

Table 5
Selected Federal User Charges Added or Increased during Fiscal 1966

Activity	Agency	Current charge	Previous charge
Testing and inspection services			
Certification of animal products for export	Agriculture	\$6.52 per hour regular time; \$6.84 per hour overtime	\$5.84 per hour regular time; \$6.60 per hour overtime
Grading of livestock, meat and wool	Agriculture	\$7.80 per hour	\$7.40 per hour
Inspection of meat and meat products	Agriculture	\$6.08 per hour for voluntary inspections; \$6.32 per hour overtime; \$7.00 per hour (laboratory fee)	\$5.36 per hour for voluntary inspections; \$6.08 per hour overtime; \$6.72 per hour (laboratory fee)
Testing of products:			
Batteries	General Services administration	\$123 to \$973 per test	\$81 to \$657 per test
Cellophane tape		\$250 per test	None
Electric lamps		\$700 to \$6,000 per test	\$660 to \$4950 per test
Security cabinets		\$1,540 to \$9,290 per test	None
Permits, licenses, and registration			
Admission to practice before the court	Tax Court	\$10	None
License to remove sand and gravel	Interior	\$100 to \$975 per year	\$50 to \$157 per year
License to use radio station	Interior	\$108 per year	\$36 per year
License to use TV antenna	Interior	\$50 for ten years	None
Processing application for sale of a subsidized vessel to a private party where appraisal is made for the Maritime Administration by an independent appraiser	Commerce	\$400 per application	None
U. S. citizen identification card	Justice	\$5 per application	None
Copying, certifying, and searching of records			
Copying, certifying and searching of records	Navy	\$3 per hour	None
Duplication of tax returns	Treasury	\$1 per page	50¢ per page
Searching of records	Interstate Commerce Commission	\$3 to \$6 per hour	\$2.50 to \$3.50 per hour
Health services			
Inpatient care of beneficiaries of other agencies	Veterans Administration	\$45 per day at GM&S and TB hospitals; \$17.50 per day at NP hospitals	\$44 per day at GM&S and TB hospitals; \$15.50 per day at NP hospitals
Room, board and routine nursing services	Veterans Administration	\$17.50 per day at NP hospitals	\$15.50 per day at NP hospitals
Professional services	Veterans Administration	\$29 per day at GM&S and TB hospitals; \$14.50 per day at NP hospitals	\$25 per day at GM&S and TB hospitals; \$13.25 per day at NP hospitals
Routine drugs, medication and supplies	Veterans Administration	\$11 per day at GM&S and TB hospitals	\$8 per day at GM&S and TB hospitals
Medical care for foreign seamen and other non-beneficiaries	Health, Education, and Welfare	\$4 per day at GM&S and TB hospitals	\$2.50 per day at GM&S and TB hospitals
		\$45 per day	\$44 per day

Table 5 (Continued)

Activity	Agency	Current charge	Previous charge
Treatment of voluntary narcotic addict patients at Public Health Service hospitals.	Health, Education, and Welfare	\$12 per day	\$11 per day
Medical care for D.C. residents and prisoners at Saint Elizabeth's Hospital.	Health, Education, and Welfare	\$12.18 per day	\$10.43 per day
Rental of buildings and lands			
Lease of agricultural areas	Navy	\$165 to \$704 per acre per year	None
Lease of land	Interior	\$26.16 per acre	\$15 per acre
Rental of buildings	Navy	\$500 to \$3,001 per year	None
Rental of cabin sites	Interior	\$25 per site	\$15 per site
Rental of commercial space	Navy	\$1,968 per month	None
Rental of land	Air Force	\$3.33 per acre per month	\$80 per acre per month
Rental of equipment and vehicles			
Lease of electrical facilities	Interior	\$3 to \$248 per year	None
Lease of telephone lines	Air Force	\$2.50 per mile per month	None
Lease of utility poles	Navy	\$2.50 to \$2.75 per pole per year	None
Rental of reproduction equipment	Defense Supply Agency	\$6,000 per year	None
Rental of teletype and voice circuits	Defense Supply Agency	\$178,000 per year	None
Sale of products and publications			
Fill dirt	Tennessee Valley Authority	5¢ per cubic yard	None
Tree seeds	Tennessee Valley Authority	\$3.32 to \$9.20 per pound	\$2.76 to \$7.50 per pound
Agriculture preliminary report tapes	Commerce	\$60 and up per magnetic tape	None
Charts and maps	Navy	\$1 to \$25 per set	None
Transportation and special services			
Transportation via petroleum pipeline	Air Force	\$.63 per barrel	None
Tug boat usage	Navy	\$292.20 (avg.) per job	None
Installation of air conditioners: 220 volt unit	Federal Aviation Agency	\$70 each	None
110 volt unit		\$25 each	None
Sorting of mailing lists according to ZIP code	Post Office	\$1.50 per 1,000 addresses or fraction thereof	None
Security investigations	Atomic Energy Commission	\$480 each	\$430 each
Training programs for state and local government employees and officials	Treasury	\$8 per training day	None
Use of 3.5' hypersonic wind tunnel on company projects	National Aeronautics and Space Administration	\$20,000 per 40 hour week	None

a. GM&S—general medical and surgical; NP—neuropsychiatric; TB—tuberculosis.

