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RURAL ECONOMIC DEVELOPMENT: ALTERNATIVES IN THE NEW COMPETITIVE ENVIRONMENT

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Progress Report:

In 1996, Idaho voters rejected a property tax limitation initiative. Before the election, proponents claimed the decrease in revenues would be offset from the increase in economic activity. We developed a computable general equilibrium model based on tradable and non-tradable sectors to hypothesize the impact on Idaho's public finances, household income, and economic growth with and without the Initiative's tax policy. The model predicts that each \$3 reduction in property tax revenues would result in a \$2 loss in state and local revenues overall. The benefits are predicted to be \$35 per low-income household and \$738 per high-income households.

Publications:

(No publications.)

Impact:

We argued that the trade and non-traded sectoring scheme is both conceptually more precise and deductively more consistent than the Waters et al. (Land Economics 73(1):72-89) goods and services approach in which traded and non-traded goods and services are intermixed. Like most CGE models, the government sector behaves within this model as an entity that only purchases privately produced consumption goods and reallocates purchasing power from the private to the public sector through the collection of taxes. There was neither an accounting of the value of the public infrastructure to firms nor the utility households receive when consuming public goods, i.e., fewer government services affect neither economic productivity nor consumer utility. Finally, we predict that for every \$3 reduction in property taxes there would be a \$2 loss in state and local tax revenue. These hypotheses should be evaluated empirically if the occasion ever

arises in Idaho or elsewhere. Until they are tested, the size and direction of these hypotheses should be kept in the context of the present public sector accounting methods.