
Comment Centered on Economic Reform and Future TRED Topics

William S. Vickrey: I want to go back to George Break's point. He spoke of rent as a gift of nature. Rent is, of course, generated by public facilities, i.e., infrastructure, but more than that, there is rent from a particular property as a creation of buildings on neighboring property. In effect, if you put up a nice big office building in the center of town and then you attract tenants to that office building, this raises the rents on the residential area that is tributary to that office building. It might be desirable policy not to tax the construction of this nice new office building; perhaps you ought to subsidize it because of the benefits conferred on the surrounding property owners.

George F. Break: No comment. I agree.

Vickrey: You spoke of Mexico and California. I think the real place to look is New Zealand, which is perhaps one of the areas of latest settlement and where perhaps land value taxation has been more thoroughly applied than anywhere else, even in Australia. In Australia there is a peculiarity; you do not subject improvements to the property tax, at least in some areas, but instead you declare that under the income tax. Under the income tax real property cannot be depreciated. In this way, you impose in effect an extra burden on improvements under the income tax that merely offsets what you removed by land value tax. So the results are not as strong as they might be otherwise, even considering that the amount of

local services financed by local taxes in Australia is much smaller than it is in many other places. Also, the property tax is generally heavier in New Zealand than in Australia.

Roy W. Bahl: Just a small note to Mason Gaffney. You were classifying proponents for land value tax (LVT) when you talked of the long ago and far away academic people who were in favor of land tax as long as it was across the ocean. Far be it from me to attack that list of people you named, but I think there may be a bit more to it. It may have to do with the setting for a land value tax; at least in my reading of the evidence, if LVT is to be established anywhere it will be in the urban areas of developing countries. It is in these areas where there has been a movement to levy a higher tax on the land component of the property tax base. The reason for this I would argue is partly because of the setting.

The set of functions that the local governments were responsible for in LDCs was fairly new. These cities were just developing as true urban areas, and there was much more than normal interest in questions concerning the allocation of land.

Real Estate Tax in Holland

William Deyll: I would like to spend a few minutes to summarize the new land tax developments that have taken place in Holland during the past several years.

Arlo Woolery: I had been hoping you would do this. After you have completed your brief description of the recent developments in Holland, I may want to ask you a few questions.

Deyll: In 1970, the Dutch decided not to continue beyond 1979 a group of taxes used by urban centers to meet a traditional group of government services financed at the local level. A new type of real estate tax was made available to municipalities to replace the unrenewed revenue sources. The new real estate tax can be levied either on a value basis or on the surface basis of land only.

Woolery: How rapid has progress been made toward adopting the new approach to urban land taxation?

Deyll: By 1977, many municipalities had changed to the new revenue source and abandoned their old sources. (The former taxes included a land tax, duty on houses, street tax, building site tax, insurance tax, and entertainment tax.) About 17 percent of all the municipalities, including both Amsterdam and Rotterdam (which include 27 percent of the total population), adopted the new surface real estate tax. This approach is based on dividing the urban area into sections that have been given tax

payment levels per square meter according to the location and use of the real estate.

Woolery: Could you describe the procedure used in arriving at the tax-due figure?

Deyll: The total square meters within a real estate holding is reduced by 300 square meters of land not covered by the structure; this exemption is meant to encourage small gardens. The next step establishes the number of square meters covered by a building and the additional square meters of bare land.

The tax per square meter of land is calculated from a table developed by the Union of Netherlands Municipalities — that is, the Bouwcentrum foundations. Each square meter of land is included within blocks that are given a single location coefficient. The taxable surface is divided into two parts — land on which structure rests and land not covered by a building.

The number of square meters of land not covered by a structure is multiplied by three coefficients based on desirability of the area. The result is the adjusted number of meters used to apply the rate established in that city.

The meters covered by a building is adjusted by application of the same coefficient of location as on bare land. In addition, it is multiplied by the coefficient of the kind and use of the building and the coefficient of the building quality.

The total meters of bare land plus the square meters covered by a building, as adjusted, are taxed separately on the basis of the adjusted square meters. The tax per adjusted square meter of surface in Rotterdam is about \$1.00 and in Amsterdam about \$1.50 (in 1975 figures). The substantially higher tax in Amsterdam is partially the result of exemptions of many historical buildings and the greater revenues Rotterdam collects from its port.

Woolery: How is the tax burden allocated?

