

Montana, 6-15-71

Received July 2!

MRS. WELD S. CARTER
214 HICKORY LANE
ANTIOCH, ILLINOIS 60002

My fault
MC.

june 14, 1971

Dear Mase:

Enclosed is the letter I sent to my friends in Montana yesterday. In case Montana becomes active, these names may be useful to you to pass on to the Montana grass rooters.

They are: Mr. and Mrs. Roy A. Hanson
Box 867, Miles City 59301

He is a sheep rancher, banker and ex-member of the legislature. His wife, Rhoda, was in France with me my junior year and we lived in the same pension for three months. She is a very talented gal and successful businesswoman-- newspaper writer, insurance--has taken several groups abroad, and is a great promoter. They have four gorgeous grown children and several grandchildren. She's an effete easterner from Boston, but learned to rough it early by spending the first winter after their first son was born in an old trolley car or freight car in Zap N. D. where it went down to 50 below zero or so! She has always had glamour, and even modeled for one of the Paris coutouriers the year we were in Paris.

(this was the Depression!)

All the best...

Jessie

Dear Rhoda and Roy:

Just in case you two are home by some rare happenstance at this time of year, we want to let you know that one of TRED's ten members, Mason Gaffney, will be in Helena to confer with the chairman of the Finance Committee of the Montana Legislature this coming Tuesday, June 15. He will be there on the invitation of a Mr. Hoven, a former judge, I believe, and the father of a young economist who brought the work of this TRED member to his father's attention, resulting in this Tuesday event.

Because of our belief that you two know everyone in Montana, you may hear reverberations of this meeting, and it is entirely possible that good things might be on their way as a result.

TRED's work of the past nine years has produced five major volumes for use primarily among academicians--but their influence has gone far beyond the classroom. Increasingly TRED members are called in as "expert witnesses" by legislative bodies, including Congressional committees. One of the most exciting and dramatic developments recently is in the small city of Beloit, Wisconsin, where a group, the Wisconsin Property Owners League, has grown in two years to a membership of something over 2,600 members in a city of some 35,000, and has gotten two council members, committed to tax reform, elected this spring. Weld and I were invited to attend hearings before the city council last week--and over 1,500 people crowded in to the council chambers and overflowed into the halls and stairways (fire laws being carefully observed) where the meeting lasted for four hours! Mason Gaffney was one of the "experts" testifying on this occasion.

If you hear anything of this Tuesday meeting in Helena, or want to be filled in in any way, let us know. To brief you a little on how TRED operates, I'm enclosing a copy of Weld's most recent mailing to members of the American Economic Association.

How's the family? We expect to be right here most of the summer, except for some time toward the end of July when Weld has meetings in Washington. Can't you come for a visit? Peter and Hilda go to Europe July 1 for I don't know how long.

Write us your news!

Love,

(Jessie)

bc:vmng

DIGEST ON ECONOMIC CHARACTERISTICS OF A TAX ON LAND VALUES

1. STABILITY: In times of economic uncertainty, revenues from sales, income and excise taxes drop off faster than the income from the tax.
2. ELASTICITY: The tax base rose in direct proportion to the public services offered within the taxing district.
3. SIMPLICITY: The tax is easy to understand and simple to apply, both for the taxpayer and the tax collector.
4. ECONOMY OF ADMINISTRATION: With the aid of available computer techniques, the land tax is cheap to collect; there is less need for a large staff to review, audit, and general paper work as is necessary with the income, sales and excise taxes.
5. CERTAINTY: Because the value of land can easily be compared as between parcels, the tax comes under close scrutiny by the tax payers and it is easy to insure that the taxes are equalized and that no one taxpayer pays more than his fair share.
6. YOU PAY FOR WHAT YOU GET: The tax on the land reflects the value of the community services an owner receives, (utilities, etc.) and the demand of the people within the community for the use of the land. It expresses a basic principle of fairness, by requiring payment for what individuals receive, rather than giving them a free ride.
7. UNINHIBITED PRODUCTION: Basic economic principle is that a tax should bear as lightly as possible on production. A tax on land values tends to promote production, whereas a tax on income, excise and sales tends to discourage production by adding to the costs of goods and eliminating sales volume.
8. NON-INFLATIONARY: Income, sales and excise taxes tend to be passed on directly to the consumer in the form of higher prices. Land values tend instead to be stabilized by a tax on land.
9. REDUCTION IN CAPITAL REQUIREMENTS: The tax on land enhances the opportunity for entrepreneurs with limited assets, because it substitutes annual tax for a high capital value. The building tax increases capital requirements, and risk, and therefore, borrowing difficulties as well. Because it is at its maximum before there is any income or tax flow, and continues at a level based on gross outlay, regardless of income or cash flow. The sales tax also falls particularly hard on "weak hand" who must turn his limited capital fast for a variety of reasons, such as to achieve sufficient sales volume to keep himself fully employed; to adjust to sudden shifts in demand, and to obtain cash for timely business opportunities.
10. EMPLOYMENT: The tax on land values increases employment opportunities by increasing intensive use and frequent renewal of productive sites. Sales and income taxes diminish employment opportunities by driving capital investment out of the taxing district, and by slowing capital turnover (because profits are not taxed until an investment is converted into cash) which then diminishes the demand for labor.

