

Wunderlich Paper, 1985

Mason
Gaffney
discussing
Paul Davidson

I think that Professor Davidson has silenced his critics in a most effective way by not allowing them any time. Professor Garnsey has urged me to keep my remarks very brief in order that we might have time for discussion from the floor. We do have another discussant who should be allowed about 15 minutes and if I compute this correctly that leaves me about -15 minutes myself. The briefest contributions I could make to this conference would be to retire. And since there is such a brief period of time I think I will do that. How much time do you want me to talk? Well OK, I'll pull out a few brief comments then. ¶ In general I think that Professor Davidson has brought out a very important point that need to be stressed, and I'd like to see ^{it} stressed ^{even} more, and that is ~~that~~ there are public services whose marginal costs are below the average cost and which therefore are best allocated at the price charged ^{which in turn} is not sufficient to cover the cost of the facility. ¶ It's a viewpoint which I am very sympathetic with. On the other hand, I think he has overstated his case and the burden of my remarks is to try to balance it out a little bit, even though I basically

agree with him. So, I'll list two or three counter-suggestions. *Number 1*
is that if things are not paid for by user charges, they are likely to be
paid for by general taxation *even though* ~~and general taxation~~ — well taxation is
really not general. There are many kinds of taxes and some taxes have
the character of user charges — excise taxes particularly, and I think
that he really should have distinguished among taxes. Only taxes which
are functions of times such as property taxes, and not taxes which are
functions of use, such as sales taxes, I think meet his criterion.

3 *H* Secondly, I think that the concept of a pure public good is probably a
none such. There are goods which approximate this condition. I wish
Professor Davidson had not spoken so freely of marginal costs being equal
to zero and optimal user charge being equal to zero. There may be a few
such cases but they would be very rare. *H* The general case is of marginal
costs being below average costs but that is somewhat different. Take the
case of the streetlight, which is supposed to be a pure public good. You
could truly meet the criteria for a public good, that is there is no
additional cost involved in having one more person bask in the rays of
the light, *Then* there really only need be only streetlight necessary in
the entire world. But obviously something is left out here. There is
the spatial factor to consider. The streetlight lights a limited space and
the benefits are rationed not through the user charges but through the
occupancy of land which is primarily benefited by lighting the limited
space. *H* *Professor Davidson* I wish that he would drop this learning-by-doing concept and stick
to the reference of public goods. In the first place private products
also stimulate a learning demand, and I don't see any great distinction
between private and public goods in this respect. And if we were to rank
products by their capacity to stimulate a learning demand, I imagine that
heroin would come to the top of the list. The value in use there seems

as dear as life itself. That should give us some pause in thinking we're adding to human welfare when we create new demands. ⁷ Subjectively, I may say that my happiness lies in fulfilling the desires I already have, but to create new desires which cannot be fulfilled detracts from my pleasure. Now, a persons time is limited and he can only satisfy so many options a day and to make him pay by taxes for more options than he can enjoy may actually reduce his welfare. ⁸ ~~I wish we had more time to talk about it.~~ I question the generalization that we are usually myopic and put excessive weight on the present as opposed to the future. On the contrary, I am inclined to observe all about me the old refrain of "pie in the sky by and by." Professor Bolding has written a wonderful quatrain on this which I won't presume to quote but it ends up that we "now spend funds we do not hafter in quest of benefits hereafter." And he was talking about modern industry and research. I ^{also} think that government projects are equally bad offenders. We're continually reducing our present welfare to achieve alleged overstated and dubious future benefits without proper discount for uncertainty and futurity. ⁹ On the question of having options which we do not use, adding this to the benefits of public goods, I think ^{Professor Davidson} he has mixed two or three things together here. I won't try to unmix them all but I do think that private goods have the same virtue as public goods in this respect, that it is nice to have an option on private goods that we plan to use as well as publicly produced toods or public goods, which isn't quite the same thing, which we do not use. ^k This is one of the reasons, of course, why people locate in the cities, and the value of these options which we do not use is somewhat reflected in urban land values, ^l and actually has a kind of objective measurement in that market commodity. ^{II} I deplore the final conclusion that value judgments must prevail. This means to me that the Tower of Babel would be with us

