1972

Resources for the Future, inc.

1755 MASSACHUSETTS AVENUE, N.W. / WASHINGTON, D. C. 20036 / CABLE: RESOURCES / PHONE: 462-4400

February 11, 1972

Ms. Polly Roberts
California Action Incorporated
228 McAllister Street
Suite 205
San Francisco, California 94102

Dear Polly:

You already know more "real economics" than those hired guns at Giannini.

Your summary is indeed fabulous.

One sour note. On p. 16 you say property owners do not benefit from water projects. Elsewhere you emphasize how water projects raise property values. Reconciliation needed.

Congratulations for a superb performance on a supremely important job.

Best,

Mason Gaffney

Mason Gaffney

FEB 14 1972

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Polly Roberts
2490 Channing Way, #218
Berkeley, Cal., 94704
(415) 843-4619

Dr. Mason Gaffney
Resources for the Future
1755 Mass Avenue NW.,
Washington DC., 20036

Friday, April 21, 1972

Dear Mason,

How was your vacation?

I have enclosed a copy of a revised and enlarged version of the testimony before Priolo's Committee on the Williamson Act. I sent a copy to Perry Prentice who liked it but pointed out some mistakes in the area of tax breaks for homeowners vs. tax breaks for renters and apartment building owners. What a mare's nest. How can anyone sort out the impact of all those loopholes?

I have finally become acquanted with Bob Tideman and other local Henry Georgers who seem to hold you in a certain awe. They are a bit annoyed at the Nader Property Tax Project Newsletter for always using phrases like "Site-Value People", "Tend towards site value tax."-- makes them feel singled out for holding peculiar views.

Let me recommend another book, The Economic Transformation of Cuba, by Edward Boorstein, -- fantastic analysis of the impact of the latifundias and sugar companies in Cuba before Castro. Have you read Monopoly Capital by Baran and Sweezy? It's very interesting, though of course like typical Marxists they have to blame everything from the divorce rate to rock music on the evil corporations. I find the concept of the surplus a little hard to digest; do they mean by "inability to absorb the surplus" the inability of GM to sell 100,000 Cadillacs a year at $15,000 each?

I just came across an article by Marion Clawson saying the same old things about urban sprawl way back in 1962. So why does RFF consider your stuff so radical?

Regards,

Polly

TIME
INCORPORATED

TIME & LIFE BUILDING
ROCKEFELLER CENTER
NEW YORK 10020
(212) JU 6-1212
EXECUTIVE OFFICES

April 26, 1972

Miss Polly Roberts
2490 Channing Way, #218
Berkeley, California 94704

Dear Miss Roberts:

Thanks for your letter about yourself.

I note with particular interest that it was Mason Gaffney who got you interested in property tax reform, so I'm sure you will be pleased to hear that when Mase read the copy of your "Farmland Tax Breaks" paper without your name attached he shot back the memo I'm sending you attached.

Would you like me to see if I can get your paper published in some other magazine to supplement its coming publication in "Not Man Apart" ?

And if so, would you want to make some of the little corrections I suggested?

Best regards,

Attachment

P. I. Prentice

5/1/72

RESOURCES FOR THE FUTURE, INC.

Inter-Office Memorandum

To: Perry

Date:

From: Hans

Subject: "Farmland Tax Breaks"

You are right, you have unearthed a gem of purest ray serene. It deserves wider exposure.

Now for heavens sake tell me who wrote it? A new star on the horizon — someone we should help and boost.

Polly Roberts
2[illegible]0 Channing Way, #218
Berkeley, Cal., 94704

Sunday, May 21 72

Mason Gaffney,
Resources for the Future
1755 Mass. Ave NW, DC 20036

Dear Mason,

I'm getting confuseder and confuseder about the passing on of taxes. Perry Prentice objected to my statement in the Wmson Act piece that homeowners get preferential tax treatment over renters; he argues that if apartment owners can pass on their taxes to their tenamts, they can pass on their tax breaks, -- which tend to be quite substantial. On the other hand, you argue in "The Property Tqx is a Progressive Tax" that due to overcapacity, much of the property tax on capital improvements stays there. I can see this happening in the case of oil wells, blast furnaces, orange orchards, etc., --after all, since taxing fixed capitol won't drive it away, it will drive it into use, at least until it falls apart. But what about apartment buildings? While there may be overcapicity in terms of housing sites, there is a critical shortage of housing. Except where there is rent control, apartment building owners charge their tenants what the traffic will bear.