Montana.

Heuf - copper

Bruce - general - Jim Brown, Meadow Lake Lane, Gr. Falls.

Osian Bunt, Bozeman

John Vance, 111 Quincy, Cherry Creek, Md.

Sam Chase Jr.

Mrs. Rae Logan

Rail Service issue

Oil $\frac{1}{2}$ - Wunderloch

Ag - Bozeman

LBS - Missoula

Cap - Helena

Announcement - Butte

Census of Sorts. -- missing.

Vernon Floren. 406-549-5186
549-3626

W.A. (Bill) Groff, banker, maybe head of force, maybe against me

Bill Leapheart, 442-4930, x partner John Vance

Forrest Anderson. Gov.

Bill Stribner, 442-3250, Taxpayers Assoc.

Chas. Voss

Census 1910, Montana

Mont. of all places suffers from space as a negative resource.
694,000 pop

Urban pop. 90 Mont. per cap. inc.
U.S. " " "

1950 43.7 1.08

1910 53.4 .86

Counties gaining pop. 1960-70 : 15
.. losing 41

Counties gaining were mostly western.

Biggest 3 cities: Yellowstone (Billings); Cascade; Missoula
have $\frac{1}{3}$ pop.

1950-70. Unempl., outmigration of young, educated.

No processing indy. developed. Just agric., mining, r.v.s., & timber.
Like a colony, dedicated to low wages.
All lost empl. save lumber indy.

No incl. park zoning in cities — Bruce R.

Market for cu. has been good.

Low-sulphur coal, Rosebud Cty., enormous reserves.

John Vance

Mont. has oil - - Cedar Creek area. Also small part of
Williston Basin is in eastern Montana.

One Levine, hounded out of state for hitting cu. co.
Changed name to was w. Brookings.

Some school lands had oil. They were wrongly persuaded
to reduce % royalty to $12\frac{1}{2}\%$ in order get higher bonuses.
This froze out small bidders.

Liberals hate the co., but go along bec. it keeps people
out. (But now, pop. falling).

Anaconda has big forest landholdings

Lakefront land, \$100 / ft. Most season limits value.

N.W. Rd. tied in. Electrified part of it - - sell copper, power.

Memo

to _____

from _____

date _____

Reapportionment, but farmers still potent.

State program of LVT.

June 15th, 2 PM, Helena

Senate, House, Ways & Means.

Fly to St. Falls. Russ Coulter will meet.

Informed session. Give brief statement of case for.

John Hovers in Madison.

Area 406 - 549 - 5186

Vernon Halden

549 - 3626

Call back 7

Mr Gaffney

UNIVERSITY OF WISCONSIN
MADISON, WISCONSIN

100 Patter Canyon Dr. ~~2809 1/2 Columbia Rd~~
Missoula, Mont. ~~Madison, Wisc 53705~~
59801

June 3, 1971

Dear Dr. Gaffney:

May I have your reaction to the enclosed bill? I am working with Montana's classification system, so the remainder of the bill is detail work, removing land from other classes and specifying the assessment ratio for land.

