SOURCES OF PUBLIC REVENUE

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SOURCES OF PUBLIC REVENUE

State, Federal, and Local

The responsibility of a government is to contribute to the well-being of all of the people who live within its jurisdiction. The local city and county councils provide and maintain roads, waterways, transportation, electricity, water, sewers, police, firemen, schools, hospitals and other services which people want to have make available. The national government provides for defense, assistance during calamities, environmental protection, social security and other necessities.

Traditionally public revenue has been provided from three general sources with numerous designations. The sources are income, sales and property. The total revenue collected in the fiscal period ending June 1992 was $1.2 trillion rounded. The state and local governments collected $549.5 billion (46%) and the federal government collected $650.2 billion (54%).

The sources of the revenue collected included

<table>
<thead>
<tr>
<th>Source</th>
<th>Amount</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income Tax</td>
<td>$706.8 billion</td>
<td>58.9%</td>
</tr>
<tr>
<td>Sales Tax</td>
<td>$315.8 billion</td>
<td>26.3%</td>
</tr>
<tr>
<td>Property Tax</td>
<td>$177.2 billion</td>
<td>14.8%</td>
</tr>
<tr>
<td>Total</td>
<td>$1,199.8 billion</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

During the preceding 5 year period total revenue collected increased by nearly 30% or an average of 6% per year.\(^1\) In my opinion the amount of revenue collected and the rate of increase is leading toward inhibiting economic well being. I propose that we consider an alternative source of public revenue which will facilitate economic growth and well being.

Taxation, as described above, was not common within the United States until the 20th century. Income taxes were not significant until the great depression and World War II. Sales taxes were primarily protectionism import duties prior to the 20th century.

Raising revenue from property charges was common when the United States became a nation. The property tax consisted of two totally different components. The primary component was a charge for the use of land and resources, known by economists as land rent. The secondary component was the tax on buildings and personal property.

Some authorities have estimated that for part of the first half of our country's history, land rent represented the majority, perhaps 90% of revenue collected and taxation of sales and income represented only about 10% of revenue collected. During the present part of America's history, taxation of income and sales has continually increased until now it represents about 90% of revenue collected, while land rent represents only about 10% of revenue collected.

More public revenue is required when taxes are collected from individuals and business enterprises, rather than land and resources, because of the negative results which taxes may produce. Unemployment, inflation, decline in the value of money, poverty, requirement for public assistance may have roots in inefficient method of taxation. Initiative, hard work, capital formation may be sacrificed. Perhaps taxes, as we have today, have been one of the contributing causes for the rapidly increasing spending of public agencies.

Land and resources, however, are effected in a totally opposite manner when taxed. The supply does not decrease, the price does not increase and raising revenue from land and resources does not increase unemployment, inflation, decline in the value of money, poverty or inefficiency.

If more revenue were collected from land and resources, the need for the present level of national revenue of over $1.2 Trillion, could even decline. If labor and business were taxed less, investment capital could be formed which could be used to produce more efficient job opportunities and more wealth. Inflation and depreciation of money might not occur, if taxes were lowered. Economic diversity and prosperity could result.
WHY DO LAND AND RESOURCES HAVE RENTAL VALUE?

Land and resources have rental value because of:

1. the "natural" productivity and limited quantity of location, soil and natural resources,
2. the growth of communities and peoples' competitive demand for the exclusive use of prime locations, and
3. the publicly provided services and improvements that increase land value with people showing preference for particular sites with good public services.

Land Rent reflects the price that people and businesses are willing to pay for the exclusive right to use land sites. For example, people prefer to use sites of good location because it gives them an advantage of spending less time in travel, by being near what they choose to do. A businessman can sell more goods at a site where many people pass each day.

Since land is fixed in supply, the land rent is inelastic. This means that, as demand increases or decreases, changes in land rents parallel those changes in demand. There is no real increase or decrease in the supply of land.

WHY IS THE COLLECTION OF PUBLICLY CREATED WEALTH THE BEST SOURCE?

The value of land not only results from its natural location and benefits but also the results of public expenditures. Public efforts produce a real value which is reflected in the price that people are willing to pay for land and resources. This additional value is also part of land rent, which arises because people choose to live in communities which provide and maintain good public services.

A city might conceivably become self-sufficient by doing its job well. People will move to a well managed community because they will be better off then living in a poorly managed city, by themselves or in an impoverished area. They would prefer to own land in a well governed city.
A city must secure revenue in order to provide good quality services. This revenue can best be procured when the local district recaptures revenue from the value of the benefits and services that it provides. This can be done by collecting the revenue from land and resources, that reflects the value of the services and facilities provided in that community. In essence land rent could be a primary source of revenue for the city.