all over again. The world is full of fundamentalists. There are sylvan fundamentalists, those with the Forestry Service who believe that interest rates are evil because they discourage the activity in which they are most interested. I have heard of horticultural fundamentalists ~~apart~~ who thought the major criticism of smog in Los Angeles was the damage to citrus groves. We have naturalist fundamentalists, internationalistic, medical, highway engineers (they are perhaps the worst of all these days) wildlife fundamentalists, skiing fundamentalists, all kinds. ^{is} Now, of course, economics ^{is} are the one discipline which doesn't suffer mental problems. Our function is to arbitrate among fundamentalists by providing them with a common tongue within which they can communicate, and the key ^{phrase} word here is "exchange value" and the key hard stick is the dollar. Now, this measurement has its faults, of which we are all aware, but the usual critic of the almighty buck is the minority fundamentalist whose viewpoint is not popular and therefore is ruled out by the almighty buck. ^{Now} Some of these fundamentalists are "hard" scientists, I suppose, and one of the great pleasures of the economist is to contemplate the economists in the Bureau of the Budget as "soft" scientists making hard decisions about soft programs in the hard sciences. ~~I think I'll quit while I'm ahead.~~

1. Cato

2. My partner in farming,
After 6 mos. he had the money & I had the experience.

3. That's actually an ethnic joke, Italian & the Armenian.
Reminds me of my book about perversions,
Not a sex book, but good ideas gone wrong.
Good idea gone wrong is we shouldn't make derogatory remarks
about other ethnic groups. Perversion is, shouldn't talk
race or nationality at all.

Sanya Solomon here to save us from perversion. I
salute her.

4. My wife, "Total Physical Response"

"Oh, brother, worse & worse, another McMartin
case",

5. Why are we interested in values, inventories? My r.e. man speaks of "warehousing" land; & we speak of "taking stock"; but this is no irony. Never turns over; can't be stolen.

2 way -- meeting in shadow of Midway on this.

O. Highly concentrated. Census has more on plumbing.

A. Great tax base. It's often been said (by me) ~~to~~

House of Lords once sacrificed itself to prevent valuation. ~~for~~ it's the best. Certainty is the oldest, & we keep coming back to it. \$93 B now raised, on base of ca. \$7 t.

No in personam collection process required.

B. Great credit base. Much has been monetized.

Dangerous business. H. D. Simpson. H. Hoyt. 1976-81, biggest part of joyride (except in D.C.), now a danger point.

C. Raise consciousness, latent values.

Sleepy holders.

~~Assrs. do for the p~~

They grouse at assrs. who signalize latent values. But assr. is only doing for a public purpose what Raiders do for prot. profit. (not h.c. Raiders, but corp.)

D. Protect Fed. revs.,

Can't deprec. land. In practise, usually means you can't deprec. what assr. says is land. Fed. Bd. of Eq. needed

E. Predict future by documenting cycles of past.

Figures from Hoyt.

How much is o'mortgaged today? Better
frug, creative frug, easy to do.

Banks, too. B of A, recent case at \$18,000/a
on vines in Fresno City.

Predict future of our banking system!

" " tax revs.

F. Find real i.r., in ~~80s~~ '70s.

Current cash flow / price

G. Find how to make public records public
Maps.

H. Assmt. discrim.

Census good, but needs to be improved.

Discrim. vs. o-occ. resid. led to P-13.

Result of ~~using~~ diff. turnover, and using cap. inc. for
bus. prop'ty vs. comparable rates for resid.

Behrens docs. this in recent paper.

"Stumbles across the truth & picks himself up &
hurries on as tho nothing had happened."

~~Single farm~~ Assuit ratio, nationally:

	Sing. farm.	Overall
.56	.30	.30
.81	.44	.37

I. Ideally, know when land is ripe to repay
extending p.w. Value before & after, measures of net
benefit.

J. Latitude of assrs. as de facto midl. policy.
Inc. tax loopholes are the main one.
But local assmt. is big.

E.g. pref. assmt of farm land merely formalized
what many assrs. had been doing right along.

Can also be growth-oriented. Glendale, Wis.
Cook Cty, Ill.

Or oriented to Urban Removal, Milw.
Hartford.

Is much easier when assr. is a city
official. Calif. Cty assmt & professionalism
guarantees unpopularity.

