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## Gaffney, Extractive Resources and Taxation

Franklin P. Hall

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## ***Extractive Resources and Taxation***

Edited By

MASON GAFFNEY

Madison: University of Wisconsin Press. 1967.

Pp. 450, \$8.00.

What are the best ways to tax extractive resources? While not intended to provide definitive conclusions, this ably edited compilation will assist the pilgrim's progress. That being the Editor's and Contributors' aim, it was assuredly worth the effort. The volume embodies the proceedings of a 1964 symposium sponsored by the Committee on Taxation, Resources, and Economic Development (TRED), an agency of some of the faculty in Economics of the University of Wisconsin—Milwaukee. Financed by the Robert Schalkenbach Foundation, this conference on "Tax Treatment of Exhaustible Resources" was evidently intended to identify rent elements (returns above necessary social costs) in depletable resource exploitation and development. Means of recovery of these elements, primarily through taxation, were to be indicated, and inquiry as to the proper consequent tax policy made. In other words, the purpose was to discover and recover for social use, consistently with sound conservation practices, windfall elements related to extraction of non-replaceable resources.

Division of the book into three parts, "Theoretical Foundations," "Economic Institutions," and "Policy" lends academic sanctity to practical matters as does also appending a treatise updating Ricardian Rent doctrine. The venerable theory of indestructible values resident in land, however, in no way diverted the contributors from realistically treating revenues from resource extraction as cash flows containing rent-like elements, or from describing conservation pragmatically as a form of resource exploitation conformed to a special time schedule. A basis is thus laid for understanding optimal extraction timing and for proceeding to the consequences of taxation for inter-temporal choice. One is impressed with the importance among these consequences of those following from various systems of resource tenure and with the resulting terms of competition in resource exploitation. Another fresh view, given the conservation optima and the institutional setting, relates to tax neutrality: those policies that least interfere with better extractive practice and, the corollary, the extent of evident waste in non-neutral, largely traditional, fiscal practice. Withal, the papers offer functional distribution theory, mining and depletion theory, as well as optimal tax

policy in the context. At the institutional level, monopolistic elements in resource control are contrasted with freedom and with liberal practices respecting newly acquired opportunities in resource areas. Tax policy is then related to allocational and distributive consideration. The oil industry and its special circumstances are discussed at some length, with theory and policy related in the derivation of optimal depletion rates.

Without seeming to contend that shadow-boxing is not fine exercise, much confusion persists in the absence of means of tracing and measuring tax incidence. Until means of this kind appear, recourse might be had to historical studies. Current controversy contributes to the distortion of all views. Federal land and resource policy is evolving, with agonizing deliberateness to be sure, from disposal toward retention and management. Speedy development came and continues at a high price in resource values. Taxation may go far to accomplish latter-day redistributive equity though serving its primarily fiscal purposes. Considerations of these kinds are largely absent from this volume. Tax policy had best, perhaps, in the absence of certainty remain fluid; trial and error the rule; opportunism a prominent policy feature, sometimes, alas, going awry in legislative responsiveness to exploitive interest. In any case, policy is not wholly explainable or expoundable in economic terms alone.

Meanwhile, and to abate the strictures of monopoly in property and owner-interests, a case may be made for the public-purpose corporation. Perhaps current developments of this kind in the Mid-Eastern oil fields are worth watching: royalties giving way to profit shares; private autonomy yielding to public-interest management.

A few other specific limitations of this excellent volume appear. It is not made clear that early Federal income tax policy endeavored, through mineral depletion allowances, to prevent erosion of the source of income. While to the legalist a constitutional question, this matter is fundamental to economics as the distinction between capital and income.

In the same connection, the matter of state taxation of the values resident in the Federal depletion "loophole" is absent, possibly because it inheres in our peculiar, pluralistic administrative policy.

The entire matter of Federal off-shore (Outer Continental Shelf) oil policy is untreated. Evidently, much of the anticipated windfall from this source reaches the Government as competitively bid bonus payments for mineral rights to the unknown values. The extent to which this phenomenon undergirds crude oil import policy is to say the least an interesting question.

Some may feel the Editor's extensive introductory and summary comments interfere with assimilation of the papers. This reviewer does not think so. The value of the Editor's able contributions outweighs any distraction they may engender. If this be a problem for the reader, he may read the papers separately.

This volume is a contribution to fiscal excellence. It is likely to be regarded as a landmark of its genre. Happily, future efforts of like quality can be anticipated.

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