

Buying Back the Land

A Proposal for California

by PETER BARNES

An idea for a land trust fund, which may be relevant to other states as well.

The land problem in California, as elsewhere in America, is both environmental and economic.

Open space in urban and suburban areas is fast disappearing. The last major open space area in the Los Angeles basin—the Santa Monica Mountains—is threatened with imminent development. The San Francisco Bay area is in better shape, but developers have marked large chunks of Marin, San Mateo, Santa Clara, Alameda, and Contra Costa counties for subdivision.

As the cities lose breathing space, people flee to the countryside for relief. But the unspoiled wilderness is also vanishing. Over half a million acres of California's mountain and desert land have been committed to second-home subdivisions within the past decade. Farmland is being gobbled up at the rate of 134,000 acres per year. And the oases set aside by the government for parks are being crowded to the bursting point. The larger state parks now require reservations weeks in advance. During 1968 and 1969, over 360,000 people were turned away from state parks and beaches. Public parks are getting so crowded that a San Diego syndicate is buying land for private parks and selling memberships for \$1,800 down plus \$96 a year.

Degradation of farmland is also part of the problem. Intensively irrigated areas of the Imperial and Coachella valleys are becoming so saline that they may soon be impossible to farm. On the west side of the San Joaquin Valley, the "mining" of underground water by large corporate farms has caused the land to subside by several dozen feet. Giant corporate and tax-loss feedlots are beginning to create substantial

waste disposal problems in many parts of the state. Perhaps the most serious threat to man and nature comes from a vicious ecological circle of toxic chemicals. Extensive use of single-crop cultivation, pesticides, and inorganic fertilizers depletes the soil and increases the variety and resistance of pests. To overcome these problems large absentee-owned farms pour even more chemicals onto the land. This leads to further depletion, more pests, and more chemicals. Small resident farmers, while often trapped on the same chemical treadmill, are more inclined to husband their land. They live and work on it, may want to pass it on to their children, and can't afford to pour vast sums into the pockets of oil and chemical companies.¹

The concentration of land in a few hands also creates human problems. Since the day in 1848 when gold was discovered in the Sierra Nevada foothills, California land has been a monumental source of wealth. This wealth comes from assets that once were publicly owned but are now controlled by a relative few: the land itself, minerals such as gold and petroleum, surface and underground water (geothermal steam), and timber. The story of how these assets passed from public to concentrated private ownership has been related elsewhere.² Today a few dozen families and corporations—mostly railroads, energy companies, timber companies, and corporate farms—control the state's land and resources in a way that can only be described as feudal. The recent Nader task force that investigated California land ownership found that the ten largest landowners in the state own more than 12 percent of the privately held land (Table 1). On a county-by-county basis, the Nader team found that the top 20 landowners in rural counties (i.e., a fraction of 1 percent of the popula-

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tion) generally own 25 to 50 percent of the land. Even in a compact urban county such as San Francisco, the ten biggest real estate owners (.0013 percent of the population) own about 8 percent of the assessed valuation. And the trend toward concentration continues.³

TABLE 1: The Top Ten

Corporation	Acres Owned in California
Southern Pacific Co.	2,400,000
Newhall Land Co.	1,600,000
Shasta Forest Co.	479,000
Tenneco	363,000
Tejon Ranch	348,000
Standard Oil of Calif.	306,000
Boise-Cascade	303,000
Georgia-Pacific	278,000
Pacific Gas & Electric Co.	250,000
Occidental Petroleum	200,000
Total	6,527,000
Total Private Land	51,200,000

The principal victims of this concentration of landed wealth are the rural and urban poor. Working family farmers are steadily being driven off the land by large corporations and tax-loss syndicates. In 1950 there were 137,000 farms in California, mostly under 250 acres. In 1969 there were only 77,875, a drop of 44 percent in 20 years. Landless farmworkers—89 percent of whom are employed by the top echelon of commercial farms (sales of \$40,000 and up)—are among the lowest paid workers in America. They too are steadily being displaced from the land by expensive new harvesting machines developed by the University of California for the state's corporate farms. In many parts of the Central Valley, small towns are literally dying.

