



An Inventory of Rent-Yielding Resources (excerpt)

By Dr. Mason Gaffney

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Excerpt from:

An Inventory of Rent-yielding Resources
Mason Gaffney

A chapter in Fred Harrison (ed.), The Losses of Nations

4. Timberlands

a. The area is vast - $1/3$ of the U.S.A. Unit values are low, but even low values add up to a lot over such an area. The annual value (rent) for growing wood is a fraction of the harvest value. The fraction varies with the time period and the discount rate, but if the time period is 20 years, and the real discount rate (inflation-adjusted) is 5%, the annual value (rent) is 3.0% of the net harvest value (applying a standard financial formula, "the sinking fund factor"). As a very rough cut, IF the harvest value were \$20,000 per acre, every 20 years, the rent would come to \$600 per acre per year. $1/3$ of the U.S.A. comprises 771 million acres. At \$600 per acre per year, that would come to \$462 billions annually. This is probably too high an estimate, since many lands classified as "forest" are less productive than the example; but it is a hundred or more times higher than taxes actually levied, for timberland enjoys virtual tax-exemption, even compared with other properties that are lightly taxed (like all California real estate after 1978). In Mendocino County, California, taxes on timberland are at about $1/36$ of its annualized rent value from timber culture alone (Gaffney, 1995).

Land uses declared by law to be "compatible" with timber go completely unrecognized in the legislated low valuations for property tax. These include grazing, resorts, vacation (but not retirement) homes, campsites, fishing, hunting, watershed protection, tourism, rifle ranges, rights-of-way, mining, log storage, landings, roads, logging camps, etc. There is also marijuana, possibly California's most valuable crop, but unrecorded: officially it does not exist.

Some timberland also has high ripening values for "incompatible uses" like urban subdivisions that require formal changes of zoning. These growing values go completely untaxed until conversion actually occurs - by which time the accrual of value, which is part of rent, will have gone completely untaxed.

e. Mature trees contain a lot of stored-up rent, most of which was never taxed. It is not too late to tap this store, with interest, by using yield taxes that the industry itself has lobbied through to displace the property tax on standing timber. In general, yield taxes are not an efficient way to tap timberland rents, but there is a place for them during a transition period towards a tax-free economy, and they are

popular with preservationists because they tend to slow cutting cycles. Currently legislated levels of yield tax rates are much too low to compensate for the revenues previously lost, but raising the rate is a simple matter. Revenue-neutral rates may be calculated by formula, coupled with some judgment calls (Gaffney, 1997).