6. Major biases in assmt.

a. Regressive

Mke. ~~ind~~ indl. land. Res. not subdivided.

Timber

Coal

b. Raw land

c. Slow-turning classes of property. P-13 has legalized this.

d. Prop. assd. by capd. inc. when other prop. assd. by comp. sales.

e. Pref. assmt. Farm. Timber. TP3 (3 for 1 Mubach?)
Golf courses.

f. Tax exempt. UCR -- vs. L.A. Raiders.

U.S. Military. Publ prop. - invention of wheel.

g. Minerals.

Cu in Mont.

Cementation.

Coal in Appalachia

h. Wtr. rts.

i. Radio spectrum

j. Severed prop.

Cov. not to compete

Air rts

TDRs

Polym. rts.

"ROW pottage"

Leasehold rts - e.g. ~~the~~ oil leases.

E.g. school sections in Miss.

E.g. Boat docks on state lands

7. Farmland asset is a laugh.

A. Capd. inc. approach. Part of prop. asset.

(1) Ignores amenity value

Esp. near cities. Proximity to city is a major element in farm value -- w/o regard to future dev't.
TDR values in Mont. Cty. suggest their part of value has not been dominant.

(2) Ignores contrib. & cash flow.

Mkt. was cap'g & rent; assets cap'g current rent.
Using urban floating values as an excuse.

(3) Ignores value of inc. tax shelter

(4) Ignores mineral rts., before leasing.

(5) Ignores wtr. rts.

B. Corp. farmland, xfd. as small incident to giant deal. E.g. Getty - Texaco
KCLC - Tenneco.

No useful sales price.

8. To make the public records public - use maps.

Use the "Herd Instinct" - continuity in space.

That in turn based on social psych. of objectivity about land, that antedates 16th Am. with its in personam approach. Value based on potential highest bidder. - not the personal circumstances of the owner.

The unit is the s.f. - not the parcel. A major difference.

If parcels are wrong, owners shd. change them.

Assmt. based on best parcel size & shape was seen not as a necessary evil, but a positive good. Assmt. not only cd. assume highest use; they made it happen. Both subdiv. & consolidation accepted, (depending on whether platage is neg. or positive.) No. of taxable parcels in U.S. up from 61 m to 100 m - except no gain in farming.

Sq. ft. has problems - so do parcels. Chaussee case.

the

Heterogeneous soils do not destroy map idea, but become a basis of mapping.

7. Sources of resistance to mapping.

a. Big forest holders vs. small "recre." buyers.

"Recre." is a way of putting down. Homeites — many suburbs began as resorts.

Misanthropes I have known:

Mountain ranches.

B.C. forest mgrs. (Marino, too -- the ME in Maine comes from St. Regis?)

Cal. TPZ

b. "Furs." in urban penumbra. See 8

c. Pvt. map makers

Oil prospectors. A public map is a threat. Maps as proprietary — a far cry from Lewis & Clark.

Prop. tax is like me -

when talk, no body listens - - -

1 clear, assmt

1. Why USDA need to know r.e. values? a msre. of serving their clients?
2. Bank expansion & contraction
- ✓ 3. Not just nominal values, but also liquidity. Liquid upswing vs. and downswing. Hoyt.

4. Value factors:

Worldwide:

I.R.

Anti.

National:

inflation

inc. tax.

State. PW; ag. research; tax levels

Indy

Price supports; P/K; demand; supply, present & impending;
City. Rainfall

Regional: Wto. tables & supply. Wk.
Local banking

2
5. L.V. paradox. Land is enduring, + basic; but L.V.
are a rubber balloon full of hot air.

It's not the land that changes; but man + his
moods. Man is fickle, subject to fads + delusions.
Man is subjective, ~~subject~~ to his analytical powers
preempted + overridden by herd ~~instinct~~ stampedes of fear +
greed

X 6. L.V. maps as device for making the most of meager
info. Based on the "Herd instinct" - continuity in space.
~~Problem of~~

That in turn based on a social psych. of objectivity
about land that antedates 16th C. Value based on
potential, highest bidder - more, the best parcel size + shape
If parcels were wrong, owners wd. fix them - keep market
fluid, weaken holdouts

This was seen not as a neg. evil, but a positive good
Assrs. not only cd. assume highest use; they helped
X bring it about - make it happen.