The exodus from rural California intensifies the plight of the urban poor as well as that of the working and middle-class taxpayer. The job and housing markets stay tight, and welfare rolls increase. As poor people congregate in cities and suburbs, land values rise, in turn driving up the cost of housing. James Davis, vice-president of the Real Estate Research Council of Northern California, calculates that, on the average, land acquisition costs account for 27 percent of the total cost of new single-family houses in San Francisco (and a slightly lower percentage in the suburbs). Elliott Maltzman, a Los Angeles developer who tried building federally subsidized single-family houses for less than \$24,000, found that "with today's land costs and the costs of quality materials, you could produce nothing but instant slums."⁴

Buy Back California

What can be done to protect and share California's land?

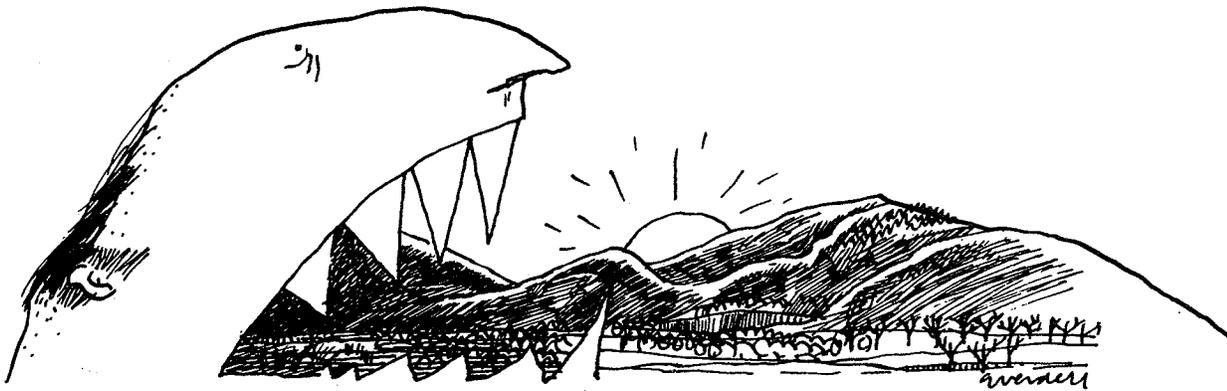
Environmentalists have approached the problem in three ways. They've pushed for lower taxes on undeveloped land, higher appropriations for open space acquisition, and adoption of land-use plans and regulations. All three approaches have serious limitations.

The first led to passage in 1965 of the California Land Conservation Act, more commonly known as the Williamson Act, which permits assessment of undeveloped rural land at use value rather than at market value. The act has given million-dollar property tax breaks to large landowners but has done little to deter development. A study by the State Board of Equalization in 1972 found that more than 25 percent of the land assessed in accordance with the Williamson Act is owned by 12 large corporations. Together these corporations enjoyed reduced property tax assessments of more than \$44 million. All are actively involved in the development game.

The second approach—public acquisition of open space—has reached a fiscal dead end. The legislature's Joint Committee on Open Space Lands reported that the cost of purchasing imperiled open space land that cannot effectively be protected through zoning is about \$4 billion at 1970 prices. Given the competing demands on existing state and federal revenue sources, it is highly unlikely that anything near that amount will be allocated to open space acquisition. The Nixon administration is already cutting back the miniscule (approximately \$100 million in 1972) federal Land and Water Conservation Fund, as well as the urban open space program.

The third approach—land-use planning and regulation—is limited by the fact that landowners have considerably more clout with planning departments and zoning boards than do environmentalists. Moreover, a landowner or developer has the advantage of staying power: he may lose a variance appeal two or three times, but sooner or later the zoning board will change and he'll win. The creation earlier this year of regional zoning commissions for the California coastline was hailed as a great environmental victory, but it already appears that a substantial number of commissioners are hostile to the environmental viewpoint.

Limited as the approaches of environmentalists to the land problem are, they are well ahead of the approaches thus far developed by low-income groups. Generally such groups have confined themselves to seeking small parcels of surplus federal land, or filing lawsuits to compel enforcement of decades-old laws



and treaties. Thus, the Pit River Indians have sought the return of land they assert is theirs under a nineteenth-century treaty; landless farmworkers in the Imperial Valley have sued to compel enforcement of the 160-acre limitation and residency requirement of the 1902 Reclamation Act; a coalition of migrant farmworkers is seeking enforcement of the 1864 act granting land to the Southern Pacific railroad on the condition that it sell the land to settlers at no more than \$1.25 per acre. None of these legal efforts has much prospect of success. Nor is there much hope among low-income groups that the land problem can ever be resolved in a manner beneficial to them. The history of government land giveaways—from the railroad grants of the 1860s to the urban renewal write-downs of the 1960s—is too one-sided to offer much encouragement.