The land rent equitably belongs to all people who live within the community because they are the ones who produced the wealth. In a well run community, there might be sufficient land rent to provide adequate funding for much of the capital investment and social purposes provided by the city.

Cities which choose to collect a significant land rent as a source of revenue would have the advantage of requiring less revenue to be collected from burdensome taxes (income taxes, sales taxes and building property taxes) which are paid by workers, businessmen, entrepreneurs, individuals and enterprises.

People do not have the right to waste what belongs to mankind, the value of the land and resources: the environment. Each person should have an opportunity to own and use the best land for his business or personal needs, as long as he is willing to pay for the benefits he enjoys and does not destroy the heritage of mankind. One who pollutes must pay for the privilege, since it impacts all people.

The value of allowing pollution to occur produces enormous wealth to those who benefit from the privilege to pollute. Unfortunately, little revenue is currently collected from the produces of pollution to benefit the community, but this should change as time passes, and as people become aware of the need for alternative revenue sources.

In our cities we see that the greatest land rent is paid for the best locations in the civic center of commerce. The value of land rent in the best location may be 100 times an average location, because of the special opportunity to prosper by greater trade possibilities.

Land which is rich with resources is worth many times a site without resources. Airways, right-of-ways, water, minerals, forests and oil reserves, are only a few of the examples of the natural bounty of land resources.
IS LAND AND RESOURCE RENT ADEQUATE FOR PUBLIC NEEDS?

Most people think that land and resources are capable of contributing only a small part of the public revenue required. But as societies progress, land and resources become a major force in determining progress or poverty.

What is included in land value? Land is the entire material universe outside of man himself. It includes all natural materials, forces and opportunities. Nothing that is freely supplied by nature can be classified as capital, but rather must be categorized as land.

Land is used by all people at all times. It is the basis of human existence which we require on a daily basis. It is nature's gift to mankind, which enables life to continue and prosper.

Presently there are no reliable definitions or estimates of the value of land and resources in the United States or elsewhere in the world. I offer this as a real challenge to economics students. Here is a real opportunity to make a significant contribution to mankind. We do not know the true value of land rent in the world.

Lacking any valid estimates, a group of land economists made a cursory examination of national land values, based upon estimates of updated assessment rolls, surface and subsurface resources, airwaves and waterways, charges for pollution and innumerable other factors which should be included in a proper definition of land.

It was estimated, but not documented, that the total of land and resource values could exceed $30 Trillion. A collection of only 4% of all land and resource values could be sufficient to eliminate taxes, which were discussed above, within the United States.

It is unrealistic to expect our society to just drop the income, sales and property taxes that exist today. If proven to be feasible, people might want to test and phase-in this concept of raising more public revenue from land and resources. So why not just start by cutting existing taxes in half and collect the balance of revenue needed by a 2% tax on land and resources?

#1 research priority
The collection of land rent as revenue, by the public for supplying public needs, returns the advantage an individual land owner receives from the exclusive use of a land site to the balance of the community who have allowed its exclusive use. The land owner and the community both benefit from this new source of revenue and by reduced taxes.

This is a win-win solution whose time has arrived. Taxes as we known them today are not a victorious answer.

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<table>
<thead>
<tr>
<th>TYPE OF TAX</th>
<th>June 1992</th>
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<tbody>
<tr>
<td></td>
<td>Dollars</td>
</tr>
<tr>
<td>In million dollars rounded</td>
<td></td>
</tr>
<tr>
<td>Individual Income Tax</td>
<td>$583,300</td>
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<tr>
<td>Corporate Income Tax</td>
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<tr>
<td>Property Tax</td>
<td>$177,200</td>
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<tr>
<td>Sales Tax - Customs</td>
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<td>Motor Fuels</td>
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<tr>
<td>Tobacco</td>
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<tr>
<td>Alcohol</td>
<td>$11,600</td>
</tr>
<tr>
<td>All Other</td>
<td>$105,600</td>
</tr>
<tr>
<td>Total</td>
<td>$1,199,800</td>
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</tbody>
</table>
REVENUE BY GOVERNMENT LEVEL
Total Revenue June 1992 $1,200,000

Dollars Collected

$700,000.00
$600,000.00
$500,000.00
$400,000.00
$300,000.00
$200,000.00
$100,000.00
$0.00

State-Local  Federal

Type Level

□ Series 1

1.2 trillion