Subdiv. desired; but counsel. also accepted

Parcel lines seen not as exog. to owner, but endog.
It was his responsibility to fix 'em.

8. Assd. values of farmland are a laugh

a. "Capd. income"

The mkt. was capd & rent, & assn. were capd current rent.

Using urban floating values as an excuse

~~Capd inc. method of assmt discrimin. vs. only, 0.00, resid. prop - ~~the~~ may be prime cause of P-13.~~

b. P-13 freeze, all values are a laugh.

c. Xprs. thru corp. merger - Getty's 77,000 a. Triggers reassmt - but ~~low~~ sales price not useful.

✓ Irvine case, assr. required to use sales price, ignore ~~assmt~~ appraisal (parcel too vast, probable cause of low sales price)

a. "Capd inc." ignores major factors in farm value:
i. Residl. community
ii. Tax shelter

14. Boom + bust in avocados.

15. China town redux - the avo. crescent.

Fiction of divorcing farm values from urban.
Proximity to city has always been major factor in
farm values.

Cal. "unusual"? Is #1 ag. state.

16. ~~TDRs in Mont. City. A mkt. that fell flat.~~
~~So if the value was not in the dev.-st., much must~~
~~remain in the land as is!~~

— 17. Assent + non-credible zoning.

18. Tax exempt land

~~with~~
RCC

State lands, 3-mile
offshore leases.

~~19. Wtr. rts; (pwr. drops)~~

clear, Assmt.

21. Irony of mts. near Midway.

22. P. Mc Wayne who wait sell.

Raiser ass. who screens out land sales at low values.

23. Major biases:

Regressive assmt. Milw. indy.; timber, coal

Raw land

Slow turning prop.

Cap. method used w. comp. sales method

Tax exemptions

Prof. assmt.

Severed prop.

TDRs

Gov. not to compete

Radio

Unrealized plottage

Many wtr rts, e.g. Riverside

Platte easements.

"Raw plottage"

P-13, reassess upon xfr. Cf. 27.

Minerals. Coal; cu in Montana

24. Fragility of values

"Can't get that if sold all at once" - old assrs.
dodge we've all heard.

But in big crisis, it happens.

✓ { In mkt. where 2% turnover is high, it only takes
another 2% to double supply of current offerings.
So banks should lay off.

Risk of foreclosures, bank failures.

Values fall, and by diff. %s. Agul. + growth means low
credit.

25. Why are we doing this?

a. Protect revs.

Prop. tax

Avoid deprec. land.

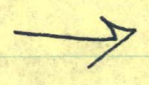
b. ~~See~~ Predict future, by documenting cycles
of past.

How much is over mortgaged? Future
of fuel system may be predicted.

c. Find real i.r.

~~How~~, real share of land inc. going in

taxes



Predict future tax revs.

✓ 26. Land info systems are parcel-oriented

✓ 27. Many xfers. are no longer parcel-oriented - ~~big~~
but control of corp. changes. No info. about sale of
parcel is generated. These are largest - but no info. in Census.

28. From 1957, taxable prop. value survey, 5-yearly.
under Cal. Subdiv. Map Act.

✓ 29. A C.O.C. changed Harmon Sq. from 8 parcels to one,
in city plan - but 8 assmt. parcels. And ea. deed presented
for recording must have assrs parcel no. And 70 condo. units!

✓ 30. A new issue for Census - are foreclosures used as sales?
Recent case in Fresno at \$18,000/a!

✓ 31. "Classifying" land

Often a sale changes the use. In such case,
if assmt. based on old use, sales/assmt. will be hi -
but immediately cured.

✓ 32. 1956 - 81, no. of taxable parcels sd

'56 - 61.1 m

'81 - 98.4 m

Only "acreage + farms" was static.

33. Belkrens			overall	Single farm.
<u>Rate</u>	<u>Mkt Val.</u>	<u>Assd. Value</u>	<u>Ratio</u>	<u>ratio</u>
.56	.75	.210	.30	.298
.81	6.75	2.5	.373	.439

Evidence!

