

American Journal of Economics and Sociology, Inc.

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Source: *American Journal of Economics and Sociology*, Vol. 65, No. 3, Natural Resources, Taxation, and Regulation: Unusual Perspectives on a Classic Topic (Jul., 2006), pp. 693-700

Published by: [American Journal of Economics and Sociology, Inc.](#)

Stable URL: <http://www.jstor.org/stable/27739585>

Accessed: 19/03/2013 18:04

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GEORGIST PERSPECTIVES ON
RESOURCE UTILIZATION AND FINANCING

**Nonrenewable Exhaustible Resources and
Property Taxation**

Selected Observations

By C. LOWELL HARRISS*

ABSTRACT. In this paper, Professor Harriss connects the historic debate about using up nonrenewable resources and its impacts on future generations with the need to help finance government in less disruptive ways. He explains the Georgist program of taxing “economic rents” either directly by a rent tax or indirectly by a severance tax.

The use of natural resources—gifts of nature—to serve the general public must have persuasive appeal. Some things Nature created. No one can plausibly claim the benefits, the fruits, on the basis of having created the asset. The community, defined somehow, can take the fruits without endangering the source. Although much explanation and defining are called for, the principle seems clear.

This paper concerns nonrenewable, exhaustible resources. When used, they are used up—natural gas, for example. Problems of definition do arise, such as metal that becomes usable scrap. These have relevance to points made later. The reality before us at the moment is that people are consuming resources that are irreplaceable. Nothing users now pay goes to renew the source.

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American Journal of Economics and Sociology, Vol. 65, No. 3 (July, 2006).

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Should the interests of future generations get more recognition than they do today? This brief note links that question with some involving the financing of government and with challenges articulated persuasively in the late 19th century by Henry George. His followers, "Georgists," have continued the discussion. There are no clear lines defining "Georgism" and "Georgist." Yet whatever their origin, there are elements that not merely deserve respect but that, even more, can be a guide to improving public policy in the years ahead.

I

Rents

THE TERM *RENT* has a variety of accepted usages. The concern here is "economic rent." It differs from the kind of payment made when one rents a car. Think of economic rent as payment for the use of a resource whose existence does not depend upon the payment. Land. The original surface of the Earth, with a very few exceptions, is Nature's creation. One pays, perhaps heavily, to get a parcel in one location, one use, rather than another; but the payment does not create the area. Houses or trucks or autos exist because someone paid to get them produced. But not the products of Nature. Lines are not always clear. Some portion of other payments may be for a scarcity element and properly termed "rent-like"—outstanding athletes, for example. We do make payments, whatever the designation, that do not, over the long run, go to create, or renew, the source—some portion of human skill that is the creation of Nature.

Economic rents that are directed to paying for government services will not reduce the source as other taxes can do. This principle can be utilized where conditions permit. Property taxation in the United States represents use of the principle. Americans could be better off by financing more of (local) government by reducing the taxes on structures and other manmade capital and relying more fully on taxes on land, on the economic rent of land.

Part of what may be attributed to land represents underground non-reproducible resources. Some of what the owners of land get corresponds to economic rent, in the pure sense. And some of what the landowner obtains is the result of capital and effort required to extract

the mineral. This return may be treated in business accounts as profit, interest, and labor expense, or something else—probably some combination. Accounting systems do not identify nor measure pure economic rent.

The amounts are certainly far different from what the available measurements suggest. Prof. Mason Gaffney in an unpublished manuscript identifies more than a dozen sources of economic rent related to land that are ignored in customary accounts, for instance, owner-occupied business property.

In economic rent there is a potential source of government revenue of unique nature—unique in that taking it in taxes would not induce the distorting and depressing effects of equivalent taxes on labor and capital, effects known as “excess burden” in that they reduce real income by amounts greater than the government receives in taxes. Substituting economic rents for some of the taxes on capital and labor would thus reduce the excess burden, the deadweight loss produced by revenue raising. Net benefit for the economy, a true economic surplus—the principle seems beyond question! Yet public discussion can focus on ability to pay with the intuitive conclusion that all are equal. But a dollar of land value and a dollar of structure value will differ significantly in their economic effects.

II

Justice

GEORGIST WRITINGS frequently place emphasis on “justice” without clear definition. The general sense is a more equal sharing of what Nature has provided (as distinct from what humans have created). Who among us, looking around a city, can deny that there have been some large unearned increments in land prices over the years? Who will not have felt that Nature put Persian Gulf oil in locations not well related to those who can use it? There are disparities that one can say, with confidence, do not relate rationally to contributions (production) of the recipient—“unjust.” But which? How great? How have they come into existence?

