

# RAW TEST

THE STRIKING contrast in the burden of state and local taxes in the United States offers raw material to test one of the classical theories of economics, writes *Paul Knight*.

Top of the league table in 1986 was Alaska, whose revenue was over 25% of personal income (see table). Bottom of the league — the place of honour, most taxpayers would claim! — was New Hampshire.

The New England state does not levy income and sales taxes. Instead, it relies heavily on the property tax for revenue. And the tax-take was 8.36%, according to the latest US Census Bureau data.

The hypothesis to which this information could be applied is associated with the names of David Ricardo, who first formulated the theory of rent, and American social reformer Henry George, who developed the theory for the benefit of policy-makers in *Progress and Poverty* (1879).

Between them, they showed that taxes ultimately fall on the income that is surplus to an economy's costs of production. In other words, labour and capital having taken its share from income, the remainder is captured by land as rent.

Since competition reduces wages and the interest on capital to the minimum, a government levy has to be passed on (through higher prices) to

## Pledge that counts

SOME politicians in New Hampshire want a more broadly based system for raising tax revenue. They claim that the property tax is too high. They assert that a sales tax "is much better because it is democratic."

One Republican politician, Douglas Hall, will propose a 3.5% income tax this autumn — with a corresponding decrease in property taxes.

Their campaign does not impress Joseph McQuaid, editor of the Manchester Union Leader, who declared in his newspaper's comment column on August 20:

"The income taxers use essentially the same

line, telling the voter that a state tax of 'only' 2 or 3 per cent will do just wonders. Then, a year or two after their fat foot is in the door, they'll be back to raise that percentage — but 'only' by a point or two."

McQuaid requires that every politician seeking public office must take The Pledge — a promise not to propose an incomes or sales tax — before his newspaper endorses his campaign.

Voters, according to McQuaid (in an interview with the *Wall Street Journal*), "have clobbered any candidate who wouldn't take the pledge."

## STATE AND LOCAL TAX REVENUE

As a percentage of personal income — 1986.

Alabama	9.65	Montana	12.43
Alaska	25.29	Nebraska	10.03
Arizona	12.01	Nevada	11.07
Arkansas	9.71	New Hampshire	8.36
California	11.00	New Jersey	10.93
Colorado	10.14	New Mexico	11.60
Connecticut	10.82	New York	15.81
Delaware	11.85	North Carolina	10.65
Florida	9.52	North Dakota	10.57
Georgia	10.43	Ohio	10.68
Hawaii	13.02	Oklahoma	10.51
Idaho	9.46	Oregon	11.42
Illinois	10.51	Pennsylvania	10.89
Indiana	9.87	Rhode Island	11.09
Iowa	11.13	South Carolina	10.85
Kansas	10.16	South Dakota	10.23
Kentucky	10.20	Tennessee	9.66
Louisiana	11.17	Texas	9.76
Maine	12.00	Utah	12.46
Maryland	11.16	Vermont	12.38
Massachusetts	11.82	Virginia	9.29
Michigan	12.60	Washington	11.59
Minnesota	12.24	West Virginia	11.80
Mississippi	10.55	Wisconsin	13.18
Missouri	8.76	Wyoming	9.79
		Washington, DC	15.11

reduce, in the end, the surplus income (rent) received by landowners.

According to this view, then, we can assume that land is relatively cheap in Alaska, Wyoming and New York, and most expensive in New Hampshire and Missouri.

An empirical test would have to incorporate allowances for such things as density of population. Unfortunately, the most sophisticated examination is likely to be defeated, in the end, by the paucity of data on the land market.

According to an analysis by Fred Foldvary, data on rents published by the federal government is seriously defective. Mr Foldvary examined the statistics for his post-graduate research in public finance at George Mason University, Fairfax, Virginia. It is published in a new book on rents.\*

Mr Foldvary exposes serious defects in the collection and presentation of the data, which shows rental income in the US during the 1980s as decreasing. This, declares Mr Foldvary, discredits the statistics, which show a "lack of credibility."

\* *Ronald Banks (editor), Costing the Earth, London: Shephard Walwyn/New York: Robert Schalkenbach Foundation, 1989.*