Yet it is just within the realm of possibility that low-income groups, by joining with environmentalists, labor, and other progressive forces, could bring about a favorable distribution of land ownership in California. The mechanism for doing this could be a state government trust fund which, for purposes of public salability, might be called the California Land Conservation Fund (CLCF). The CLCF would make land acquisition funds available to public agencies and others for uses consistent with environmental protection and economic justice. It would do so without imposing new levies on most taxpayers. It would thus be a much stronger political device than presently is available for land acquisition and control. With relatively minor modifications, the CLCF model—described below—could also be adopted in other states, or at the federal level.

The operating premise of the CLCF is that land and resource redistribution can be a means to several ends, the principal ones being greater economic opportunity for low-income families, a more decen-

tralized economy in which the role of absentee corporations is diminished while that of locally owned enterprises is increased, preservation of open space, and better care of the land. The CLCF itself would not own or zone land, operate farms, or set up local enterprises. These functions would be filled by other public and private institutions, some of which already exist, many of which still need to be built. The CLCF would be a *politically salable transfer mechanism* that would make *financially possible* the objectives cited above. It would provide only one of the many ingredients (albeit an extremely important one) needed for economic and environmental change: large and steady inputs of money for land purchase. Its uniqueness is that it would do so in a way not dependent upon the diminishing willingness of the legislature (or Congress) to tax the working and middle classes for the benefit of the poor.

Here's how the CLCF would work. Like the highway, social security, and other existing trust funds, the CLCF would be a separate government account into which money would pour from special taxes—in this case, taxes that fall not on the average taxpayer but on the wealthy few who profit most handsomely from land and resources. Revenues from these taxes would be allocated for carefully specified purposes and to particular recipients: half would go to cities, towns, counties, and regional park districts for the purchase of open space land, while the remainder would be granted to low-income cooperatives, community development corporations (CDCs), public utility districts, and nonprofit land trusts for the purchase of productive land. Like the other trust funds, the CLCF, once established (and especially if established by a ballot initiative) would be self-perpetuating and relatively immune to political sabotage.

Funding the CLCF

The principal taxes feeding the CLCF would be a severance tax on the extraction of oil, gas, other minerals, and timber, and a tax on the unearned increment in land value. The severance tax is a well-known tax applied in many mineral-rich states, including Texas, Louisiana, Oklahoma, and Alaska. The unearned increment tax is a kind of capital gains tax applied to land. It has been used in England, South Africa, Australia, Denmark, and other countries, though never in the United States. Its name derives from what John Stuart Mill called the "unearned increment"—the rise in land value brought about by public expenditures (highways, sewers, irrigation projects, etc.) and by economic and population growth. Capturing the unearned increment for private gain is what land speculation is all about. Recapturing it for the public good is the objective of an unearned increment tax.⁵

A state severance tax would fall most heavily on the holders of working interests in oil, natural gas, cement, sand and gravel, other mineral properties, and timber—i.e., the major oil, timber, and land-owning companies. Since these companies benefit from a wide variety of federal and state tax preferences—and since the resources they extract are a gift of nature to all, not to just a privileged few—a severance tax is a highly appropriate levy. From an environmental standpoint, the severance tax is an excellent one because, unlike the *ad valorem* property tax, it encourages conservation rather than depletion of resources. For added effect a differentially high rate might be applied to the severance of resources (such as virgin redwoods) deemed particularly worthy of conservation. A basic rate of 7 percent would yield approximately \$150 million annually.

To some extent a severance tax could be passed on by oil, cement, and timber companies to consumers in the form of higher prices. However, since California companies would be competing against out-of-state producers who would not be affected by the tax, it is doubtful that a significant portion of the tax could be shifted.

