APPENDIX.

Prof. Fred. R. Fairchild, Assistant Professor of Political Economy in Yale university, has probably made a more exhaustive study of forest taxation in the United States than has any other person. Prof. Fairchild's views on the subject have been so well expressed in an article published in the Yale Review for February, 1909, that the article is here quoted almost in full.

THE ECONOMIC PROBLEM OF FOREST TAXATION.

The American general property tax has had most of its many shortcomings thoroughly exposed by this time. Recently, however, the discussion of forest taxation has called attention to a serious defect which has heretofore attracted little notice. The defect referred to is the necessary tendency of the general property tax to place an excessive burden of taxation upon invested wealth which is increasing in value. Suppose a man invests $10,000 in a perpetual annuity at 5 per cent., yielding an annual income of $500. Suppose an annual property tax of 1 per cent. is imposed. The tax will take $100, or 20 per cent. of the income, each year. Suppose now another man, having $10,000, puts it in trust for 14 years, after which time, the principal having doubled, he invests it in a perpetual annuity of $1,000 a year. Under the property tax he is taxed $100 the first year, but the second year, his capital having increased to $10,500, he pays a tax of $105. His tax increases each year until the fourteenth, after which it is $200 a year. The present value of all the taxes paid by the first man is $2,000, or 20 per cent. of his capital. The present value of all the taxes paid by the second man is $3,428, or 34 per cent. of his capital. That is, the man who does not use up his income, but reinvests it, is punished by an excessive tax.[1]

Now the business of forestry is apt to be like the investment of the second man. The annual growth of the trees, instead of being taken each year as income, is left to increase the capital till many years later when the timber is cut and the income accrues. The general property tax provides for the assessment of all wealth (barring certain exemptions) at its full market value, the tax being then determined as a cer-

[1] This criticism of the general property tax is parallel to Prof. Fisher's criticism of the income tax when savings are counted as income. Cf. The Nature of Capital and Income, pp. 249–255.