption from income and property taxes. Art museums and media-related arts providers seemed to benefit more from these subsidies than did other providers. As in other areas of American social policy, the estimated pattern of subsidies, both direct and indirect, results from a host of decentralized decisions made by federal, state and local governments, private donors and not-for-profit organizations. As Cordes notes, these are unlikely to be identical to the patterns that would emerge from a more direct subsidy program of equal magnitude. The paper concludes with a discussion of the relative merits of a more direct system of public support for the arts.

Taken as a whole, the papers in this volume address important issues in
financing local government, the economics of urban public services and not-for-profit organizations. Following in the tradition of Dick Netzer’s work, they bring to bear both theoretical and empirical tools in an effort to provide analysis that illuminates problems and make progress in identifying solutions. At the same time, the papers suggest that more work needs to be done. What is the appropriate tax mix for local governments? What role might a land value tax play? What is the implication of relying upon the private sector to produce or provide public services? How large are external effects and what efficiency gains might be obtained by accounting for them, whether these externalities derive from public services, such as housing, or from peer group effects in education? What role should government play in supporting not-for-profit organizations? It is hoped that this volume will inspire others to follow the example set by Dick Netzer in endeavoring to provide answers.

NOTES

3. Dick Netzer contributed many letters to the editor of the New York Times, typically displaying his sharp wit, logical thinking and strongly held views on public policy issues, sometimes on issues of culture or history and, not uncommonly, attracting an indignant response from the wounded subject. I am aware of no instance in which he admitted being in the wrong.
4. The Voluntary Nonprofit Sector: An Economic Analysis, by Burton Weisbrod, for example, was only published in 1977.

REFERENCES