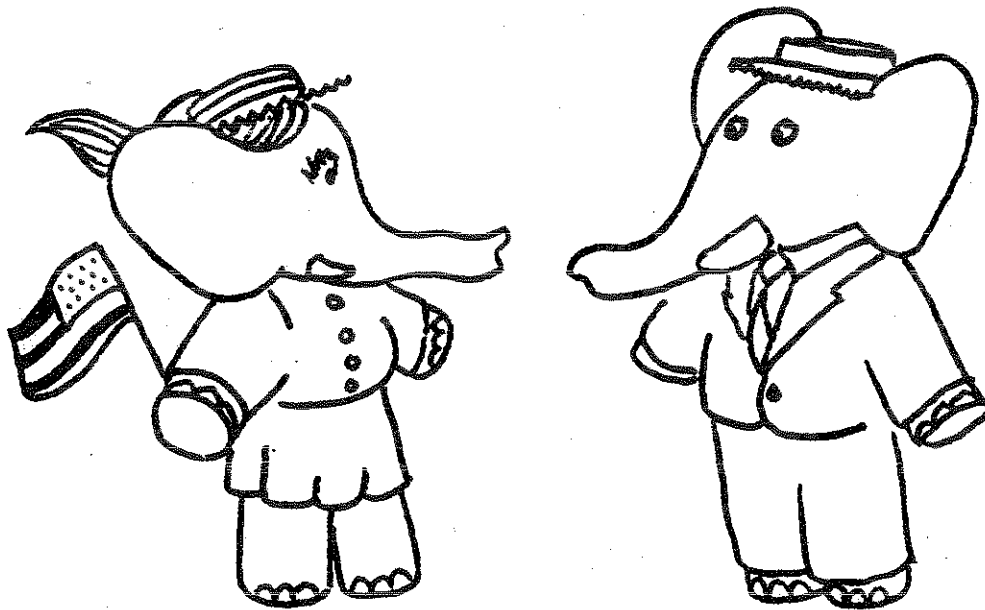


a conversation between two loyal Republicans
about the
Land Value Taxation Resolution

presented to the delegates of
the Arizona State Republican Party meeting
in Phoenix
25 January 1986



LAND VALUE TAXATION RESOLUTION © 1986 Richard C. Gimm

- WHEREAS the value of unimproved urban land is socially created; and,
WHEREAS the improvements on land and the results of human labor should not be taxed; and,
WHEREAS the present property tax system rewards owners of vacant inner city lands for not improving their property; and,
WHEREAS the present property tax system encourages suburban sprawl while leaving large inner city areas undeveloped;
RESOLVED 1) that the Arizona Republican Party favors any measure which would cause a decrease or removal of all taxes which inhibit production, business, human labor or improvements on property; and,
2) that the Arizona Republican Party favors measures which would replace these lost revenues by increasing the site value tax on unimproved urban land.

I've got some serious doubts about this resolution -- but I want to give you the benefit of the doubt before I vote. Explain this thing to me.

Thanks for giving me a chance.

In the past, I've been adamantly opposed to taxing ANYTHING more heavily. So why should I be in favor of increasing the tax on land?

Let me begin by saying that I share your attitudes on taxation. We have taxed businessmen, laborers and investors in this country to the point where we have almost destroyed our economy. In some cases, productivity, after taxes, pays so little that it isn't justified.

I'm surprised to hear you say that.

You shouldn't be. If you reread this resolution, you'll find that it calls for a reduction or elimination of all taxes on productivity. The revenues lost by this reduction would be made up for with a tax on land -- a land value or site value tax.

Now wait a minute. My Uncle Fudd is a rancher and my sister is a farmer. They own lots of land and they're already financially strapped. How are they going to pay all of this money?

They won't be paying it. As a matter of fact, their taxes might actually go down.

How will that happen?

Some parcels of land are not as valuable as others when it comes to use as a building site. I'm sure you've heard realtors say that the three most important factors to evaluate when you buy a piece of land are, "location, location and location."

So you're saying that since my relatives live in an area that is not ripe for urban construction, they will pay a very low land value tax?

Precisely. We're talking about taxing the value of a piece of property according to its worth as a construction site. Urban land is worth more than rural land, in this context. If this wasn't so, companies wouldn't pay millions of dollars for urban building sites when they could buy a location in the boondocks for a fraction of the cost.

That's true.