Should trees and bushes be explicitly excluded from the definition of "land"?

How large an area does one use in defining depletion? If I cut all ~~the~~ trees in one acre out of 1,000, doesn't depletion = ^{non-discounted} market value of the trees if I consider only that acre?

Stephen McDonald in the 1965 NTA Proceedings, p. 323n, says "the shiftability of a property tax on a depletable and renewable [e.g., by discovery] deposit is the same as that of a property tax on reproducible capital." Doesn't that make it unsuitable as a tax base?

Yours truly,
John Koven

A BILL FOR AN ACT

Relating to ad valorem taxation; creating new provisions; amending Montana Revised Statutes 84-101, 84-301, and 84-302; and prescribing an effective date.

Be it enacted by the People of the State of Montana:

SECTION 1. The following is added to and made a part of MRS 84-101:

7th ~~Seventh~~--The term "land" means the whole environment which has been provided by nature unaided by man, ~~it~~ includes submerged and submersible sites; all minerals; all water rights; and all rights to the electromagnetic spectrum.

9th ~~Eighth~~--The value of any piece of land is considered to be equal to the full cash value the property would have, assuming that the improvements to that piece of land did not exist.

10th ~~Ninth~~--Improvements are considered to be equal in value to the difference between the full cash value of improved property, and the full cash value of the land component thereof.

11th ~~Tenth~~--That portion of property value resulting ^{from}/(but not in excess of) private costs incurred in a) clearing of natural vegetation, drainage, reclamation, grading and other improvements which merge in the land, or b) street improvements and other costs of subdivision shall be considered as contributing to:

- 1) improvement value during the first fifteen (15) years after the costs were incurred, and
- 2) land value thereafter.

Department of Economics
UNIVERSITY OF WISCONSIN
MADISON, WISCONSIN
April 16, 1971

Mason Gaffney
Resources for the Future, Inc.
1755 Massachusetts Avenue, N.W.
Washington, D.C. 20036

Dear Dr. Gaffney:

I'm enclosing a letter which I just received from my father regarding prospects for a land tax in Montana. It turns out that it's the governor he was able to interest, so maybe the chances for a serious hearing are better than I originally understood.

The timetable on this is pretty short, so please forget about my questions on Wicksell, etc. until some day off yonder. I'd rather you spend whatever time you can spare me on this for now.

✓ Regarding the enclosed letter, that unintelligible last paragraph basically means that lumber and mining companies pay almost no property tax, so Dad thinks that even assessing all property equally would be a great improvement. I think, though, that the classification system affords about the only opportunity for implementing LVT without a constitutional amendment, and we can work within it.

Thank you for your help.

Sincerely,

John Hoven
John Hoven

P.S. Will a "Pittsburgh Plan" of gradually increasing taxes on timber and timberland accelerate depletion?

608-238-0538

LAW OFFICES
TIPP, HOVEN & BRAULT
123 WEST BROADWAY
MISSOULA, MONTANA 59801

RAYMOND P. TIPP
VERNON HOVEN
RAYMOND W. BRAULT

406 - 549-5186
406 - 549-5187

April 12, 1971

John Hoven
2809 $\frac{1}{2}$ Columbia Road
Madison, Wisc. 53705

Dear John:

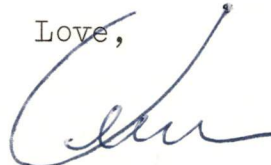
*Gov. of Mont; Dad was in charge
of his fund-raising in the
last election*

I have just finally been able to interest Forrest Anderson in the land tax program. This comes about because our legislature came to an impasse under the regular session and then the 26-day session did not solve a single thing. Forrest's idea was to increase the income tax, and the Republican side wanted a sales tax. There was no give on either wise, so the legislature adjourned without funding the state for the next two years.

As a result, a special session has again been called for June 7 and Forrest said that he might very well be able to incorporate this land tax in his call. Therefore, John, could you get me a sample piece of legislation or a bill to be enacted that would put that in effect in the State of Montana. I don't know where you would get it, but you can obtain it a lot easier than I can and forward it to me at your earliest convenience.