Let me suggest as a hypothesis that landlords pass on their taxes but not their tax breaks, in the followihg fashion: Poor landlords, owning only one or two run down buildings and doing their own maintenance, don't get much in the way of tax breaks and must pass on their taxes in the form rent or go out of business. The housing shortage keeps their buildings full, so the only effect of tax and rent increases can be to make tenants double up. These poor landlords set the prevailing rental rates. Hence, rich landlords keep all their tax breaks, but implicitly pass on their taxes by renting at the same rates as poor landlords. Does that make sense?

In any case, I don't see how taxing apartment buildings can drive them into use except by making landlords raise the rents and/or chopping up apartments into cubicles. Which brings up the whole question of why there is excess capital in oil, autos, and agriculture, but not enough in apartments. Agriculture I think I understand -- subsidies & other peculiarities, -- but oil and autos? Investment tax credits etc? Depreciation write-offs?

Did you see in the latest New York Review of Books where McGovern proposed replacing the regressive property tax with a progressive income tax? And he wants to redistribute income (not wealth)! I think I'll send a copy of your paper to Whitney Ellsworth (he helped us with Clear Creek). Meanwhile back in California, Reagan has proposed a tax package to replace the regressive property tax with increases in sales and excise taxes. There's also an initiative to put a low ceiling on property tax rates; somebody calculated it would benefit mostly large landowners and insurance companies.

Next question: what should a good politician say and do about the property tax, seeing it has become conventional wisdom to call the property tax regressive? (I'm working for McGovern; somebody should get to his tax experts.) Tell people to clean their own houses, call for Congressional hearings? Point out who sheds the most tears for the poor victims of the regressive property tax -- Kern County Land Co., Southern Pacific, Irvine, etc?

Thanks to Perry Prentice, John Nagy will publish excerpts from the Wmson Act piece. I'm also going ot be on some sort of panel at the Henry George convention in July. Wow. And to think I Hadn't even heard of Henry George a year ago. The more I get into this kind of stuff, though, the more I realize how little I know.

Regards,

Polly

cc. Perry Prentice

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1 June 1972

Ms. Polly Roberts
California Action, Inc.
2490 Channing Way, Room 218
Berkeley, California 94704

Dear Polly:

Bless your bones and heart, thank you for yours to Whitney Ellsworth!

It's a puzzle to me that the conservative press is more open to my radical notions than the liberal press. Maybe Newfield and Greenfield have the answer to that.

With every good wish,

M. Mason Gaffney

P. S. Nobody seems to be grabbing my attack on U.S. Imperialism. Did I send you a copy?

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June 2, '72

Dear Polly:

I had a good weeks with Stuart, despite being disappointed that Ann didn't come.

Don't accept all of Prentice's corrections. Home owners do get more breaks than renters.

Marion Clawson and I get along very well, thanks you, but I wish he would hew more consistently to the line of his 1962 article on urban sprawl.

Hope to see you this summer here or there.

Regards.

Marion

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9 June 1972

Ms. Polly Roberts
2490 Channing Way, #218
Berkeley, California 94704

Dear Polly:

Hang in there, you're doing fine! Prentice overstated his case. He vastly underestimates the amount of imputed rent, especially land rent, that homeowners get. Rental units occupy a small part of the land and shelter half the people.

He omitted the fuller exemption of owner-occupants from capital-gains tax.

He failed to stress that breaks for apartments are not mainly of a kind to result in increasing supply and be passed on in lower rents. They are redistributive for owners without having much incentive effect to build.

