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Review of *U.S. Agricultural Response to Income Taxation* by Hoy F. Carman

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U.S. Agricultural Response to Income Taxation. Hoy F. Carman. Ames: Iowa State University Press, 1997. xiii+220 pp. Figures, tables, notes, references, index. $52.95 cloth (ISBN 0-8138-2175-4).

Hoy F. Carman has produced a useful volume on the economic relationships between production agriculture and the U.S. tax system. Focusing on individual income taxes, he also gives brief attention to other federal taxes, including social security, estate, and corporate income levies.

The book should interest academics (particularly those specializing in public finance, farm management, and agricultural policy), policymakers, professional farm managers, and agricultural leaders. Citing and describing a large number of academic studies completed since about 1960, Carman masterfully reports and integrates their results. Perhaps more importantly, he uses his own considerable knowledge to measure both the strengths and shortcomings of these studies.

The first of four sections opens with an introductory chapter, followed by a second offering a theoretical framework, essential for much to follow, describing how tax laws and regulations can distort returns to inputs and, in so doing, affect economic efficiency. Not surprisingly, Carman identifies many provisions of the tax code where such impacts are "non-neutral." He also postulates theoretical differences between true economic profits and after-tax profits.

Section II focuses on income tax policy's relationship to input purchases, asset replacement, and operating practices. Land, machinery and equipment, and breeding livestock are given special attention. Carman considers an array of current and former tax provisions—investment credit, depreciation allowances, interest deductibility, differential capital gains rates, cash accounting, and changes in marginal rates—and judges that income tax laws do appear to influence the demand for and price of land and capital equipment. With a hint of frustration, however, he concludes that average impact, as reported in many studies, is not exactly meaningful. Much depends on the individual taxpayer's income.

Carman turns his attention to the impact of tax laws on farm output in Section III. Several studies suggest that provisions of the tax code have encouraged the production of perennial crops, livestock, and feed grains. Output, in turn, would appear to be linked closely with farm size and growth. Nevertheless, an important question regarding the tax system and its impact on the structure of agriculture has been difficult to answer: Have progressive income tax rates been sufficient to offset economies of size of large farms? Alternatively, have provisions such as depreciation allowances and cash accounting offset progressive rates?

A concluding section, consisting of three chapters, may be where some readers will want to begin the book's perusal. Here, Carman briefly describes how federal taxes in toto work together. We are reminded, for example, that (regressive) Social Security taxes are a bigger obligation for most self-employed agricultural producers than individual income taxes. He also examines alternative taxes—the flat tax and the national sales tax the more publicized among them—and their likely impact on the agricultural sector. Not to ignore the current tax system, Carman details possible adjustments and their likely impacts on production agriculture.

It would have been beneficial to have had an analysis of the 1997 tax reform legislation included in the book. Unfortunately, its publication date made that impossible. Carman appears to be on the mark, however, in noting that future changes in the tax code may move the system away from the tax neutrality envisioned in the Tax Reform Act of 1986.

In sum, *U.S. Agricultural Response to Income Taxation* is an excellent, in-depth study of a subject that too often receives piecemeal treatment. It is not necessarily easy reading, but given its emphasis on reporting and synthesizing research results, the effort required is worthwhile. **A. L. Frederick,** *Department of Agricultural Economics, University of Nebraska-Lincoln.*