44. Why need to know value data?
Ideally, wd. be index to when land was ripe to have p.w. extended.

45. Latitude of assrs.
E.g. in Wis., Glendale exempting new bldgs.
Milw. land valuations, long story
Beloit, unsold lots.
Latitude is greater where assr. is a city official,

$$2.7 \overline{) 2.1}^3$$

$$12.4 \overline{) 170.0}^{3.3}$$

$$\begin{array}{r} 12.4 \overline{) 170.0} \\ 13 \\ \hline 70 \end{array}$$

$$6.7 \overline{) 25.0}^{7.7}$$

$$\begin{array}{r} 6.7 \overline{) 25.0} \\ 20.1 \\ \hline 490 \\ 469 \\ \hline 2810 \end{array}$$

15

and the asso. can implement city policy -- e.g. urban removal.

✓ 46. Nulle terre sans seigneur -- except Edgmontown.
Or W.Va. parcels w/o boundaries.

47. Bill Forst, Sonia Solomon, Jim (Swede, General)
Richard Almy,

~~48. Assent. L.V. maps as way of making records very public.~~

✓ 49. Good idea: tax in rem.

Provision: take parcel as the rem.

Articles or books.

1. Perversions

Not about rec.

About how good ideas are turned into bad ones.

a. Good idea, equal credit to poor.

Bad " : lower i.r. all around.

b. Good idea: land tax for land dev.

Bad " : MWA x-subsidy.

c. Good idea: tithe on land income, as in bible, & corp. inc. tax.

Bad idea: wage tax

d. Good idea: Incentive to use wtr.

Bad idea: " " waste

2. The Social Value of Interest

raises some \$93 billions/year on a base of \$7 trillions, a large share of which is land value (in California nearly half).

C. Land as a Credit Base

Everyone knows that federal debt may be "monetized" when bought by banks, and the papers are full of the effect of federal deficits on the money supply. Here we are victims of another perceptual bias. Now, as defaults accelerate and the system starts to crumble, we suddenly become aware that most of what banks have been monetizing in recent years is not federal debt at all but, rather, real estate! Anyone wanting to predict the future of money and banking had better be expert on land valuation because that is what it is now all about.

In 1933 Professor Herbert D. Simpson of Northwestern University told the American Economic Association that the banking collapse was an echo of the real estate collapse, and there was none to deny what none could hide, much as some wanted to. Homer Hoyt drew on Simpson and also adduced much more evidence on the subject in his monumental *100 Years of Land Values in Chicago, 1833-1933*. Hoyt found the same cause producing banking collapses also in 1837, 1857, 1873, and 1893. Philip Cornick's *Premature Subdivision and its Consequences* records the same process in New York State in the 1830s and 1920s. Homer Vanderblue's articles on "The Florida Land Boom" show banking expansion and contraction being led and driven by boom and bust in land values.

One of the crimes of the Chicago School has been to stuff all that down the memory tubes of history. Lloyd Mints in his *History of Banking Theory* pillories and stigmatizes those who have warned against letting land values be monetized, and many "mainstream" economists dutifully cite him. In Friedman and Schwartz bank expansion and collapse depend on the ideologies and personality quirks of Fed governors, with all else following along.

Don't you believe it! A giant Chicago bank that did now survives only by virtue of the largest federal bailout in history. The world's largest, our own California pride—The Bank of America—is declaring its first losses since the Great Depression. Our whole financial system stands on the brink of disaster or socialization for one main reason: overextension of defaultable loans on the collateral of real estate values whose determinants and trends the bankers obviously did not understand. During the joyride, 1976-81, loan officers just plain projected unearned increments into the misty future, farther than the eye could see. It was only a dream, but the ensuing nightmares are real. How much safer we could all feel today had they had more exposure to good solid research in land valuation.

D. Raising Consciousness of Latent Values

Not all land is allocated all the time to its highest and best use. Whether through ineptitude, somnolence, or surfeit of wealth, some landholders doze on their assets. It is often the tax assessor, simply doing his job according to the law, who awakens them. The landholders' first reaction is to attack the assessor, a vulnerable official who does not enjoy the intimidating sovereign power over individuals' total lives and assets and income that Congress has delegated to I.R.S. agents. But the assessor is only doing for a public purpose what corporate raiders like T. Boone Pickens

B. Property Taxation

To place values on land and study its characteristics is to realize that it yields an economic surplus. It dawns on some as quickly as a bursting tropical daybreak, and on others more like a boreal twilight, that a surplus may be taxed, and that the property tax on land garners that social surplus for the public treasury without impairing any functional private economic incentive.