Source: Executive Office of the President, User Charges—Progress Report—Fiscal Year 1966 (Washington, D.C.: Bureau of the Budget, May 1967), pp. 1-28.

Table 6
Percent Increase in Collections from Selected Items of Federal
Nontax Revenue
Fiscal 1957-1966

Revenue sources	Percent increase				Collections, 1966 (millions)
	1957- 1966	1963- 1966	1960- 1963	1957- 1960	
Fees and charges for services	253%	15%	25%	144%	\$127
Administrative, professional and judicial	480	70	89	80	29
Communication and transportation	100	40	25	14	14
Charges for products	59	34	-1	20	494
Timber and other natural land products	64	38	-14	38	223
Power and other utilities	75	28	16	18	241
Minerals, publications, other products and byproducts	-19	58	-21	-35	30
Fees for permits and licenses	114	4	77	16	105
Admission fees and permits	60	33	20	0	8
Business concessions	28	50	0	-14	9
Immigration, passport and consular fees	81	21	26	19	29
Patent and copyright fees	150	122	12	0	20
Registration and filing fees	600	75	100	100	14
Rents	226	-46	34	351	235
Rent on outer continental shelf lands and other real property	725	-50	NA	NA	198
Rent of equipment and other personal property	-23	-3	-26	6	37
Royalties	163	68	29	22	208
Sales of government property	144	259	-33	1	944
Sale of real property	419	-40	435	62	83
Sale of equipment and other personal property	132	590	-66	-2	862
Seigniorage and bullion charges	1,200	1,313	-22	18	650
Interest ^b	35	11	-21	54	847

a. Major divisions include items not shown separately.

b. Includes only interest on loans to government-owned enterprises, on domestic loans to individuals and private organizations, on foreign loans, and a small amount of miscellaneous collections. Does not include interest on trust funds (\$1,908 million in 1966) or Federal Reserve System deposits of earnings (\$1,713 million in 1966).

Source: Bureau of the Budget.

during the middle third of the decade. However, three sub-categories within this classification showed a steady upward trend throughout the decade: admission fees, business concession permits, and patent and copyright fees.

Rents, which increased 226 percent over the full decade, nonetheless have been declining steadily. In contrast, revenue from sale of government property,

increasing by 144 percent over the decade, increased by the largest percentage in the most recent third.

Seigniorage shows an extremely big increase primarily because, in order to forestall coin shortages, unusually large amounts of coins were minted in 1966. The 1966 receipts of \$650 million represent an increase of \$532 million over the prior year's receipts of \$118 million.

IV.

State and Local Nontax Revenues

Nontax revenue sources are particularly important at the state and local level. As observed earlier, a number of sources producing substantial amounts of revenue — notably education and hospitals — are confined almost entirely to the state and local level. This chapter will trace the use of nontax sources at the state and local level, with particular attention given to changes which have taken place in the components.

Growth of State Nontax Revenue

State current charges and miscellaneous revenue, which have increased by 167 percent over the period 1957-1966, appear to be increasing more rapidly as the decade moves along. Table 7 shows that these collections increased by 34 percent in the first third of the period, and by 12 percentage points more, or 46 percent, in the most recent third. Current charges for education increased the most rapidly of all state nontax revenues. Education charges went up by 232 percent, and increased very much more rapidly — from 39 percent in the first third to 62 percent in the last third — as the decade went by. It should be noted, moreover, that charges for education, representing 40 percent of nontax collections in 1966, comprise the most important segment of state current charges.

Another component of current charges, highways, increased by 172 percent, but Table 7 shows that most of the increase took place in the first third of the period and that the rate of increase

is probably dropping. Hospitals, which increased by 140 percent, show a pattern difficult to interpret, increasing the most rapidly in the middle third and the least in the most recent third of the period. Hospitals and highways together account for about one fifth of nontax collections.

Variations among States

Table 8 treats nontax collections as if they were more or less uniform from state to state. In actuality there exist rather sharp variations, both in total amounts collected and in the degree of reliance on each of the various types of charges. By examining these variations, it may be possible to determine influences associated with heavier or lesser use of the nontax revenue sources.

Table 8, which lists per capita amounts of collections for charges and miscellaneous general revenue for each of the states, indicates a considerable range at both state and local levels. State per capita collections for both charges and miscellaneous revenue ranged from a low of \$13 in Tennessee to a high of \$127 in Alaska, with a 50-state average of \$26. Current charges alone ranged from \$10 in Tennessee to \$72 in North Dakota; the 50-state average was \$18.

