Two Rate in Reverse
By Dr. Mason Gaffney

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INSIGHTS

by Dr. Mason Gaffney, Riverside, CA
Insights Editor.

[It is a thrill and an honor to be asked to carry on for Stan and Marion Sapiro, and a sorrow that they are retiring. Their "Insights" has been my favorite reading for years. Stan keeps a bottomless pit of Georgist lore stored in library, basement and garage. If he could write and we could read without stopping for many months, we might become half as wise as he, and as equipped with telling facts. Tom Paxton, the comic, made a hit with his song "In ten years we're gonna have one million lawyers, how much can a poor nation stand?" If it took one million bad lawyers to produce one Stan Sapiro it would be worth it. Go well, Stan and Marion, we will all miss you, and I most of all.]

2-RATE IN REVERSE

In 1955, Spiro Agnew was a Maryland State Assemblyman on the rise. He carried a new law that let tax assessors value farmland on its "use-value" as farmland, instead of market value. It let owners who were farming for unearned increments around Baltimore and D.C. hold out with low carrying costs. "Farmland" meant land used for farming, and any play at farming would qualify. Under this law, a relative of mine with 102 acres in Maryland near Western Avenue, the D.C. line, kept just two (2) steers thereon to validate his farmland assessment status. Holding for the rise "never crossed his mind." Right - except, whenever such land is condemned for public use, courts everywhere have held that compensation must be based on speculative market value.

The ambitious Agnew climbed this ladder to become Governor of Maryland, and then Vice-President of the United States, where his climb ended in a bad fall. Use-value assessment laws, however, spread like firebrands in a gale through most of the other states. Some assessors, prompted by some courts, were already doing furtively what the new laws sanctioned, but the laws now mandated all to join them.

Spiro's sparks were late to reach Wisconsin. Its use-value law waited until 1996. Meantime, by 1987, Wisconsin's farm property tax rate exceeded that of a comparison state, Florida, by 4 to 1. This included a tax on buildings, and yet Wisconsin agriculture was notably healthier than Florida's, both economically and sociologically. 47% of the real estate value on Wisconsin farms was in buildings and improvements, compared with 15% in Florida. Wisconsin, the high-tax state, led Florida 3 to 1 in farm output per dollar of farmland value; 5 to 1 in farm buildings per dollar of farmland value, and (surprisingly) 7 to 3 in machinery & livestock. Florida, the low-tax state, led Wisconsin in measures of concentration and inequality: in land value per farm (5.5 to 1); in acres per farm (3 to 2); in land value per acre (4 to 1); in real estate/all assets (11 to 8). Florida's Gini Ratio, a standard measure of concentration, was double that of Wisconsin, when used to measure ownership of land values. This measure is very sensitive: doubling it entails much more than doubling the share of land value held by the top 5% of the farms. (For details on all 50 states, and changes over time, see M. Gaffney, 1992, "Rising Inequality and Falling Property Tax Rates," in Wunderlich, Gene (ed.), Ownership, Tenure and Taxation of Agricultural Land.)

In 1996, Wisconsin succumbed to the Maryland cow madness, and by 2000 had phased in use-value assessment completely. Statewide, assessed values of farmland dropped to 34% below market value. In urban Milwaukee County, the drop was 66.5%, and comparably high in Waukesha, Racine, and Kenosha Counties with their hinterlands of sprawl. County treasuries adapted in four ways: 1, by raising assessed values of farm improvements; 2, by cutting services; 3, by raising property tax rates (now falling more on improvements); and 4, by adopting local sales taxes. (Data: The Wisconsin Taxpayer, 2/03.) Thus, taxes are shifted off speculative land values and onto farm buildings (including farmers' houses), trade, and city real estate. The way is paved for the "Floridation" of the once vibrant Wisconsin farm economy and sturdy social strucure. The Latifundia that did in Floridiam are now going to work on Wisconsiniam.

Note that this is the "George-ish" 2-rate system in reverse. Alas, Georgish losses from such use-value assessment of "farmland," covering nearly every state, outweigh Georgish gains from 2-rate victories in a few cities in one state. We will all thrill if the demonstration effect of the 2-rate victories in small Pennsylvania cities should help convert Philadelphia, a highly visible world city, to our preferred form of 2-rate. The world would much note, and for a while even remember a dramatic revitalization there, even though the media would muffle and academicians trivialize it. It would more than compensate for the downbeat effect of losing Pittsburgh. Meantime, though, our work must proceed on many fronts, one of which is combating use-value assessment of so-called "farmland."

It is not just peri-urban land speculators who gain. A large chunk of land value in rural regions is not based on cash flow from food and fiber, but on amenities. Wisconsin is a major playground for rich urbanites from nearby Chicago, Milwaukee, Minneapolis and St. Paul. "Use-value" assessment exempts this chunk of value completely, for use-value is based on capitalizing the net cash farm income from growing crops, and, in the Wisconsin law, specifically corn. The highest land values per capita in the State are in Vilas County up in the north woods, once dismissed as worthless "cutovers." Vilas' barren podzol soils are worthless for corn, but sparkling lakes bedizen the County. Values per (continued on page 10)

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capita in Vilas are 6 times those in Milwaukee. Rich recreationists and "investors" (read speculators) are gobbling up the "wild forties." Shoreline parcels are like diamonds among coal.