Deyll: The total tax levied on the property is divided into two parts, based on the concepts of legal user tax rate and the legal owner tax rate. The legal owner's tax rate is typically several times higher than the legal user tax rate. Both taxes are paid by the same tax payer on owner-occupied property.

The revenues provided by the new tax approach are proving to be adequate. The varying rate applied to legal owners and legal users has permitted Amsterdam to favor legal users (renters) to a greater extent than does Rotterdam.

Woolery: Now, I would like to ask Mr. Deyll several questions that will help provide some additional background on the property tax system employed in Amsterdam. My first question is: What is the coefficient for vacant land in Amsterdam?

Deyll: In Amsterdam we have the lowest coefficient for vacant land. It is .01. This low coefficient applies to land that is not served with streets, electricity, or water. This was the last type of property that we dealt with in setting up our table of coefficients. Since there isn't a great deal privately owned, and most is owned by the municipality itself, we weren't too concerned about the coefficient for this particular type of property.

Woolery: Then I would like to ask as a second question: What is the tax status for public buildings and what is the coefficient for the Concertgebouw?

Deyll: We actually do tax the public buildings in the city of Amsterdam and the Concertgebouw is one building that is at a very high level due to its use coefficient. Last year the coefficient for the Concertgebouw was 3; this year that has been reduced to 2.9.

Woolery: What about the actual tax rates and how are the tax payments divided between the owner of the property and the user of the property?

Deyll: I'll answer the second part of that question first. The taxes fall about 75 percent on the owner and about 25 percent on the user. Where the user and the owner are the same person, that person pays 100 percent of the property tax. The tax rates are set by a municipal ordinance each year; recently the owners have been paying about 30 guilders for each ten square meters of taxable area, while the users have been paying about ten guilders for each ten square meters of taxable area.

Woolery: What kind of limitations are imposed on municipalities concerning the amount that they may raise from the property tax as a percentage of the revenues received from the central government?

Deyll: There is definite limitation on the amount that local municipalities can levy on the owners and the users of property. The total municipal tax on owners is limited to 15 percent of the total grants we get from the central government, and the total local municipal tax on users is limited to 12 percent of the amount we receive in advance from the central government. As you can see, the absolute amount of money that local municipalities can raise from the property tax is determined by the amount of money that each municipality receives from the central government; until recently, the users of the tax have not been taxed anywhere near the 12 percent limit.

The Fairhope and Other Single Tax Corporations

Kenneth C. Back: I would like to shift back to Fairhope. First, is the school system of Fairhope a public school system? And second, what are your own views of whether that experiment is working or not working?

Wooley: What is called the organic school was established quite early in Fairhope. It is more than an adult educational center that is devoted to teaching George's theory. In order to become a member of the single tax colony you have to take this course in George's economics and pass the examination. Paying your \$100 membership isn't enough. You have to be convincing to your oral committee that you are indeed a dedicated single taxer before you can become a member of the corporation. ★

The county and city do levy taxes and school taxes, and they do have a public school. Only 15 percent of the land in the actual incorporated area of Fairhope is owned by the colony. What it does is collect the rents and then pays all of the taxes on the land and improvements out of those rents.

As far as my own viewpoint, I think part of the current controversy is centered on the strong possibility of successful oil exploration. The tenants group told me that the reason the Fairhope corporation is raising the rents now is to force the tenants off the land so the 110 members of the corporation will have all of the oil revenues at their disposal. I guess if I were a tenant and my rent were going up, I would take that viewpoint because it would be to my interest.

The people at the corporation whom I interviewed never once alluded to these oil leases. They were extremely cagey and I really felt that the answers I was getting from them were pretty much self-serving and unfavorable to the tenant group's position.

As far as I can see, Fairhope is held together out of the pure dedication of these people to George's economics and the single tax theory. In addition, they were a very select group. Here was a group of highly intelligent people and, like the Mormons going to Salt Lake, this is the place and this is the philosophy. That is the impression I got.

Mathew Edel: I want to comment on Roy Bahl's point on taxation in developing countries. Certainly, in Columbia, a country I have studied most, there is a good deal of discussion on land value tax — some use of property assessment that unofficially at least is heavily weighted toward land. However, it struck me that Bahl's key question was "Why a tax on real estate?" Obviously, when an income tax cannot be administered, you turn to a real estate tax. The real question that he should have asked is: "Why site value rather than land plus buildings?" My guess is that you are dealing with a situation in which it is not so much a matter of how revenues should be raised, but rather a feeling that land speculation is holding land back from uses that are really crucial elements in whether or not development occurs.