Now. Let's take, for example, a vacant one acre lot that is located in an urban area. That vacant lot may be worth more than all of your sister's acres put together. But that property didn't become valuable because of anything its owner did. It increased in value because of the city that society built around it. Society produced this wealth; but, it is the lot owner who will make a profit from it even though he has done nothing productive with it.

Maybe we should tax vacant land more. But I'm still not sure that I like a land value tax better than some of our present taxes. For example, what's wrong with a sales tax?

Sales taxes invariably hurt the poor more than they do the middle class and wealthy people. A person who earns \$35,000 a year, and who pays a 7% sales tax on her purchases, can easily afford necessities. But, for a retiree living on a small fixed income, a 7% sales tax could affect her ability to pay for all the things she needs. The sales tax will certainly reduce her standard of living. Sales taxes also hinder business and productivity. They raise the cost of a product or service each time a transaction takes place. Businesses pass these taxes on to consumers and they wind up paying higher costs for their goods. And, since the consumer will be spending more of their purchasing power on taxes, they will have less to save and spend.

What is wrong with a value added tax?

Value added taxes are used extensively in Europe. The value added tax is a surcharge on luxury items; it is a sales tax that is aimed at the rich.

This tax is wrong because it discriminates against those of us who have been fortunate, smart or ambitious enough to create wealth for society and ourselves. This tax also hurts the businessman who makes luxury items since it increases the cost of his goods. And, this businessman might not be a wealthy man himself.

And the income tax?

Again, the government reduces your ability to save money or make purchases when they confiscate part of your income. And what right does the government have to take away part of the wealth you have created so that it can be redistributed to others or spent on "public" projects? What you produce, in all fairness, should be yours to do with as you please.

It is also easy for income tax cheats to conceal part of their income. And, the income tax necessitates government monitoring of you and your business. Can you be sure that these government records will never be used for anything else?

So why is a land value tax better than all of these other taxes?

Remember how we said that the true value of the land is actually created by society and not by the individual who owns the land? It is absolutely proper for society to reclaim the wealth that society (as opposed to individuals) has created. Also, since a land value tax is not a transaction or income tax, business is not retarded.

The land value tax has other beneficial effects, too.

Like what?

At the very least it could reduce your property taxes.

Now I'm interested!

When your property is assessed, the assessor looks at both your land and your building (the improvement). Normally, the improvement is valued high and the land is valued low.

Let's say, for example, that your house was valued at \$80,000 and the land was valued at \$6,000. When a 1.5% tax rate is applied to your property, you will be billed \$1,290 in taxes.

Suppose also, that you have a vacant lot adjacent to your property. If this vacant plot is similar to your piece of land, its owner will get a tax bill of only \$90! (1.5% of \$6,000)

You still haven't told me how this is going to save me money.

I'm getting there.

Now let's say that we reverse the valuation of the improvements and the land in our previous example. This isn't unreasonable since the house will deteriorate as it ages and the land will probably increase in value with time.

We'll now value your land at \$80,000 and your house at \$6,000. With a 1.5% tax rate, your taxes will be the same, \$1,290.

BUT, the taxes on the vacant lot next to yours will increase from \$90 to \$1,200! The additional money that is brought in with this tax change can be used to lower almost everyone's property taxes.

But isn't that unfair to the guy who owns the vacant land?

Not really. Keep in mind that what is making his property valuable is the fact that you and your neighbors have been paying the majority of the taxes to build roads around his property. The same goes for water lines, sewage lines and other utilities. You pay for it because you have improved your property. He keeps his overhead down and sells for a bigger profit because he does not build.

We shouldn't have to reassess every piece of property in the state to get this type of tax reform. Couldn't we do the same thing by changing the tax rates for land and improvements?

You are right. If, in our first example, we taxed your \$80,000 improvement at 0.11% and your \$6,000 piece of land at 20%, it would have the same effect as reversing the valuations. Your taxes could go down, and the tax on vacant land would go up.

It is possible that some lowering of assessments on agricultural and ranch lands would still be necessary.

Wouldn't this type of tax hurt real estate brokers?

Not unless they were owners of vacant urban land. People and businesses will still need land and as long as they do, they will need real estate agents.

So this change will make it expensive to keep urban land vacant. How will it affect depressed areas like slums?

This is one of the strongest arguments for a land value tax. Slumlords obviously aren't making tremendous amounts of money on the rent paid by their tenants. If any real money is going to be made on the slum, it will be made when the slum is sold to someone who wants the land under

it.