It may, indeed, often sharpen incentives. Here we meet a perceptual bias. It is like my family where when father speaks, no one listens; but when he burps, everyone comments. Likewise when the land tax helps the market work better the free-market preachers look elsewhere; but when it drives scarce class-A farm soils into vulgar urban uses, everyone takes notice.

But no one ever said life is fair. So let us just note that the whole movement for preferential assessment of farmland is a grudging tribute to the power of land taxes to sharpen market incentives. If you like the market's decisions, you credit private enterprise; if you don't, you blame the assessor. Assessors, after all, only make wages and seldom leave large bequests.

For any government to place values on land, whatever the ostensible purpose, is to provide the infrastructure prerequisite to taxing it and to refute by demonstration the claim that valuation is impracticable. Hence there is a certain exaggerated sensitivity to land valuation programs. In 1909, indeed, the House of Lords committed virtual kamikaze in a desperate defense—ultimately successful—to forestall any valuation of land in England.

To some people all taxes are equally terrible. But one unsung virtue of land as a tax base is becoming daily more compelling as the I.R.S., increasingly desperate, grows increasingly importunate, intrusive, and unloved. The land tax is not like the income tax, a personal liability, but is just *in rem*, levied on the objective thing, not the person as such. That means that the government's remedy for unpaid taxes is limited to seizing the *rem*, the land, and it cannot do even that without following specified legal procedures safeguarding rights of individuals.

The I.R.S. operates under no such carping inhibitions. It seizes land upon simple administrative discretion of collection agents protected from personal liability. It also seizes chattels and intangibles and cash flows and accounts receivable and wages and salaries and you name it. Victims struggling from its nets are labeled as cheats and dishonest and even criminal. It can and does harass and intimidate and threaten and commandeer and close down and garnish and pry and spy and hire informers.

The garnished miscreant is allowed to keep personal effects, not to exceed \$1,500 in value, and current income of \$75 a week. Try living on that. You also get \$25 for each dependent, a thoughtful touch. Bankruptcy is no excuse or escape. And all this can be credibly threatened over nothing more substantial than a clerk's misreading your social security number or shredding your appeal late Friday afternoon. Next time you see your local property tax assessor as the major threat to traditional American rights and freedoms, think on those things.

Certainly, at any rate, land is the oldest tax base, and we keep coming back to it even after Howard Jarvis and all that. The property tax in the United States now

raises some \$93 billions/year on a base of \$7 trillions, a large share of which is land value (in California nearly half).

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Certainly, at any rate, land is the oldest tax base, and we keep coming back to it even after Howard Jarvis and all that. The property tax in the United States now

raises some \$93 billions/year on a base of \$7 trillions, a large share of which is land value (in California nearly half).

C. Land as a Credit Base

Everyone knows that federal debt may be "monetized" when bought by banks, and the papers are full of the effect of federal deficits on the money supply. Here we are victims of another perceptual bias. Now, as defaults accelerate and the system starts to crumble, we suddenly become aware that most of what banks have been monetizing in recent years is not federal debt at all but, rather, real estate! Anyone wanting to predict the future of money and banking had better be expert on land valuation because that is what it is now all about.

In 1933 Professor Herbert D. Simpson of Northwestern University told the American Economic Association that the banking collapse was an echo of the real estate collapse, and there was none to deny what none could hide, much as some wanted to. Homer Hoyt drew on Simpson and also adduced much more evidence on the subject in his monumental *100 Years of Land Values in Chicago, 1833-1933*. Hoyt found the same cause producing banking collapses also in 1837, 1857, 1873, and 1893. Philip Cornick's *Premature Subdivision and its Consequences* records the same process in New York State in the 1830s and 1920s. Homer Vanderblue's articles on "The Florida Land Boom" show banking expansion and contraction being led and driven by boom and bust in land values.

One of the crimes of the Chicago School has been to stuff all that down the memory tubes of history. Lloyd Mints in his *History of Banking Theory* pillories and stigmatizes those who have warned against letting land values be monetized, and many "mainstream" economists dutifully cite him. In Friedman and Schwartz bank expansion and collapse depend on the ideologies and personality quirks of Fed governors, with all else following along.