Haskell Wald was mentioned this morning; his discussion of agricultural land tax in developing countries centers around the above

point. I suppose in a way it is parallel to the pro-urban-renewal argument for site value tax in urban developed countries. I would guess it is more a great fear of the harm the speculator could do, rather than anything else, that brings the site value tax to the fore in urban planning.

H. Clyde Reeves: I believe that Alan Prest and William Deyll both indicated that in their countries something approaching site value taxation was imposed but that agricultural lands were exempted. I want to raise this question: Were you specifically talking about municipalities where there is no agricultural land or is it a matter of national or wide-spread policy to exempt agricultural land from the site value tax?

Alan R. Prest: In England the exemption dates back to the agricultural depression in the nineteenth century when it was thought reasonable to exempt agricultural land. That is when it started. At first this land was partially exempt, then in the 1920s it became completely exempt and it has been exempt ever since. There is no justification for it, but once having done it, it just goes on. The use is fixed and betterment taxes at very high rates have been levied when a higher use is decided upon.

Deyll: Agricultural land is exempt in our country (Holland) too.

Gaffney: I wish to go back to Bahl's observation relative to LDCs and their use of the land tax. Australia or East Africa, which are new countries and yet highly developed compared with what I suspect Bahl had in mind, make a widespread use of site value taxation.

Bahl: Take a city such as Nairobi. Near the center of the city you find a great deal of vacant land. This makes the problem of assessing the land easier. On the other hand, the level of services the government is now providing are fairly new services made necessary by the rapid urbanization. For example, in recent years water supply has been extended to all of the population.

Gaffney: I'm not sure I follow you on the implication of that.

Bahl: Typical local/municipal services were not being produced. Now that they are being provided the taxation of land has been seen as an appropriate financing procedure.

Kenneth E. Boulding: I would like to return to Fairhope. There are some similar communities in Canada. I think there was one near Vancouver, a place called Westminster. There are a couple.

Woolery: Arden in Delaware.

Boulding: I wonder if anyone has made comparative studies.

Woolery: All I can say is that the tenants group told me in Arden that the lessees who are nonmembers of the corporation still had voting rights, which is something the members are quite put out about because there are approximately 900 tenants in Arden and only 110 members of the corporation. The corporation members feel that on the sheer

weight of the numbers of the tenants they are getting discriminatory treatment.

Boulding: I don't know whether the lessees at Arden agree with Henry George or not. There is a reward for successful pioneering, but to me it seems to be awfully hard to value. If your name is Gladwyn and your grandfather was in the Revolution, you are not going to reverse the action taken. You have this business of — the biologists have a name for it — the founders of fact. It seems to me extraordinarily hard to avoid. If it doesn't take one form, it somehow seems to take another. It is an awful feeling. The whole social world is full of traps for the virtuous. If they don't catch you one way, they will catch you another.

C. Lowell Harriss: In Arden, Delaware, there is an active George's group and the head of that is the daughter of the mayor of Arden, Delaware.

Boulding: The local squire stood on tradition and my ancestors fought for land ownership. My grandfather squared away and said to the squire, "Okay, I will fight for it." Somehow or other it wasn't an offer that the squire would accept.

Harriss: Apropos of the long ago and far away, I believe it was at a meeting some years ago that Ursula Hicks recommended a book which I bought and have never read. The British utilitarians in India in the nineteenth century tried to levy some kind of a tax on land values. Maybe when I retire I will read it.

Communities and Land Taxation

Gaffney: It might be useful to look at the question of marginally worthless land that would have no tax base if only land values were used.

Vickrey: Yes, but what are the public services being provided on this submarginal land?

Gaffney: Unless the community generates enough rent, it had better not exist. It had better join itself onto a larger community and enjoy the services from the larger community.

Vickrey: Not necessarily. The community that is located on the periphery of the larger community enjoys the services but not the cost of access to the larger community. One really has to say why are communities, especially large cities, large? And, in effect, my answer is that they are large because there are activities accountable to scale and there are transportation costs. If there are no transportation costs, you might just as well have a one-industry town.

Gaffney: Well, the second reason why large cities are large is that they start generating rents, then the public spends this on services, and these services in turn attract employment to the extent that these services are free or low-cost.

Vickrey: They can be priced below average cost. If they are below marginal costs, that is something else again. If they are priced below marginal cost, that is wrong. They should correspond to marginal cost.

