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FISCAL FEDERALISM AND THE TAXATION OF NATURAL RESOURCES

CHARLES E. McCLURE, JR. & PETER MIESZKOWSKI
Lexington: Lexington Books. 1982. Pp. 260.

This book, comprised of six well conceived and sequenced papers, considers the economic and legal aspects of natural resource taxation and related policies adopted by the energy producing states of the United States and provinces of Canada, with emphasis on events following the actions of the Organization of Petroleum Exporting Countries (OPEC) beginning in 1973. Together, the papers are very comprehensive and provide the reader with a broad perspective regarding the intergovernmental aspects of a complex subject. Much of the material presented is new rather than a recast of previously published work. The authors and reviewers of the papers are well known for their contributions to the literature on tax incidence, fiscal federalism, and natural resources policy.

"State Energy Revenues," by Cuciti, Galper and Lucke, attempts to measure the impact of energy revenues on the fiscal conditions of states by extending the work on the representative tax system developed by the Advisory Commission on Intergovernmental Relations. The extension was made to compare the revenue-raising ability of the fifty states. Differences in access to energy tax bases were found to be an important source of disparities in tax capacity. Users of these estimates should be aware of the measurement problems raised by Bahl in his commentary.

The chapter by Mieszkowski and Toder, "Taxation of Energy Resources," makes several contributions. First, estimates are computed of the share of revenues captured by the different levels of government following crude oil price decontrol and the imposition of the complex federal crude oil windfall profit tax. Substantial differences were found between Alaska and Texas regarding their ability to capture additional oil revenues after price decontrol. Second, the authors identify the sources of inefficiency that result from the attempts of various levels of government to capture rents from energy resources, and estimate the efficiency loss (deadweight loss) from misallocation of capital and labor among regions.

"Efficiency, Equity, and the Allocation of Resource Rents," by Broadway and Flatters, provides a very interesting description and appraisal of equalization payments in Canada involving transfers from the federal government to the provinces. This excellent paper on the theory of equalization payments in particular and fiscal federalism in general makes the

most persuasive case I have seen for the use of intergovernmental unconditional type grants as distinct from conditional grants.

"Legal Constraints on State Taxation of Natural Resources," by Hellerstein, analyzes the constitutional and related issues raised by state taxation in general and natural resource taxation in particular. Through his analysis of major court decisions regarding natural resource taxation, including *Commonwealth Edison Co. v. Montana*, he concludes that legal constraints on state taxation of natural resources in the United States are not substantial. This paper draws on some good previous work by the author on state taxation within a federal system.

McLure, in his article "Tax Exporting and the Commerce Clause," carefully identifies and explains the problems that would be encountered in developing economic information on natural resources taxes to provide the basis for adjudication. He concludes that it would be difficult to "gain sufficient and permanent agreement on the likelihood of exporting of various taxes" for purposes of adjudication. The paper is a creative application of tax incidence theory.

In his chapter, "A Constitutional Perspective on Federal-Provincial Sharing of Revenues from Natural Resources," Whyte reviews constitutional developments in Canada that relate to mineral taxation. The Whyte and Hellerstein papers together provide a basis for comparison between the two countries of federal-provincial (state) policies regarding natural resources, from a constitutional perspective. Whyte's paper should be of particular interest to those not familiar with federalism issues in Canada.

An important series of questions associated with the social costs of natural resource development and the use of production taxes to internalize social costs are not directly addressed in this book. Published work on the social costs associated with energy development and the magnitude of these costs relative to revenues from production type and other resource taxes is very limited.¹ Assuming that the social costs of energy development vary among the different locations within a state or province and that the resources are geographically dispersed, production type taxes based on value or physical volume of output are an inefficient means of internalizing social costs. Natural resource policies can have very important allocative and distributional effects within states (provinces) as well as among them.

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1. See, for example, J. KRUTILLA, A. FISHER with R. RICE, *ECONOMIC AND FISCAL IMPACTS OF COAL DEVELOPMENT* (1978).