Likewise, we have a statute in the State of Montana that provides that an Assessor shall assess all properties at fair market value. Then in addition to that, we have a statute which sets up the various classifications, including "special Improvements." My idea is that we appeal the special classification section and just leave the statute as to appraising them on the basis of the fair market value that we could then work through the State Board of Equalization and have them assess all "unused" land and "speculative" land at its true value. It then would tend to reduce the amount of the taxes that would be assessed against the special improvements section inasmuch as we would not be assessing the "special improvements" but would be assessing on the basis of the fair market value. I appreciate that this isn't the most desirable from the land tax standpoint, but would it not be opening the door to the situation? I am very anxious, John to get the bill or bills as has been submitted in various states and see just what we can do along these lines. If you have any other ideas of a "half-way" idea, let me have them.

Love,



ji

20 April 1971

Mr. John Hoven
Department of Economics
University of Wisconsin
Madison, Wisconsin 53706

Dear John:

Sorry my proof glided over things too tersely. In fact it's a bit sloppy. Here's a way to avoid using g_0, g_1 , etc.

$$rL = \int_0^L g dL = \int_0^L \frac{d \int_0^L g dL}{dL} dL = \int_0^L g dL$$

$$r = \frac{\int_0^L g dL}{L} = \text{mean value of } g \sim \frac{\int_0^L g_n}{L} \text{ where } n \text{ is an integer}$$

$$\frac{dr}{dL} > 0 \text{ if } \frac{dg}{dL} > 0 \text{ by inspection of Figure below.}$$



Thanks for catching the typo.

Your quote from Wicksell I think means that labor paid in unripe goods is thus saving and is thus functionally acting the role of capital. That is "labor" is defined as human effort, and that alone, with a presumption of immediate consumption of product. Capital is defined as a surplus which is advanced to consuming factors -- primarily labor, but also land and frozen capital. Capital may preexist, but some may also be currently created by current saving. If a "laborer" saves he creates capital and becomes its owner--he is part capitalist.

Mr. John Hoven
20 April 1971
Page 2

I don't see that that is mysterious. It's essential to avoid surrendering to the "omelette school." By analogy, if a landowner works we don't let him say his imputed rent is wages. So if a 'laborer' saves, his interest isn't wages either.

Don't be put off by a specious resemblance of Wicksell's wine-fund to a wages-fund. Wicksell's fund has a changeable rate of turnover, so the wages-flow can increase from a fixed fund. It's a wages-flow theory.

Re p. 160 of 'Land & Rent,' in equilibrium where $SAC = LAC$, SMC necessarily $= LMC$. However owing to depreciation and growing demand (as well as errors of investment) frequently $SMC \neq LMC$ in which case of course $SMC = P$ is optimal. I tried to handle this in Replacement of Individual by Mass System -- have you a copy?

Re p. 146, in fact land is both scarce and non-uniform, so perhaps it isn't worth much worry what to call rent if land were uniform. I was rebutting the idea that rent is a "differential" so any "differential" is rent.

As to cash, it is not fixed in supply. If it were, it would represent a claim on capital -- one of many -- and capital is not fixed in supply. It's imputed income is a form of interest I think.

Inflation adds a tax burden to an interest burden of holding cash. I don't see any substitution. There is no capitalization of tax into lower values of cash.

I'll take your offer to let me pass on the rest of the questions for now.

Turning to predrafted legislation, there are many stones to turn.

1. Call Weld Carter, 312-395-3884. Weld is working on this now with an active group in Beloit. I referred them to the Wisconsin Grimstad Bill, 1921, supported by John R. Commons.

But every state constitution poses unique problems so a Montana lawyer is essential.

2. Re Hawaii, see John Hultén's paper in Proceedings of NTA, 1969 Meetings in Boston. Then contact Senator Hultén for advice.

3. Re Pennsylvania, ask Percy Wins of Pittsburgh for copy of their law.

Mr. John Hoven
20 April 1971
Page 3

4. Re Oregon, contact Professor Richard Lindholm, School of Business, Eugene. He is fiscal adviser to Governor McCall and is drafting a state land tax proposal.