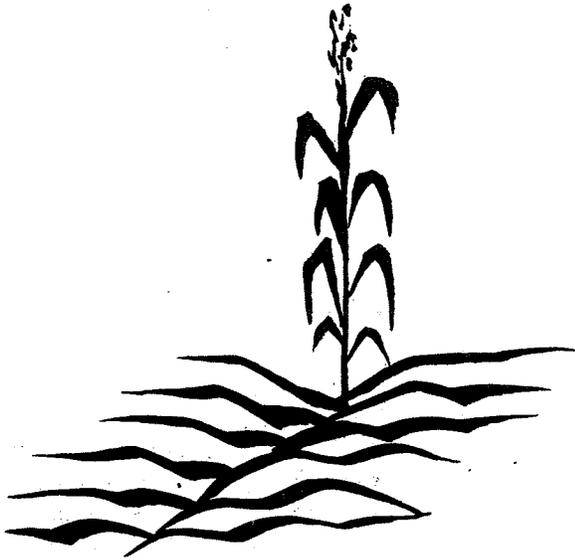
The unearned increment tax, if universally applied, would be borne by all owners of land that is appreciating in value. It would be politically wise, however, to exempt land immediately related to most residential property, small farms, and small businesses. The tax would then be borne almost entirely by large landowning corporations and real estate speculators. Its impact would be greatest on large owners of urban and urban fringe land.

In practice, an unearned increment tax could take a variety of forms. The National Commission on Urban Problems, chaired by former Senator Paul Douglas, described several, ranging from a total shift to site value taxation to a transaction tax on land value increments. I favor tacking on an annual land gains tax to the state income tax. This would be similar to the ordinary capital gains tax except that it would be payable while gains accrue, rather than at time of realization—a necessary difference since one objective of the tax is to induce large absentee landowners to sell.

Collection of an annual land gains tax would be relatively simple. Local assessors, when mailing out their annual property tax bills, would make two extra carbon copies; one would be mailed to the property owner, the other to the State Franchise Tax Board for verification purposes. Each nonexempt property owner would then submit a self-declaratory land gains schedule along with his state income tax return. He would attach to this schedule copies of all appropriate tax bills, much as employers' W-2 forms are attached to the regular income tax form. His tax liability would be calculated in the following fashion: from the total assessed value of his nonexempt California real estate as of a given date in the current year he would subtract the total assessed value of his nonexempt California real estate as of the same date in the preceding year. The difference, representing the total gain in *assessed* value of land and improvements, would be multiplied by four to obtain the total gain in *fair market value* (assessed valuation in California is set by law at 25 percent of fair market value). Then the property owner would subtract the amount expended on capital improvements during the preceding year, and add the depreciation (if any) claimed elsewhere in his return. This would yield the land value increment for the previous year—i.e., the increase in value not attributable to the owner's own improvements—which would then be taxed at an appropriate rate.⁶

Exemptions might be structured as follows: the first \$40,000 worth (\$10,000 in assessed value) of a taxpayer's owner-occupied home, plus the first \$40,000 worth of owner-operated farm or business property, plus the first 1,000 acres of owner-operated farmland covered by the Williamson Act, plus an equivalent value for each rental unit owned, would be excluded in computing the land gain. In addition, the first \$1,000 in gain would be exempt. Californians who owned no property (or only owner-occupied homes worth less than \$40,000) would not even have to file a land gains schedule. Over 95 percent of

households would thus be spared direct contact with the tax, while the rental exemption would avoid a shifting of its burden onto tenants.



The revenue potential of a land gains tax would be considerable. Consider the following data. Land in California is now worth about \$95 billion, and has been rising in value at about 8 percent per year. That creates an initial tax base of about \$7.5 billion. Approximately half of that would be excluded under the residential, small farm, and small business exemptions. That leaves about \$3.7 billion that could be subject to uniform, progressive, or differential tax rates. A flat 10 percent rate would yield \$370 million annually; a 15 percent rate would yield \$555 million. A differentially higher rate for increases of value in property that had been rezoned for higher use would bring in added revenue.⁷

Besides raising money to buy back the land, an annual land gains tax would, by itself, have several desirable consequences. By diminishing the tax advantages of investing in land, it would encourage the wealthy to put their money elsewhere, and perhaps prompt present large owners of land to begin selling. This would create a downward impact on land prices—downward enough (if the tax rate were reasonable) to slow the natural rate of increase but not to depress land values below their current level. To some extent this downward pressure would diminish the revenues raised by the tax, but it would also make buying land cheaper for CLCF recipients.

