quent, there seemed little hope of finding a buyer for our land, at any price. We might salvage a very little and abandon the rest. Without any management, protection and supervision, whatever potential value remained would likely be destroyed, making it questionable whether it would be advisable to continue to pay taxes. With some additional investment the property might be put to some small use and the timber growth protected at the same time and perhaps improved. If the experiment is a success, the difference between the additional investment recently made, plus carrying charges, and the ultimate realization will measure the degree of success. It looks to us like a very good gamble.

FINANCIAL ASPECTS

By Merrill Coit

Financing is fundamentally a credit operation—and credit is defined as the present use of a future value. The creation of large future values in merchantable timber is of course the economic basis of present-day forestry science. There are primarily two types of forest development possible. One, sustained yield through limiting the average annual cut from any given forest area, to the point where growth will supply a continuous production; the other, reforestation of completely cut-over lands by replanting. And there are two general angles to the financial aspect as well. That of the lumberman ready and eager, if possible, to make his business a permanent one—and the other the attitude of the commercial and investment banker seeking safe avenues for the placing of funds.

At the present time, at least, there seems little likelihood of banks or investment houses considering loans or the provision of funds for reforestation of completely cut-over areas. There are several primary reasons for this: First, such enterprises would completely lack income with which to pay carrying charges on borrowing funds or dividends on securities, for a period of at least 30 to 50 years. It is hardly conceivable that bankers or the public would be interested in making investments, where income is so long deferred. Second, the hazards, incident to growing a crop of timber from seedlings, are not as yet insurable. Fire hazard to mature timber is now controllable. The Western Forestry and Conservation Association, which protects practically all of the privately owned
timber on the Pacific Coast, has developed the science and system of fire protection in the Western states to the point where the loss of merchantable timber is less than $\frac{1}{2}$ of 1% annually. And even in cases where full grown timber is fire-killed, its savable value is often large, whereas in the case of the killing of immature trees by fire, the loss is complete. Much the same comments as to immature timber apply to wind hazard and the dangers from insect pests.

It therefore seems probable that forest development of strictly cut-over lands through planting, will be limited to enterprises carried on by the United States Government or the states, or to a relatively small portion of the timbered area of large lumber manufacturing units. The financial aspect of that character of forest development may, therefore, be classified as "impossible" for the present, at least, except to venturesome private capital or Government enterprise.

Are the financial aspects of sustained yield more encouraging? We have had, as a close associate of our office for several years past, Mr. William L. Hall, president of Hall, Kellogg & Company, Forest Engineers, and now handling the reforestation plans for an important group of Southern operators, including The International Paper Company and Dierks Lumber & Coal Company. We have further had quite close touch with many lumber companies earnestly studying the problem of reforestation and in no case can we see encouragement or hope of any program looking to the perpetuation of lumber operations, except where State and County governments and all those interests which direct their actions, recognize the necessity of special taxation and assistance on fire protection.

Taxation without representation was recognized some years ago by our forbears as thoroughly unsound. Taxation without income, one of the problems of reforestation today, is similarly being recognized as destructive. Those who have realized this situation have been untiring in their efforts to secure relief and to have systems of forest taxation inaugurated such as are afforded the forests of practically every other progressive country but ours. Until recently the subject had never received proper consideration from the revenue-gathering authorities as a vital factor in land utilization and permanent taxable revenue. It is only now that the country as a whole has come to appreciate that the general land tax was inimical because it has taxed every year, the expectation value of the timber
crop—a tax which should be properly levied but once; namely when the timber is cut.

It is a most encouraging sign that recognition of this situation is steadily and rapidly growing. From all sides the importance of the forest to the entire community is being acknowledged. As Mr. Lewis Pierson, president of the Chamber of Commerce of the United States, stated at the last Natural Resources Conference in Chicago: “Forest wealth sustains many communities, stimulates all industry. Where virgin forests still are harvested, business is active; where they have disappeared it is often stagnant. They regulate the flow of streams, prevent soil erosion, and insure abundance of pure water. National welfare demands their perpetuation”.

Far-sighted and clear thinking leaders in all fields of industry are interesting themselves to see that everything possible is being done to prevent further inroads on this great national resource. Wisconsin has been peculiarly fortunate in her far-sighted leaders in all important branches of her activities in the practical development of plans for encouraging the maintenance of her forests and forest enterprises. For those who are willing to place their funds at 4% interest, her present taxation program for lands set aside for the growing of timber, is good—but she has not gone far enough. While a real stride has been made in the right direction, all too few lumber operators will be found who can afford to attempt operating under the present provisions. And this is particularly true of the 10% severance tax since it makes it almost impossible to place lands carrying mature timber under the provisions of the present law, with the result that taxes are forcing a too rapid cutting of Wisconsin’s remaining virgin stand, whereas its orderly cutting is of the greatest possible interest to the state at large. We believe that a 5% severance tax should be the goal of the state, particularly as Wisconsin lumbermen must meet the competition of Southern states where the rate of growth is far more rapid.

Such encouragement to the Wisconsin lumberman will save many from abandoning their logging railroads, equipment and sawmills within the next 10, 15 or 20 year and will change Wisconsin’s lumber industry from a period industry to a permanent industry. This is not theory—it is the sober conclusion expressed to us by many of your ablest Wisconsin lumbermen.

Adequate fire protection is the second essential to every aspect of forest development, including that of finance. The Lake states,
including Wisconsin, have made relatively little progress in fire prevention, as compared with the West Coast states. A more acute fire consciousness must be created. Many agencies, public and private, must co-operate in this. Adequate protective organizations equipped with proper facilities and manned, or at least directed by men who know their job, are also necessary. The Western Forestry and Conservation Association sets an excellent example of what might be accomplished.

Quoting R. B. Goodman:

"Such favorable factors are cumulative. The better organization of the lumber industry will mean less wasteful competition between species, better marketing and a vigorous policy of national advertising. The exemption of taxes on growing timber, private forestry undertaking to perpetuate a raw wood supply and efficiency in utilization of the forests, will all tend to public confidence and lower interest rates on timber loans."

Which is to say, that adequate finances for forest development will follow scientific taxation and fire protection.

DEPLETION AND DEPRECIATION

By CARL M. STEVENS

A policy of Selective Cutting which first removes the more valuable stumpage, raises the depletion allowance for the particular stumpage removed, and to the extent that this disparity in value can be demonstrated. It is a question of fact which will vary with each property and each plan of operation. The Federal Income Tax regulations issued by the Commissioner of Internal Revenue comprehend just such adjustments. Mr. E. L. Lindsey, the present Chief of the Timber Valuation Section, has approved this exact principle on the basis of our preliminary analysis of the situation for certain properties in this region. Further, Lindsey has agreed to accept as a showing of fact such an analysis as is possible from existing studies, and necessary as a preliminary step to the determination of a change in cutting policy. This analysis must, of course, be adapted to the local situation.

The total lump sum depletion allowance which has been approved by the Commissioner will remain constant. However, permission should be secured to divide the stumpage account into two