Interestingly, Professor Charles Vars of Oregon State University, Corvallis, served as tax consultant to Montana in 1969-70. I gave him a snootful of ideas, but have no idea what he did with them.

5. In California Senator Rodda is drafting state land tax legislation. His former adviser, Jack Massen, now Manager of Daly City, has tried to draft legislation, too.

There was a much earlier campaign under Jackson Ralston (dec.) Noah Alper of St. Louis was involved and could supply drafts.

In San Diego, John Nagy has pushed for a law and may have a draft.
(California Homeowners)

6. In Indiana, Professor Carlyn Johnson, School of Law, Indiana University, Indianapolis, is researching LVT. As a lawyer she no doubt has thought about legislation.

7. Alberta and British Columbia and probably Saskatchewan favor buildings.

In practice, assessment is half the battle. If Montana Board of Equalization could bring up land assessments -- great. On this, some help may be available from Paul Corusy, I.A.A.O., Chicago.

Lindholm's approach is a surtax on land, above the existing real estate tax. This sounds appropriate to Montana's crisis.

Does your dad know the ex Mayor of Great Falls, Russ Conklin, who as a state legislator pushed a bill? He should be a good source.

Sincerely,

M. Mason Gaffney

Economics Dept.--UW
Madison, Wisconsin 53706
April 4, 1971

Mason Gaffney
Resources for the Future, inc.
1755 Massachusetts Avenue, N.W.
Washington, D.C. 20036

Dear Dr. Gaffney:

Thank you for keeping me on your mailing list.

Your proof is terse enough; it gave another graduate student and me a couple hours entertainment trying to understand it. It will help if you define the quantities $g_0, \dots, g_L$ in (3) and carry out the differentiation which you accomplish "by inspection" under (4). Also, there is a typo in eq. (5): the numerator needs to be multiplied by another factor i .

I've been trying and trying to comprehend what you and Wicksell are saying about the relation of wages and employment to capital turnover. Both of you appear to say that payments to labor are drawn out of the stock of ripe goods. You write: "Labor deposits green goods in the store when it works; and withdraws ripe goods from the other side of the store as its payment." And again: "The economy...needs to schedule maturities so that ripe goods equal factor payments high enough to cover income." Wicksell implies the same notion on pp. 188-95 of Lectures on Political Economy, Vol. I (Classen transl., 1934), especially at the bottom of p. 193, where he implies that wages are paid out of the "production of finished commodities and services of the year" after the capitalist class has taken its share in the form of interest.

It is a very different thing to say that consumption is limited by the availability of ripe goods, than that factor payments to labor are so limited. Wicksell's reply to the fact that labor can be paid in unripe goods (and, in fact, invariably is: payment is in money) is unintelligible to me. He says (p. 195): "This is of course quite correct, but it is scarcely a proper objection to the wage-fund theory, except in its most rigid form; for, by such a procedure, the workers would themselves become capitalists and would build up capital, so that the fruits of their labour which were not exchanged for products, i.e. for a part of the existing capital, would constitute a real addition to it." Does this mean that in such cases "wages" are only a portion of the "fruits of labor"?

I have quite a number of additional questions to follow. I'm sorry for the bother; I will be quite happy with a reference in place of a discussion of any point.

First, I'm puzzled by a point in your "Land and Rent in Welfare Economics", p. 160: "The homogeneous gallon is that delivered to one outlet...And there we find decreasing costs, long-run costs, among other reasons because the cross-section of our pipe grows with the product of the radius times the circumference." Isn't price determined optimally by short-run marginal cost? That is, once the system is built, the pipeline is a sunk cost, so the only cost which varies with output is pumping cost (an increasing cost).

Can you elaborate what you meant on p. 146 of the same article, where you assert: "Rent arises because land is scarce relative to demand and would arise in that circumstance if land were uniform." Also, if fixity of supply is the essential cause of rent, can we equally well assign the term rent to the return which a business imputes to its cash balances? Does inflation (viewed as a tax on cash balances) substitute a tax burden for an interest burden as the holding cost of money?

In Extractive Resources and Taxation, you recommend a tax on depletion to counteract any tendency of a land tax to accelerate depletion. Given a land value tax rate t , what should be the tax rate on depletion? Is depletion equal to the yearly fall in value of the land?