As to property taxes, they would have a minor effect in making owners use old buildings more intensively, e.g. by dividing old houses into rental units. On balance, apartments are highly overassessed. It is taxing capital in other forms that would drive it into apartments.

The housing shortage is "critical" because of:

-- exclusionary zoning

-- maldistribution. Too much capital in owner-occupied units, yielding tax-free income; too little incentive to rent for cash, taxable. Too much capital in tax-free public works, etc.

-- bad location of housing relative to demand.

If you understand why there's too much capital in agriculture, you understand oil, autos, etc. Most cartels are sisters under the skin. Apartments are not cartelized in the same way, but their numbers are more

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efficiently limited by FHA, which has a unitary control over the spigot of finance.

Prentice was wrong about alleged "double taxation" of capital gains.

With every good wish,

M. Mason Gaffney

Thursday, Jluy 20, 1972

Dear Mason,

Hope you had a nice canoe trip.

Enclosed is my poor old lead piece you said your brother might be interested in. I sent a copy to Louise Marshall of the NRC, but since it portrayed her as rather an ass, I doubt she passed it around.

You said you would send me an artile of your on forest management.

Keith read your Military Spending piece and was staggered by it, as I was. Would you be amenable to our running an abridged version in Clear Creek, edited by me and Keith? (I realize that a number of magazines with larger circulation would jump to take it too, so I won't be too forward.) Peter Barnes would like a copy and so would Phil LeVeen. (Peter's new address is 1431 Spruce St., Berkeley, 94709; Phil's is 2320 Derby St., Berkelgy, 94705 or Giannini)

THe George Convention, despite its comical aspects, gave us both religion. After all, here we are smack in the middle of the conservation movement, on a first name basis with its leadership, and trailing clouds of Nader's glory as well. The conservation movement could be a very powerful force for tax reform if it could just get pointed in the right direction. So we're going to make a real effort at educating them -- write articles, call conventions etc. I am planning an article on why-is-it-so-hard-to-save-parks for Not Man Apart (have you written anything on the subject?)

I may be in Wahsington at the end of next week and if so will give you a call.

Regards,

Resources for the Future, inc.

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8 August 1972

Ms. Polly Roberts
California Action, Inc.
2490 Channing Way, Room 218
Berkeley, California 94704

Dear Polly:

My old piece on Financial Maturity of Timber is available in the Forestry Library, or ask John Zivnuska for his. I'm down to one copy.

I loaned your lead article to brother Matt without reading it yet myself.

Before we put Benefits of Military Spending in Clear Creek, let's look at this first as peace partisans. What magazine of larger circulation do you think would be interested? In either case I'm holding off a few more weeks, looking for U.W. Press publication. Professor Lowell Harriss of Columbia is the current stumbling block.

Also, do you think it's realistic for Clear Creek readers? I read a couple of issues, and they seem not to go for theory and statistics. In fact, there is a sort of nihilism in most articles that seems unlikely to go far -- I've already forgotten the specifics.

A good focus of rapport between conservationists and economists is water law and the premature development that results from the doctrine of prior appropriation. Want to try that?

Sorry to miss your visit to D.C. I had a grand time with 2/3 of my kids!

P.S. Thanks for the great dinner party!

Keep in touch,

Mason Gaffney

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12 September 1972

Ms. Polly Roberts
California Action, Inc.
2490 Channing Way, Room 218
Berkeley, California 94704

Dear Polly:

Miracle! Editor of conference finally submitted my chapter to U. W. Press.

Now I don't want to rock the boat while Press readers are doing their thing -- so I'll cool it for a while. But once the imprimatur is secure --- feel free to edit it and cut it for N.Y. Rev. of Books or Atlantic or Harpers, etc. It needs to be shortened and made readable, that's sure.

John Rothchild hasn't contacted me, from which I infer he's not in ecstasy over Property Tax Reform, etc.

I'll look into Development Reconsidered by Owens and Shaw. Sounds like grist for my mill. And thanks. Do keep in touch.