Gaffney: We are raising the question of the way in which the surplus should be collected and spent. This raises the interesting question how George would rationalize this. He never faced it.

Vickrey: If you are the first community to become a Georgist community, then you benefit from the greater efficiency which the Georgist doctrine enables you to enjoy. You become larger and more efficient than the rest of the communities and you have a surplus because you are, in effect, selling products that cost you less than they cost other communities because your community is more efficient. There is a surplus which I suppose accrues to the people who had the brains to persuade everybody to become Georgists.

Daniel M. Holland: And this shows up in a higher value for land and a higher tax base.

Vickrey: In such a community there will be an excess of LVT collections over the cost of maintaining the community. This surplus will be available to government if conventional tax rates are maintained.

In fact, what you might say is that in a perfectly competitive equilibrium theory, if you have a country where all of the cities are general property tax cities and then one city elects to become a Georgian city instead, the surplus will be generated. In fact, surplus will be equal to what the landlords are currently getting, so this is one city that can convert to Henry George without any disadvantage to the current landlords. What happens if all the other cities follow suit is another thing. But in effect there should be, at least in theory, an advantage accruing to the first cities that go single tax.

Edel: I think the problem comes down to what one means by productive. As I read Marx, I would agree with him on this. What he is saying is that the productivity of different factors is not commensurable. Based on his own theory of how the world works, Marx decides that what is relevant for the analysis of human social relations is the labor that people expend. In the common use of the word productive, certainly he agrees that nature is productive. At times he uses the works of Leibniz to argue that it is in a sense nature that is exploited when nutrients are being taken from the soil and not returned to the soil. Marx, however, makes no attempt to measure this exploitation of land productivity against the ex-

ploitation of the human productivity of labor. Capital to Marx is essentially an indirect form of labor; its productivity is an additional contribution of labor to a product.

The definition of value stems from the purpose of the analysis. I think that there are only very limited purposes for partial equilibrium analysis in which one can judge the relative contribution of one factor of production versus another. One has to take too much as given to extend that up to the economy-wide level that he is talking about.

So I don't think you can apply what Marx refers to as the trinity formula, the attempt to get land, labor, and capital compared with each other in terms of productivity. Certainly labor-using equipment is more productive than labor that has to go out there and scratch in the wilderness. That is obvious.

That society has to make arrangements for inducing people to produce is also true. These arrangements may take the form of profits which go to a wide range of ownership, as opposed to other conceivable relationships that are historically specific. All in all, I think that Marx's way of aggregating things is useful.

Gaffney: Suppose I spend \$50,000 to build a house and then rent it out. In ten years the cash flow I get back is equal to \$50,000; it goes on for another sixty years and adds additional cash flow. Does that additional cash represent productivity of capital or productivity of labor?

Edel: I think it is an illegitimate question to pin it down to one specific property in the Marxist framework. Your example means that labor has been expended in a way that yields greater returns over time than if it were used to build a house that would last a shorter amount of time. It doesn't answer the question about the extent that those returns should go to you who put out the money or about the extent that it should be kicked back to the original labor. Nor does it address the extent that the original price should be reduced and the benefits spread throughout the society by price reduction. Those are social questions. Certainly I am not going to debate that the building is more socially advantageous. It certainly shows that capital works to produce goods over a long period of history. That is not at issue either.

What is at issue is whether the system builds continuous inequalities by virtue of having that system.

Harriss: Did any of the other people that you read, Mason, attempt quantification of land grant potential? I believe Alfred Marshall did.

Gaffney: Well, yes, Colpepper did that for one, and then in a much cleaner way Seal of the early authors did.

Harriss: Did Wilfred King?

Gaffney: Yes. His presentation actually may have been better, but I haven't looked at it.

Harriss: I must say I got very impatient as I was reading Henry George because of his refusal to take a sympathetic or even potentially sympathetic view of the newly-developed capital theory. He had his answers and that was that.

Gaffney: I suppose one reason that the question of capital and land productivity never loomed as important to Henry George was that he felt if you removed taxes from other things, this would increase the rental of land, so that the size of land rental as it exists today is not really the bone of the question.

Prest: I think Liddel Brown did some extensive computations on the value of land rent in Britain.

Break: Back to Marshall; yes, he did do some quantification. I can't remember the basis of his conclusion, but the result came out to be that nationalizing all the land in England would reduce taxes by a ha'penny or something, some very small amount. He remarked that he was appalled that George was willing to have a social revolution in the ownership of land for this pittance.