Another consequence of a land gains tax would be the creation of jobs and housing. This would occur because the tax would fall only on the rise in land values, not on improvements. Since the supply of

land doesn't diminish, a tax on land gains does not discourage productive investment. In fact, it encourages construction of income-producing improvements on land, especially in the central city and on the urban fringe. Because of the exemption for low and middle-income homes and rental units, the greatest incentive would be to build low and middle-income housing, as opposed to luxury high-rises, shopping centers, and office buildings. If a differentially high rate were applied to land rezoned for higher use, the incentive would be to construct new housing in areas already zoned for it, rather than to sprawl into still-unspoiled areas. If the housing were built by low-income co-ops or CDCs that received land acquisition funds through the CLCF, total costs could be cut by as much as 25 or 30 percent.

Three objections to the land gains tax might be that (1) it does not allow for appreciation attributable to inflation; (2) it taxes unrealized gains; and (3) it constitutes double taxation, since gains would be taxed by the CLCF while accruing, then again by the state and federal governments when realized. These objections are readily answered. (1) No correction for inflation is allowed in taxing inflation-induced increases in wages, dividends, interest, or ordinary capital gains, and there is no reason that landowners should be entitled to special treatment. (2) Concern with taxing unrealized gains might be valid if low and middle-income homeowners and small businesses were not exempt from the tax. Any large landowner who did not have sufficient cash to pay the land gains tax could easily sell a portion of his holdings without hardship. In any case, the ordinary *ad valorem* property tax, which constitutes a heavier burden than would a land gains tax, is worse than an unrealized gains tax because it taxes property values annually even when gains are not accrued. (3) The double tax argument is unconvincing because the "double tax" is no more than a higher rate of taxation on capital gains, a rate that in toto would still not equal the rate of taxation on wages (barring significant reform of the federal tax code). Moreover, taxes paid to the CLCF would be deductible from federal income taxes.

Allocating the Land

Assuming the CLCF generated annual revenues of \$500 million to \$700 million (which could be increased further by giving it bonding authority), it could finance the outright purchase of several hundred thousand acres per year. Who would get the money to buy land, and how would allocations be made?

The law establishing the CLCF would contain a formula for allocating funds by purpose, type of recipient, and location. Thus, 50 percent of the revenues might be allocated for open space acquisition. These funds would be divided among state agencies, cities, towns, counties, and regional park districts in accordance with population density, quality and quantity of open space available, and other factors. Some funds would be used for preserving wilderness and wildlife refuges, some for recreational areas, some for urban parks and suburban greenbelts (in which land might be leased back to small farmers and co-ops). Grants from the CLCF could cover up to 100 percent of land acquisition costs.

The remaining 50 percent of CLCF revenues would be divided among the following types of recipients:

- Cooperatives of low-income families, for the acquisition of land for agriculture, related enterprises, and housing—for example, farmworkers might wish to buy out a corporate farm and run it cooperatively;
- Community development corporations in rural and urban areas, for the acquisition of land for housing and nonpolluting industries—for example, a chain of CDCs might buy back the west side of the San Joaquin Valley, now almost wholly owned by a handful of absentee corporations;
- Public utility districts, for the acquisition of land, water, or energy resources—for example, a district in the Imperial Valley might acquire geothermal energy sites;
- Nonprofit land trusts, similar to the Jewish National Fund in Israel, for the acquisition of land for lease to family farmers and rural cooperatives, or of common land for Indian tribes and Mexican-American communities (*ejidos*).

As with open space funds, grants to private recipients could cover up to 100 percent of land costs. Recipients would thus be free of debt burden on their land, and could use their land as collateral to borrow money for farm equipment, housing supplies, and other capital outlays. The debt-free gift of land would be in the tradition of the Homestead Act. It would, of course, be a subsidy, but one that would barely match the subsidies and tax breaks given to railroads, cattle barons, timber companies, energy corporations,

wealthy tax-loss farmers, real estate developers, defense contractors and the like.

Grants by the CLCF to private recipients would be subject to a number of restrictions and conditions. First, carefully drafted language in the law would assure that recipient corporations, cooperatives, and land trusts would either be genuinely nonprofit or owned in major part by persons of low or moderate income who lived and worked in or near the enterprises involved. (In other words, the Irvine Foundation, the Southern Pacific in its various guises, et al., would be ineligible to receive grants.) Second, nonprofit trusts receiving grants would be permitted to lease only to resident family farmers and cooperatives. In no event could a trust lease farmland to an absentee operator, nor could it lease more than 320 acres of irrigated farmland, or 1,000 acres of unirrigated farmland, to the same family, or double that amount to the same cooperative. In leasing farmland the trust would give preference to people with farm work experience and low incomes. Violation of any of these conditions would be cause for revocation of all grants, with grant money repayable (with interest plus a penalty) to the CLCF. Co-ops and CDCs would be subject to similar restrictions. Third, all recipients would be barred from resale of CLCF-funded land for at least 15 years. After that time the CLCF would retain first option to purchase at a price not greater than its initial grant.