Don't you believe it! A giant Chicago bank that did now survives only by virtue of the largest federal bailout in history. The world's largest, our own California pride—The Bank of America—is declaring its first losses since the Great Depression. Our whole financial system stands on the brink of disaster or socialization for one main reason: overextension of defaultable loans on the collateral of real estate values whose determinants and trends the bankers obviously did not understand. During the joyride, 1976-81, loan officers just plain projected unearned increments into the misty future, farther than the eye could see. It was only a dream, but the ensuing nightmares are real. How much safer we could all feel today had they had more exposure to good solid research in land valuation.

D. Raising Consciousness of Latent Values

Not all land is allocated all the time to its highest and best use. Whether through ineptitude, somnolence, or surfeit of wealth, some landholders doze on their assets. It is often the tax assessor, simply doing his job according to the law, who awakens them. The landholders' first reaction is to attack the assessor, a vulnerable official who does not enjoy the intimidating sovereign power over individuals' total lives and assets and income that Congress has delegated to I.R.S. agents. But the assessor is only doing for a public purpose what corporate raiders like T. Boone Pickens

B. Property Taxation

To place values on land and study its characteristics is to realize that it yields an economic surplus. It dawns on some as quickly as a bursting tropical daybreak, and on others more like a boreal twilight, that a surplus may be taxed, and that the property tax on land garners that social surplus for the public treasury without impairing any functional private economic incentive.

It may, indeed, often sharpen incentives. Here we meet a perceptual bias. It is like my family where when father speaks, no one listens; but when he burps, everyone comments. Likewise when the land tax helps the market work better the free-market preachers look elsewhere; but when it drives scarce class-A farm soils into vulgar urban uses, everyone takes notice.

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F: Wunderlich paper

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Mason Gaffney
3040 Tyler Street
Riverside, CA 92503

25 Jan 88

Dear Jim:

Answering yours of 16 Nov 87; delayed by other commitments.

On balance, Randall is probably right, in my opinion, to exempt \$100k per owner rather than per parcel. There are reasons on both sides, but here is my reasoning.

Exempting \$100k per owner has an equity rationale that is self-evident: every owner has a right to a minimal home, undisturbed and unthreatened by taxation.

By the same logic, exempting \$100k per parcel has arbitrary and capricious results, depending on accidental and incidental circumstances. One homesite might consist of two or more parcels that have been joined together after an original faulty subdivision, for example.

More generally, large holders of real estate will normally have many parcels. Allowing each parcel its separate exemption will benefit the holders with more parcels.

Among the larger holders, those will benefit least whose holdings have never been divided and reassembled; and those will gain most whose holdings consist of many parcels, either because scattered, or because once divided and later reassembled.

Where reassembly has occurred, there will be disputes and lawsuits over whether the old parcels have been merged. There is a good deal of genuine ambiguity. Thus, parcels are merged in California for purposes of subdivision map act administration, that still are separate parcels for tax levy, and for deeds of trust (mortgages), and title recording. To preclude endless lawsuits, the amendment would have to specify just what is a "parcel" for purposes of the exemption. While you're at it, remember condo titles (and/or "strata titles") where land is divided in the 3d dimension. Give some thought to easements, water rights, mineral rights, covenants not to compete, rights to ferae

naturae, and other subdivisions of the "bundle of rights".

The ownership basis poses some problems, too. But it is dangerous to make someone a fictitious owner: what if he decides to exercise his rights? How many friends are good enough to trust never to do that? Again, the law could encourage whistle-blowing, in case of fraud, by guaranteeing the property to the grantee.

The argument for the parcel basis is that it would result in more overall exemption. I guess that is what you mean when you accuse Frank of "thinking entirely about political impact". That is a curious argument, coming from you, who often tell is that politics is where it's at.

The "homestead exemption" terminology is widely used in the southeastern states; I see little serious danger or loss in confusion with the old 1862 Act.

You are dead right that if counties can't tax buildings they will have to tax land instead. Just one fly in the ointment: they can also impose impost fees, user charges, etc. ad inf.

Hope you like the nonpoint pollution article I sent last week.

Sincerely,