The Land Tax in Developing Nations

Lindholm: Bahl, you made some comment on the helpfulness of the Marxist and Georgist revolution in underdeveloped countries.

Bahl: I don't think I know anything about that. But I bet Hartojo Wignjowijoto does.

Hartojo Wignjowijoto: I'd like to comment on Lindholm's inquiry regarding the Georgist and Marxist positions. Both have radical elements, but the radical elements of George attract those who hold the power of the establishment, or the radical elements of the establishment. Marx attracts more of the people, the masses. In developing countries such as Indonesia, for example, those who own land are those who are in power. Both contain radical elements but different audiences.

Becker: It seems to me that people who own land would oppose Marx. It seems to me neither has much chance to make headway unless you get masses of people behind you one way or the other.

Wignjowijoto: Well, as we know, George is more of a gradualist than Marx. Marx attracts those wanting overnight change/revolution. Those in power will favor a gradual evolutionary change, while the Marxist doesn't have anything and wants to have everything right away.

Philip Finkelstein: I don't pretend to know anything about the developing countries, but certainly George would have very little appeal to people who identify themselves as a mass because that whole notion is absent in George. The masses or the proletariat is a concept that goes by

the boards and George places stress on the individual. In such societies where the revolutionary fervor is on a class basis, the attraction has to be elsewhere than in George's philosophy.

Prest: One answer to this question is that in a number of countries there has been effective land reform but there are very few with an effective land tax.

Lindholm: Do you have any idea why this is true? Is it the British that ruined this?

Prest: You may accuse them of many things, but I am not sure you can accuse them of that one.

Holland: One of the few places where there is an effective land tax is an old British colony.

Prest: That is correct.

Holland: The Jamaicans have a land tax and even a passion for it, but they came to it without benefit of close reading of Henry George. They have had an interest in land value tax way back to the early 1900s; they see it in almost a revolutionary light. They see large land holdings as one aspect of their society that requires substantial change because they see vast inequalities. If your grandfather was a descendant of Oliver Cromwell, you may own one-tenth of the island. Without any literary back-up, they consider this to be an inappropriate state of affairs, and they consider taxation of land values a possible way of remedying that.

Bahl: I've spoken with many people around the world who are responsible for the tax policy; they have had no exposure to Henry George but have acted like good Georgians. South Korea is a good example. It is a country growing rapidly and really a great success story; they reshaped the property tax five or six years ago, worked on the assessment process, assessed land separately from improvements, and then taxed improvements at one-half the rate applied on land. In the Philippines and Egypt, they have done the same thing.

Future TRED Topics

Arthur D. Lynn, Jr.: What would be a good topic for a future TRED session?

Reeves: We are living in a society that is heavily dependent for its socio-economic viability on growth, be that economic development or something else. This kind of growth that we now seem to be dependent on to keep our country viable is not going to be maintainable over a long period of time. I don't mean to imply that I am a no-growther, but; I don't think we can continue to grow as in the past. Availability of energy will see to that. We need some theory building on the ways of maintaining

a viable economy under conditions somewhat less than an optimum growth situation. As I see us at the present time, we are basically sterile concerning ways to operate under conditions other than what we consider optimum growth. Is there any possibility in examination of this area?

This gets a little away from Henry George although I think there are some overtones in it. However, it is thoroughly in keeping with what the letters "TRED" represent.

Gaffney: I think that is a marvelous idea and I see lots of Georgian overtones. Something concerned with an effective land value tax on input and a more intensive labor to land ratio, i.e., how to accommodate a growing population on a limited resource base. I am not sure that is what you had in mind.

Reeves: I think we are headed in the same direction.

Lynn: I am glad to have that subject. Are there further comments?

Bahl: I think there is a lot to the growth subject. The question of determining the proper way to tax in a period of economic decline needs attention. New York City is a good example of what I have in mind. The rhetoric on the people's side tells us we must cut back welfare spending, and that on the revenue side tells us we must cut back on the high marginal tax rates. There hasn't been an awful lot done on this. I don't know if it is a good topic, but it is a good idea.

Gaffney: That is a twist on Reeves' original idea. The way I look at it, what is involved here is not accepting decline or adjusting to it, but reversing it and giving it a different character, or giving growth a different character, or giving stability a different character, or what have you.

Bahl: I am not so sure. Reeves may be looking at it through Kentucky glasses. Through Kentucky glasses they are not doing as well as they thought they were a decade ago. The Kentucky economy isn't suffering but the national economy is going to go slower and this will affect Kentucky.