With every good wish,

Mason

Mason Gaffney

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27 October 1972

Ms. Polly Roberts
2490 Channing Way, #218
Berkeley, California 94104

Dear Polly:

Yours on Pt. Reyes is simply beautiful.

The Sierra Club is seeking a research director-coordinator. You are a little young to be it, although with more aptitude for the job than anyone I know. Would you be available to assist? I could put your name in.

Sincerely,

Mason

Mason Gaffney

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MASON GAFFNEY
RESOURCES FOR THE FUTURE
1755 Massachusetts Ave., N.W.
Washington, D.C. 20036 462-4400

December 18, 1972

Dear Polly:

So many good letters from you deserve at least one answer.

Congratulations to Keith on his influence with the Sierra Club, getting them to recruit a research director. I also liked his idea of working with the labor union on full employment policies.

My big excitement is possibility of going to B.C. to head up a new Institute for Resource Economics and Public Policy. They talk about an initial endowment of $10 millions, which would get us off to a flying start. It would be at Victoria and work closely with the new NDP government.

I'd like to know in what quarters I am regarded as simply nuts. Names, exact statement s, etc. Of course the fellow who brushes off a challenging idea seldom gives exact quotes, it is his vagueness that he treasures. But I like to know who these folks are -- it might save some wasted effort in the future.

"Tax Reform to Release Land", which I regard as my best effort, hasn't gotten much feedback, not even from you. You never know what's going to hit the jackpot.

No, "tax land and drive it into use" doesn't depend altogether on any argument of irrationality. It is the theory that is inadequate. A fuller theory says that taxes affect behavior in two ways: marginal incentive effects, and wealth effects. Land taxes make landowners poorer -- a "wealth effect" -- and sharpen their appetites for gain. They make others richer, and increase their relative purchasing power.

And of course they replace other taxes which do have marginal incentive effects. And they convey information to laggard and uninformed landowners -- not quite the same as irrational, which is a pretty strong word, and not very realistic in terms of human behavior.

The strongest argument is a variation of the wealth effect: the credit rationing effect. Land taxes replace interest as the carrying cost of land ownership by taxes. Interest rates are regressive; land taxes, assuming correct assessment, are not. It makes a big difference.

As to the lump sum tax on the neoclassical monopolist, look again. I invite your attention to pp. of "Benefits of Military Spending." Neoclassical theory doesn't ask what the monopolist does with the resources he holds idle in order to effect his mohopoly. He can't let them go, because that would let competitors break the

monopoly. If he holds them, and they are taxed ad valorem, and the value is enhanced by the price maintenance the monopoly effects, then the "lump sum tax" is an increasing function of his monopoly power and offsets any gain from maintaining price.

As you said, any resemblance between some of these theories and the way things are is distant. Remember, Illegitimis non Carborundum!

I have not yet given up hope of getting published by the UW Press. That respectable facade legitimizes information that people simply discard and pigeonhole if it appears in Ramparts, etc. But time is running out on my mugwumping editor, and he can't string me along much longer.

Then I'll try the Washington Monthly.

Congratulations to the Henry George School for getting you on its Board. They need you. Whether you need them remains to be seen. There is a lot of potential there. Like all institutions, it tends gradually to fall into the hands of passive people who just keep going to Board meetings the way they go to church because they think they should, but shy away from proposals that would involve more obligations than that.

The New York Board just offered me the post of national Director. I'm writing them to cool off for a while and find the time to study some proposals I made which I'm reasonably sure they really won't like once they think it all over -- like moving the HQ to D.C., putting most of the money into R&D for the next few years, working with Nader types, etc.

I see Watson lost thumpingly. Then why did Ronnie immediately announce other plans for reducing property taxes? Does he follow the election returns? Or do you think he's expressing some will of the people, that Watson was wrong only in details?

Give my warm regards to Keith and to Allen Hayward.

I'm waiting for "If it doesn't move, tax it." You do have a flair.

Did you ever hear from Otten and WSJ?

Do keep in touch.

With every good wish,

Mason