Owners in Walworth County, near Chicago and containing Lake Geneva, are also big gainers. One enterprising shoreline owner in Fontana on the Lake divided his land into "dockominiums," each consisting of only a small lockbox on dry land, giving access to the lake. Each buyer paid $60,000, and assumed the considerable risk that the state high court would invalidate the titles (which it did, without compensation). Had these titles been valid, each $60,000 lockbox could have have been assessed based on its potential corn crop.

100 years ago, American Georgists made a big point that city land outvalues rural land many times over. One implication is that taxing city land is taxing the rich, and we can ignore farmland. Some land-taxers counsel that farmers are easily misled to oppose us, so leave them alone and convert the cities. But rich city folks also own choice rural lands. The Hearst palace at San Simeon sits amid 82,000 manorial acres, including miles of prime shoreline, "improved" with just one home per 82,000 acres. This home, jammed with imported treasures, had become a white elephant even before Citizen Kane uttered his final "Rosebud." The heirs were glad to fob it off onto the taxpayers of California, deducting its alleged value from their taxable incomes, while they kept the 82,000 acres.

Craig McCaw, who made his billions by amassing spectrum licenses, turned some of the pile into a spread of many thousands of acres stretching north from Big Sur - land he never got around to using. The O'Neill families and Donald Bren of Orange County, the Newhall family of Ventura County, the Chandler family that owns the Tejon and Boswell empires that spread over several counties, Ted Turner who owns over a million acres around the U. S.; the Koch brothers of Kansas with all their oil wells, the Kleberg tribe with their million-acre King Ranch in Texas; the Southern Pacific Railroad (now Catellus Co.), Standard Oil: those are a few of the struggling family farmers whom use-value assessment of farmland saves from destitution.

The privilege of use-value assessment stretches even beyond farmlands, vast as they are. Timberland in most states gets the same preferred treatment, only better. About 1/3 of the privately owned land in the U.S. is in timber. In California, owners (mostly huge corporations) may put the land into the "TPZ" class. The standing timber is then exempt, and taxed only at harvest, at 2.9%, much too low a rate to make up for a 60-year lifetime of exemption. County assessors have to value the land separately on its putative value for growing timber, following a State-legislated formula that is tailored drastically to understate even that low value (California Revenue and Tax Code, Section 434.5). Much of that land, though, has alternative uses, e.g. for retirement and vacation homes and resorts, the outliers and pioneers of urban sprawl. There are also mineral values, hunting, fishing, rifle ranges, grazing, campsites, tourism, rights of way, lumber camps, loading sites, water sources, lakes, log storage, landings - there are many things to do with 1/3 of a nation's land. Those uses are all declared "compatible" with timber, hence land values derived therefrom are tax-exempt.

Mendocino County, just north of Sonoma, is a major redwood source. It has no major cities; most of its people live in the country. Its timber harvest yields twice as much as all its farming and fishing, but only 10% of its tax revenues. Its own tax revenues are supplemented by equal subventions from the State, paid by taxes on incomes (mostly payrolls) and sales statewide. Meantime, urban demand is probing up north into southern Mendocino County from the Bay Area with its towering land prices. Mendocino has a long, scenic coastline with premium amenity values. A significant fraction of the TPZ land has a speculative value for resort, retirement and vacation uses, well above its timber value. None of this is reflected in tax assessments: TPZ protects against that, even though owners may convert out of TPZ at will. Land may be classed as TPZ regardless of past, present, or intended use.

Timberland owners around the country, abetted by Forestry Schools with their wholesome outdoorsy image, have sold this bill of goods to legislators. In many states, less than half the private land is fully taxable, because of such laws. These are not all southern and western states, either, as one might surmise. In NH, for example, only 45% of the private land (and none of the Federal land) is fully taxable. The rest is sheltered by the state's "Current Use" tax law, their version of California's TPZ law. Assemblyman Richard Noyes, pushing for a statewide tax on land values, finds the timberlandowners' lobby spearheads his opposition.

In Alabama, Gov. Bob Riley got around actually to reading The Bible he'd been thumping and discovered it is anti-Christian to exempt the corporate owners of vast timberland empires while loading taxes on the poor. Many churches in that heavily churched region are supporting him, led by law professor and lay Christian Susan Pace Hamill, and guess who is fighting him? No surprise: it's the devout big landowners, his one-time contributors and fans.

How many battles can a few Georgists fight? Many, because each battle brings allies, as well as vampires to slay. The citizens of Mendocino County would love to tax the absentee-owned timberlands round about them: they are aware. To do so, though, they have to organize all the other timber counties at once to overcome the rich, sophisticated opposition in Sacramento. Step one is to clarify the issues, which is what we seek to do here. Susan Hamill and Bob Riley, however, may be demonstrating that step one is to mobilize the Godly to practice what they preach, in which case a whole new world opens up, so keep tuned to Alabama.□