Net Revenue
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Net Revenue is the Taxable Surplus: you cannot tax more than that without aborting the land use. Net Revenue (N) is Gross Revenue (G) less Costs (C). However, for any given N, the ratio of C to G (the intensity of land use) varies over a wide range, from zero up nearly to one (and even above one for subeconomic uses which, however, you do not want). Let's compare two rival uses, A and B, for the same piece of land. Use "A" yields more Net Revenue (N), but has a higher ratio of C/G. Basing a tax on G will often abort use A, the better use, in favor of use B.

A numerical example illustrates the point. Say we levy a tax of 10% on Gross Revenue (G). (To simplify, we consolidate Expenses and Capital Costs as "C", so N = G-C.) Table 1 shows the effects of the tax on Net Revenue after Tax (NAT).

Table 1: Effect on Net Revenues of a 10% Tax on Gross Revenues

Land Use	G ($k)	C ($k)	N ($k)	G/N	Tax ($k)	NAT ($k)	Tax/N (%)
A	100	90	10	10	10	0	100
B	20	15	5	4	2	3	40

The higher use, A, produces more goods, makes more jobs, and yields more Net Product: it is clearly the higher use. The tax on G, however, turns A into a lower use than B, in the eyes of the landowner or manager. A 10% tax on G is a 100% tax on the N from use A, wiping out the entire incentive to put land to use A. It is a 40% tax on the N from use B, leaving 60% of the Net Product for the landowner. The landowner would choose use A in the absence of taxes, or with a tax on N; but the tax on G forces him to choose use B, which is socially inferior. This, in a nutshell, expresses the damage done by imposing taxes on bases other than N, the Net Revenue of land. The tax lowers output, employment, and investment opportunities for capital, all

three. Fourth, it lowers tax revenues well below their maximum possible level of $10k, the Net Revenue from use A.

More generally, a tax on G is a tax on N at a rate equal to G/N times the tax rate on G. Algebraically:

$$NAT = N - tG = N(1 - tG/N) \qquad (1)$$

The ratio G/N is a multiplier on the impact of the tax rate, t.

For every parcel of land there are usually many alternative uses, and even more alternative intensities of any given use, a whole spectrum of choices. Up and down the spectrum, a tax on G systematically aborts the "higher" (more intensive) uses in favor of lower uses. The effect is like a "scorched-earth" policy.

If we tax C instead of G, we can illustrate the effects by another Table like Table 1, but this is now a simple exercise that I leave to the reader. Here the bias is in the same direction but a good deal stronger, because the tax on N will be the tax on C multiplied times C/N. To visualize this effect most simply, premise a third land use, "D", that yields some G without using any C at all - a parking lot is a near-example. Use D would now be tax free, while uses A and B would still pay a good deal, and be displaced by use D. Parking would be ample, but there would be nothing there to park for.

There are many more possible tax types we might consider, taxes imposed on parts of C, but not all. A payroll tax is an example. This tax would discourage the use of labor on land, but not the use of capital, and so would have two biases: less labor use, with the same capital use, or even more capital use as capital substitutes for labor. We do not here pursue all such possibilities of bad tax policy, for they are too numerous. The major point is that taxes on any base other than N, the Net Product of land, bias the market against the best and fullest use of land.