A particular danger stemming from CLCF grants is that valuable pieces of land (e.g., in the Santa Monica Mountains) would rapidly rise in price once it was known that funds were available to buy them. This might result in windfall profits for a few landowners, as has happened in many public park and urban renewal projects. The problem is probably not as acute as it might seem. The land gains tax would recapture at least a portion of any unearned windfalls, while exerting a downward pressure on land prices generally. Where publicly designated open space areas were involved, legislation could be adopted that would fix payment at full market value as of the date of designation. (Language to this effect was contained in the recent Redwood National Park Act.) With regard to land sought for its economic rather than its scenic potential, there would be enough of it on the market to prevent price-gouging by owners of more valuable parcels. Pressure to enforce the 160-acre limitation and residency requirement in federal irrigation areas could help hold down prices in the Central and Imperial valleys.

Prospects and Problems

What would happen if something like the CLCF were adopted today? Would co-ops, CDCs, and nonprofit land trusts be able to handle half a million acres if they received them, free of debt burden, next week or next year? Sadly, I suspect that the answer is no. There is an immediate, desperate need to improve the management capabilities of community and cooperatively owned enterprises, and to increase the readiness of low-income families to participate meaningfully in such undertakings. Government, university, foundation, and other private resources should be poured into this task.

Politically, however, I think we are much further along than many people realize. Voters in California, their sensitivities heightened by smog, sprawl, and environmental activism, approved a statewide coastal zoning initiative last year as well as numerous local open space bond issues. (School bond issues, meanwhile, were generally going down to defeat.) In the legislature, a bill to create an open space trust fund financed by a transaction tax on land value increments has been introduced by Assemblyman John Dunlap and co-sponsored by Speaker Bob Moretti. The California Tomorrow plan, supported by a cross-section of business and political leaders, envisions a substantial amount of public land ownership. In other parts of the country, interest in open space preservation and land reform of a conservative sort has been growing. The Republican county executive of Suffolk County, New York, recently proposed that the county buy up farmland threatened with subdivision and lease it back to the farmers who are using it. A 1972 report financed by Laurance Rockefeller recommended creation of "public corporations" to acquire land for new town development. Robert Wood, former secretary of Housing and Urban Development and now president of the University of Massachusetts, has said that "public ownership and public planning are probably the essential components for a genuine land reform program."

Many if not most of these "land reformers" see public land ownership as beneficial primarily to profit-seeking new town developers, bankers, and well-to-do farmers, rather than low-income groups, as Geoffrey Faux points out.⁸ In my view, public land ownership is not a very promising device for helping poor people, although it's fine for open space preservation. Helping the poor requires that they have more direct access to the land than public ownership per se has provided or can provide. The point, however, is that people are ready, or almost ready, to accept the notion of buying back sizable quantities of

land from its present owners. The political task is to make sure that "buy back the land" programs are not used solely for parks and commercial developers, but are also designed to benefit low-income and community groups.

What is necessary over the next few years, it seems to me, is a two-front strategy. On the political front, we must deal with the fact that voters are prepared to spend public money to purchase land for migratory birds, but not yet prepared to do the same for migratory workers. While lamenting and fighting this reality we might as well take advantage of it; there are no other sources of large-scale money for community economic development on the horizon.

I said earlier that a land transfer mechanism such as the CLCF would be politically salable, especially as a ballot initiative. I believe it would be salable because it could be supported by a coalition of low-income minority groups, middle and upper-income people interested in parks and open space, and labor. Its appeal would lie in the fact that it would preserve and create jobs and protect the environment—all without adding a single penny to the sales tax, property tax, or income tax on wages.

The second front involves developing the psychological and managerial capabilities necessary for running new economic structures such as cooperatives, CDCs, and land trusts. This is a much more difficult front than the political one, and a persistent problem over the next few years will be that of timing—how to develop social structures fast enough to keep up with the political gains I believe are possible.