Vickrey: It may be premature, but the concept of going up at an exponential rate, onward and upward forever, leads to the mass or perhaps a falling ball expanding at the speed of light. Somewhere it has got to stop.

Lindholm: Maybe it has already stopped.

Reeves: Well, this problem has regional, national, and global overtones that are quite different, but the mere analysis of them, differentiation between them, and information on the parameters around them might be a wholesome exercise.

Lynn: Are there other suggestions?

Edel: Yesterday Lindholm and I were discussing the great scarcity of studies on the ownership of land, which is obviously relevant to the distributional implications of a land tax. I don't know if there are enough

papers in the works for a conference on this as soon as next year or not, but it is certainly an appropriate topic.

Finkelstein: May I point out with regard to this topic that there is supposed to be some additional data in the 1980 census. John Behrans of the Census Bureau has been talking about adding some wealth data. I don't know if it will be in the questionnaire, but I know there was some strong discussion a couple of years ago about getting property ownership data. Maybe that would be a good topic after we have a little more information than is now generally available. Also, a national research group is supposed to be applying for an NSF grant to move itself in this direction.

Wignjowigoto: Speaking of land ownership, or wealth distribution, I believe there has not been much of a change in the distribution of wealth. There is a paper that proves that there has been a change in the distribution of income, but not in the distribution of wealth.

Lynn: Thank you. Other comments along this line?

Welch: I believe I have a subject that lends itself to this group. We have been baffled by the effect that income taxes, corporate and personal, have on property values. There are a lot of angles to this that aren't apparent on the surface that I would like to see explored somewhere. If anybody knows of any such exploration that has occurred in the past that has been published, I would like to hear about it. Sometime I hope to interest somebody in doing it.

Woolery: Land use doesn't seem to be dictated simply at the land action level. Welch is saying to the tax administrators, "To what extent is the land tax a property tax or an income tax.?"

Reeves: I don't know if this question has been addressed.

Gaffney: Well, we have never really done a job on income tax treatment of land income. We have treated our subject as if the property tax was the only tax that is on land income and we pretty much neglected the income tax.

Holland: Welch, while you are here, can you elaborate?

Welch: Well, I am not really prepared to interest you in the subject I suppose. But in California we have had a long-standing argument with the assessors who say that income taxes have no effect on property values. In the State Board of Equalization our view has been that corporate income taxes should be recognized as a depressant of property values as compared to what they would be without the tax. But we don't say the same about individual income taxes and we don't know how to distinguish between properties affected by the two taxes. So we are pretty badly mixed up on the subject and I was hoping that some folks like yourselves might give us some enlightenment on it.

Vickrey: Well, just off-hand there is a kind of differentiation that oc-

curs, because of the corporate income tax, between those properties that need to be financed as corporate equities and those properties financed largely by debt and mortgage. In addition, since the corporate income tax suppresses investment in the equity finance area and directs investment to the mortgage and debt finance area, it in effect offsets the property tax.

Welch: I have always felt that the corporate income tax ought to be structured differently. It is not a return to equity, but a return to capital. I don't know if you endorse it, but that is the way I feel about it.

Vickrey: I would say that this is one of the defects of the corporate income tax.

Lynn: Other comments along that line? Well, one TRED conference kind of weaves into another.

Gaffney: May I have one more comment along that line? Recently there is a very strong movement to modify the income tax drastically in order to encourage capital formation. In the process it will probably end up encouraging land speculation, whatever that is, in terms of the way people use it, but we will undoubtedly exempt a lot of land income in the process of trying to encourage capital formation. This, I submit, is another reason for having a conference on the income tax and the distinction between the taxation of the income from capital and the income from land.

Becker: A few years ago when we had a conference, somebody gave a paper which I have always remembered. It referred to the taxable income on farmland in various states, and, as I recall, the average taxable income in California between 1969 and 1973 was \$20 million or so. Wisconsin had average taxable income of \$400 million. Apparently, there wasn't much taxable income arising from farmland in California under the federal income tax. This certainly must have had some influence on the price of farmland in California. I don't believe California needs to do anymore to exempt farmland income from the income tax in order to favor investment in land. Maybe it has already gone too far in this direction.

Lynn: Any other comments? I kind of sense the beginning of the end. Arthur, as chairman of the innertube or inner tread or whatever, do you have any words of wisdom?

Becker: No, I don't have anything at all. I think the digestive process has already begun.

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