Economic and Fiscal Impacts of Coal Development: Northern Great Plains, J. Krutilla and A. Fisher with R. Rice

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Recommended Citation
Available at: https://digitalrepository.unm.edu/nrj/vol20/iss2/20
Coal production in Montana increased from 519,000 tons in 1968 to more than 27.5 million tons in 1977. During that period studies of the impact of coal development on the Northern Great Plains may have been the only other item to increase as rapidly. Every possible issue has been raised, examined, and reexamined, and numerous studies have been published. Despite this, the Krutilla-Fisher book is worthwhile reading for those interested in the problems of energy development. The authors' thorough, careful, and unbiased development of estimated fiscal impacts should be acceptable to both environmentalists and developers, eliminating one area in the continuing controversy over western coal production. Plus, the book also should serve well as a reference or guide for those charged with the responsibility for estimating fiscal impacts from future mineral developments.

The book, as indicated by its title, deals only with the economic and fiscal impacts. It does not directly address the environmental, reclamation, and life style issues in which discussions of coal development always seem to become enmeshed. Making use of an econometric model of regional development (the Harris model) and algorithms relating taxes to mining activity and state and local government expenditures to population, the authors attempt to determine whether increased coal mining will produce adverse fiscal impacts for state and local government in Montana.

The results should not surprise anyone who has followed the coal tax debate during the past few years. State government, counties, and school districts containing mines are shown to have few financial problems. New state revenues from the severance tax and local revenues from the property tax on the mine's gross proceeds appear to be far greater than necessary to fund the increases in services required by the new population. Cities, and school districts receiving new students but not containing a mine, fare poorly, however. These governments face large potential deficits, deficits which only can be made up through either increased taxes on existing residents or special impact aid from the state or federal government. While total tax collections at all levels of government appear to be more than sufficient to cover the cost of additional services, the distribution of revenues among the governments does not match the needs.
There are minor technical problems with the estimates in this study, and the Montana tax system has changed somewhat since the report was completed. One can quibble over hundreds of even thousands of dollars here or there, but when estimated severance tax revenue is in the millions of dollars annually, any possible errors are comparatively small. The differences between expected revenues and expenditures are so large that there is no possibility for alternative policy interpretations.

In today's light, the major problem with this study is that it answers the wrong question. The authors do a good job of proving that tax revenues will be sufficient to offset any increased public service costs. Now, however, the important policy question from a national point of view is whether severance taxes are excessive. That is, whether Montana's severance tax raises the cost of coal to the consumer beyond the full social cost of production, and whether Montana's tax system results in a transfer of income from coal consumers to Montana taxpayers. Both the suit in which Detroit Edison and several other midwestern electrical utilities argue that Montana's 30 percent severance tax is unconstitutional because it is in restraint of trade, and recently introduced federal legislation limiting severance taxes to a maximum of 13 percent of gross value are based on the assumption that Montana coal taxes are higher than necessary. While the authors note this possibility in their concluding chapter and list several types of social costs for which residents must be compensated, one can only wish that analysis had been carried further.

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