Since most of the property taxes the slumlord pays are based on improvements, perpetuating the slum actually saves its owner money. If taxes are shifted to the land, the slumlord has an incentive to maintain his buildings and compete to get renters.

And how will this affect the suburbs?

It will help reduce suburban sprawl. Developers, who have unfairly been portrayed as the bad guys who tear up land, will be able to purchase land that is already waiting for construction inside the city. Developers will not be forced to move projects farther and farther from the city because of speculation on land values. In this sense, this tax is also a conservation measure.

For the suburban homeowner, adding a bathroom, garage, etc., would have a very small effect (or no effect) on your taxes. And isn't that the way it should be? Your making your house and, indirectly, your city and state a nicer place. Should you be paying taxes on improvements like that?

Definitely not! But, somehow, I've gotten the impression that you've really simplified the situation. And your answers were based heavily on theory.

That's correct. My argument has been in generalities. But the discussion has pointed out that "how" we tax can be as important as how much we tax. Try to make an argument, in generalities, on how good income taxes are. I'll bet you can't, unless you favor redistribution of wealth or you believe that the state has some right to the fruits of your labor. If you believe that, I think you might be in the wrong political party. And you were correct to say that my argument was based on theory. But I would rather try a tax system that works in theory than continue using one that is unfair and works in neither theory nor practice.

If we took this proposal to its final conclusion -- if we stopped taxing incomes and sales -- wouldn't my property tax be higher than it is right now?

If we implemented this policy in its most extreme form -- if we completely untaxed the means of production -- that could happen. But since you wouldn't be paying income or sales taxes, your total taxes paid for the year would be lower than they are now. Not to mention that you get to "keep" every dollar that you earn.

Is this being tried anywhere?

In a limited form Pittsburgh, Scranton, Harrisburg and McKeesport, Pennsylvania use it. It's also being used in some parts of Australia new Zealand and Denmark.

All of the cities you named were in Pennsylvania. Is there a reason for that?

Yes. Most states prohibit taxing land at a higher rate than improvements. But just because the laws don't permit this type of taxation in our state doesn't mean that we can't make this change. Laws are human creations. They are not immutable and people have the right to change them.

What individuals favor implementation of land value taxes?

William F. Buckley is a land tax proponent. Arthur Laffer, who was an economic advisor to President Reagan, spoke favorably of this type of tax in, The Review of the News (11 June 1980). Milton Friedman has said, "in my opinion the least bad tax is the property tax on the unimproved value of land, the Henry George argument of many, many years ago." (Human Events, 18 November 1978) Merrill A. Cook, the Republican candidate for mayor of Salt Lake City used it as a campaign proposal in 1985. Winston Churchill, Leo Tolstoy and Albert Einstein were also land tax advocates.

So you think the Arizona Republican Party should endorse it, too?

On May 21, 1983, a political pollster named Bruce Merrill told the Pima County Republican Women's Club, "You need a cause. Republicanism has to mean something if you're going to have a strong viable party." Mr. Merrill didn't realize that we already stand for lots of good things. Equitable taxation that promotes economic growth is one of our major causes; and, the land value tax is a good tax that our government needs to take a look at. Please endorse it!

FOR ADDITIONAL INFORMATION ON LAND VALUE TAXATION CONTACT:

Richard C. Gimmi, Intermountain Single Tax Association, 2022 S. Tree Moss Ave., Tucson, Arizona, 85710. The ISTA publishes a quarterly newsletter on land value taxation news. No dues.

The Robert Schalkenbach Foundation, 5 East 44th Street, New York, NY 10017. This non-profit organization will send pamphlets and book lists.

FOR ADDITIONAL READING ABOUT LAND VALUE TAXATION:

George, Henry. Progress and Poverty. New York: Robert Schalkenbach Foundation, 1979.

Lissner, Will. "On the Centenary of Progress and Poverty." The American Journal of Economics and Sociology, January 1979, pp. 1-15.

"Better Assessments for Better Cities." Nation's Cities, May 1970, pp. 18-47.

"This is our land - millions of miles of it." House & Home, August 1960. Reprints may be obtained from the Public Revenue Education Council, 705 Chestnut St., Room 624, St. Louis, MO 63101. House & Home is published by Time Magazines.

Langewiesche, Wolfgang. "Land Speculation and How to Stop It." Reader's Digest, July, 1962.