In principle, what is the optimal tax rate for an effluent charge? Is it correct to maximize the sum of land rent plus annual revenues from the pollution tax?

Can you suggest some references on the concept of consumer surplus, and when and why it gets attached to land values?

I'm grateful for any help you can give me. Thanks also for your past advice on schools. I'm really enjoying myself here. I was able to begin immediately with graduate-level courses, and degree requirements are sufficiently flexible that I can pretty much allocate my time where I will. All the public finance people are concerned with expenditure rather than taxation, so I'll have to depend on my own reading for most of that. Two of my classes go into externalities in a big way, but neither instructor mentions spatial proximity or rent being at all related to the subject.

Yours truly,

John Hoven
John Hoven

20 April 1971

Mr. John Hoven
University of Wisconsin
Department of Economics
Madison, Wisconsin 53706

Dear John:

Re yours of April 12.

1. Easements, ^{as} levees, covenants, etc. The basic principle applied by good assessors is that the subject being assessed is fee simple title, however it may be divided. The public equity in fee simple title is not to be diminished by acts of the landowner like unfavorable long term leases.

2. Special assessments. No, the owner has already been taxed by the assessment. However a 15-year limit is desirable.

3. Use soils maps and soil scientists to assess farm land. They have carried this to a high art already, although soil scientists often need to work jointly with economists, to keep their farm fundamentalism in check.

It was a Montana soil scientist (retired or deceased) who headed the Hawaii land classification studies -- Land Study Bureau -- prior to their property tax reform.

Roland Renne (now in Washington?) could help on this. Or the University.

The Wisconsin Grimstad Bill (1921) proposed a bad way to handle fertility -- forget it.

4. The best way to handle subdivision is for the municipality to pay for the improvements and tax the resulting increase of value.

Next best is for the subdivider to pay and enjoy a 15 year exemption on that portion of value resulting from (but not in excess of) street improvement costs.

Arrangements between municipalities and subdividers are kaleidoscopic. Much of this must be worked out ad hoc -- just as it is today.

Most important. Unsubdivided acreage should be reassessed annually, so that subdivision is not the occasion for catching up on land value, as is the common practice today.

5. A land tax will not much accelerate timber harvest, except where the best use is non sylvan. It is the tree tax that does that.

Mr. John Hoven
20 April 1971
Page 2

If timber is on land where replacement growth is to be slow, then there is no land value and no land tax. If replacement will be fast, then scenic damage is minimal.

If those points don't solve the problem, try scenic easements or other explicit recognition of externality.

6. The state should collect a user-charge on owners depleting water, especially from common pools without tenure protection. Ditto for oil.

Sincerely,

M. Mason Gaffney

Department of Economics
UNIVERSITY OF WISCONSIN
MADISON, WISCONSIN
April 12, 1971

Dear Dr. Gaffney:

Do you have a model bill for the taxation of land value? My father thinks he has persuaded a Montana legislator to introduce a bill in this session. The fellow is a friend of Dad's and head of the taxation committee, so there may even be a slim chance that something will come of it. The Montana property tax assesses property at different rates, so I think there may be no need for Constitutional revision; simply create a new class for "land only".

I have a number of questions on implementation. Can you point out additional difficulties of which you are aware, and how to handle them?

How does one deal with easements and long-term leases?

Should one tax increased "land" values due to projects financed by special assessments on property owners?

How does one specify how to assess only the rent portion of farmland? I've read your article on "Soil Depletion and Land Rent", but I'm reluctant to try to summarize it for the purpose of legislation.

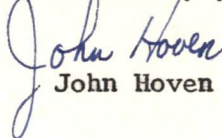
Can you suggest a method for dealing with the problem of invisible improvements (including subdivision and assembly) in general?

I think there is a significant amount of privately-owned (mostly Northern Pacific) timberland that is very important to some scenic areas in Montana. Will a tax on depletion be necessary (and at what rate?) to avoid clearcutting?

Are there any open-tenure problems in oil or water resources that could appropriately be corrected in a bill of this nature?

I will be grateful for any help you can give me.

Sincerely yours,


John Hoven