One can, and one probably should, condemn many actions in the

past that determined the ownership of land and other natural resources. Inheritance has continued this ownership. Some Georgists have advocated that an arrangement wrong from its origin will produce results to be condemned today and indefinitely. Sometimes, such reasoning is used to justify wide-scale changes now. But at its best, such argumentation must be used with utmost caution and reserve, and for the most part rejected. What exists today does result from the past—yesterday and probably centuries of choices and decisions. Who today can be qualified to evaluate the myriads of actions of the past? Today's practical opportunities are to decide as well as possible for the future. Nonrenewable resources present alternatives somewhat like those of land rent and some that are quite different.

Markets today cannot reflect the choices of the future. Twenty or 50 years in the future, what evaluations would consumers place on natural gas burned now or on the alternatives that are reflected in today's decision-making processes? Of course, some actions now do embody more than trivial concerns for the future—capital formation, for example. And use now of exhaustible resources reflects more or less deliberate rejection of interests and concerns about future users. Some things are renewable, such as forests, perhaps rather quickly while others take longer. Some, such as petroleum, are used up today. Our descendants will not have them.

III

Present Versus Future

IS THE PRESENT cheating the future? This question deserves explicit attention. The worth of the accumulation of knowledge must vastly exceed the worth of the nonrenewable resources being consumed. Present market prices must reflect the views of buyers and sellers today about the future. Yet market prices at present cannot incorporate the valuations of persons who will be affected. People adjust as life moves along. Conditions now reflect decisions in the past that will continue to exert influence, for good and for ill, indefinitely. As parents and as participants in businesses, as voters and as politicians,

we human beings do take account somewhat of the using up of natural resources. If recognition now is judged, somehow, to be made quite short-sightedly, what investments might be available to improve results?

IV

Property Taxation

TAXATION IS AN AGENCY or instrument of collective action. Every community in the country uses property taxation. It is as old as American government. What exists differs widely from place to place. Relatively few areas have exhaustible resources, minerals presumably embodied in land prices and, to varying extent, in assessed valuations. Where such assets (values) exist, the community can get revenue from the resource. For petroleum products and other minerals whose prices are determined in large (probably world) markets, the land tax burden will fall on the owner of the land. The amounts that will have been capitalized in the price at which present owners bought land may be lost in the mists of time or decided in a purchase yesterday. For sand and gravel and any other locally-oriented resource, the quantity produced and thus the price can respond to a property tax on the natural resource element; but this would be a quite unusual case.

Property taxation has substantial merit as a revenue source for local government. And on a scale used typically to evaluate revenue sources, a tax on resource rents would rank high. Whether the resources are renewable or exhaustible would not be of much significance for such evaluations. But the merits of this source hardly pertain to local government—except perhaps to help finance some government spending directly related to the mineral, such as schools for the children of employees.

The property tax requires discretion and judgment in administration. Assessment of the worth of what is underground must usually reflect the reality that there are no fully reliable market transactions. Local assessors can often get good data on many sales of single-family houses. Mineral properties do not have comparable markets.

Owners, who have reason to wish for underassessment, may

control sources of evidence. And, of course, knowledge of what is underground can be incomplete and its worth in the future highly uncertain. A local assessor's skill may be no match for that of the owner's representative. Yet government can mobilize capacity to value using all the evidence ingenuity can acquire.

And property taxation is not the only possible instrument.

V

Severance Taxation

Several states impose severance taxes. They are more appropriate than property taxes for getting revenue from natural resources. They may be a percentage of price at some stage in the process. Or the tax may be a money amount: so much per ton of coal or thousand cubic feet of natural gas. Who ultimately pays such a tax? Conditions differ and relate to broad market processes and contractual relations. Burdens are widely diffused beyond state borders while also affecting in-state property values.

Severance taxes are imposed for good reasons by units of government that are larger than localities. As a practical matter, that means states. True, state boundaries were not set to help in achieving rational allocation of natural resource revenues. But there seems nothing better. (The federal government does not use the term *severance tax* for what it receives from leasing lands, including offshore.)

VI

Concluding Comments

NATURAL RESOURCES PRESENT greater potential for financing government than has yet been realized. And as other papers in this volume indicate, there are numerous problems and reasons for study. The reality of exhaustion cannot be denied; some when used will not be replaceable. Common sense says: "Take care for the future." But how?

The record gives little (no) reason for confidence in longer-run forecasts. True, any exhaustible resources that is being used can be used up. Yet other things will also be going on.

For exhaustible resources one might argue, with good reason, for using part of the revenues for a trust fund for future benefits. Alaska,

in contrast, makes large distribution of the annual revenues from oil to current residents.

Greater use of land values to pay for government, the Georgist principle, will (albeit somewhat indirectly) enlarge the role of natural resources.