It would be wrong to conclude on too optimistic a note. The forces opposed to genuine land reform are powerful—in Sacramento, in Washington, and in the marketplace. If locally owned economic institutions are to survive, much less to flourish, there must be more than a redistribution of land. There must also be far-reaching changes in federal tax, subsidy, and anti-trust policies. Such changes will be extremely difficult to bring about. It can only be said at this time that the possibilities are there. It is up to us to work strenuously for their attainment.



FOOTNOTES

1. According to the 1969 *Census of California Agriculture* (Washington: U.S. Department of Agriculture, 1972), pp. 106 and 114, Class I commercial farms (annual sales of over \$40,000) accounted for 66 percent of the state's farm acreage but used 84 percent of the pesticides.
2. See, for example, Carey McWilliams, *Factories in the Field* (Boston: Little, Brown, 1939); Peter Barnes, "The Great American Land Grab," *New Republic*, June 4, 1971; and the Ralph Nader Task Force Report *Politics of Land* (New York: Grossman, 1973).
3. California is not unique in its concentrated land ownership; the same pattern prevails in other parts of the country. For example, a 1970 study of 14 coal-producing counties in West Virginia found that the top 25 landowners owned or controlled over 50 percent of the land in the majority of those counties. The 7 largest landowners in the 14-county region were all out-of-state corporations: Pocahontas Land (a subsidiary of the Norfolk and Western railroad), Consolidation Coal (a subsidiary of Continental Oil), the C&O/B&O railroad, Georgia-Pacific, Eastern Associated Coal, Island Creek Coal (a subsidiary of Occidental Petroleum), and Bethlehem Steel. Note that 2 of the 7—Georgia-Pacific and Occidental Petroleum—are also among the top 10 landowners in California. For a more complete discussion of land ownership patterns nationally, see Peter Barnes and Larry Casalino, "Who Owns the Land?" *Clear Creek*, December 1972, available as a reprint from the Center for Rural Studies, 345 Franklin Street, San Francisco, California 94102.
4. Davis interviewed by the author. Maltzman quoted by Art Detman, Jr., "Lessons from the National Housing Act," *Saturday Review of the Society*, April 1973. An analysis of the way rising land values inflate the cost of privately developed housing can be found in Edward Kirshner and James Morey, "Controlling a City's Wealth," *Working Papers*, Spring 1973. The two housing experts calculate that if land were owned by residents of a new community rather than by a profit-seeking developer, the cost of new housing could be cut by 23 percent.
5. Additional revenues for the CLCF might be raised through an excise tax on campers, snowmobiles, motorboats, and other recreational equipment, on the theory that purchasers of such equipment are likely to be primary users of recreational land acquired by the CLCF. Similarly, state park entrance fees and concessions rentals could be channeled into the fund. These revenue sources would be considerably more regressive, however, than would the severance and unearned increment taxes.
6. Since not all property in California is reassessed every year, a landowner who had not been reassessed might show a zero or negative increment. If this happened he would not incur a land gain tax liability for that year. In a year or two, when reassessment did occur, he might show a substantial land value increment. He would then have the option of spreading payment out over a three-year period in a manner somewhat analogous to income averaging.
7. The question of what might be an optimum rate schedule would need to be studied carefully. Theoretically, a rate of about 70 percent would be justifiable since, when coupled with state and federal capital gains taxes, a 70 percent tax would fully capture for society what society itself had created. A 22 percent rate would be the equivalent of closing the capital gains loophole

with respect to land. This can be seen by considering the example of a land speculator in the 50 percent tax bracket. He buys a piece of land for \$1,000 and sells it for \$1,200, producing a capital gain of \$200. He pays a federal capital gains tax of \$50 (half of 50 percent of \$200), and a state capital gains tax of about \$5. With a 22 percent land gains tax he would pay an additional \$44 to the CLCF, bringing his total tax to \$99, or nearly 50 percent of his capital gain—the same rate that a wage-earner in his tax bracket would pay.

In determining the optimum rate level in California or any other state, it would be extremely important to evaluate the effect of the tax on land prices. Any tax on land value increments would automatically slow down the increase in land values. If the tax rate were too high, land values might actually decline, thereby wiping out, among other things, the revenue base of the tax. Whatever the rate structure chosen, it would probably be advisable to phase the tax in gradually.

8. See "Reclaiming America" in this issue.

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