Table 8 also demonstrates that different states place widely varying emphasis on each type of charge. For instance, charges for higher education accounted for 85 percent of total charges in New

Mexico but only came to 22 percent in Massachusetts. Charges for highways account for 63 percent of all charges in New Jersey, but are not levied at all in 20 of the states. Hospital charges represent more than a fourth of total charges in Virginia, but none in Alaska.

Any number of factors might logically have some bearing on the absolute level of, or relative reliance on, charges and other nontax sources. Tax collections, total expenditures for specific functions, and personal income fall among the more obvious possibilities. However, scatter diagrams plotted for each of these factors and total nontax revenue, charges alone, and charges for specific

functions, in absolute, percentage, and per capita terms, failed to indicate any relationship which would make further analysis along these lines worthwhile.

The possibility then remained that the use of nontax revenues may be simply a matter of taste, the "individual" preference of a particular state. If so, mathematical proof would be out of the question, but regional similarities might be noticeable, if mapped. To explore the possibility of regional similarities, the states were ranked for a number of variables related to the use of nontax revenues, and then the highest and lowest quintiles plotted on outline maps of the United States. The resulting maps sug-

Table 7
Percent Change, Selected Items of State Nontax Revenue
Fiscal 1957-1966

Item	Percent change				Percent of total charges and miscellaneous revenue, 1966
	1957- 1966	1963- 1966	1960- 1963	1957- 1960	
Charges and miscellaneous revenue	167%	46%	36%	34%	100%
Current charges	191	46	38	44	70
Education	232	62	48	39	40
Highways	172	34	21	68	12
Hospitals	140	28	43	31	8
Natural resources	44	25	16	(a)	3
Other	218	29	34	83	7
Miscellaneous revenue	123	44	33	17	30
Sale of property	50	15	26	4	1
Interest	179	57	30	37	13
Fines and forfeits	88	38	32	3	1
Rents and royalties	66	23	49	- 9	8
Donations	210	60	16	67	5
Other	47	39	32	-20	2
Liquor store revenue	28	17	3	6	26
Taxes	102	33	23	24	-
License taxes	60	24	13	14	-

a. Less than 1 percent.

Source: Bureau of the Census.

Table 8
Per Capita Amounts of State and Local Charges and
Miscellaneous Revenue, by State
Fiscal 1966

State	Charges and miscel- laneous revenue		State current charges	Charges for function as percent of total current charges (state)		
	State	Local		Institutions of higher learning	Toll highways	Hospitals
Total	\$26	\$41	\$18	56%	16%	12%
Alabama	22	42	19	57	—	20
Alaska	127	54	47	23	29	—
Arizona	34	38	27	73	—	5
Arkansas	17	29	15	77	2	8
California	25	56	13	50	13	15
Colorado	39	46	32	80	2	14
Connecticut	29	26	22	25	51	12
Delaware	62	57	31	58	22	8
Florida	18	61	13	46	34	11
Georgia	17	48	12	68	—	5
Hawaii	60	31	41	23	—	5
Idaho	27	43	16	77	—	4
Illinois	17	38	13	53	27	12
Indiana	36	33	30	72	12	9
Iowa	29	42	23	76	—	15
Kansas	29	38	27	63	18	11
Kentucky	22	34	18	53	15	7
Louisiana	62	28	16	67	1	3
Maine	30	13	24	53	34	6
Maryland	26	37	21	41	35	15
Massachusetts	21	28	18	22	36	19
Michigan	31	48	24	77	3	13
Minnesota	38	49	25	70	—	14
Mississippi	24	37	22	61	3	11
Missouri	16	38	13	72	2	11
Montana	42	41	27	82	—	3
Nebraska	27	47	20	70	—	10
Nevada	26	77	19	40	—	3
New Hampshire	28	20	22	57	21	9
New Jersey	24	31	19	28	63	4
New Mexico	76	43	26	85	—	3
New York	23	50	18	23	29	12
North Carolina	22	27	17	76	—	14
North Dakota	88	43	72	32	—	3
Ohio	21	41	17	66	17	14
Oklahoma	43	39	34	64	13	5
Oregon	44	45	30	71	(a)	7
Pennsylvania	17	33	13	45	34	15
Rhode Island	19	18	15	51	9	18
South Carolina	22	25	20	46	—	8
South Dakota	44	25	34	60	—	2
Tennessee	13	37	10	74	—	13
Texas	28	41	13	74	4	14
Utah	41	29	31	75	—	14
Vermont	37	11	27	78	—	5
Virginia	28	28	22	48	17	26
Washington	38	65	25	61	23	9
West Virginia	23	29	18	60	16	15
Wisconsin	28	35	22	73	—	18
Wyoming	62	64	25	77	—	5

a. Less than 1 percent.

Source: Bureau of the Census.

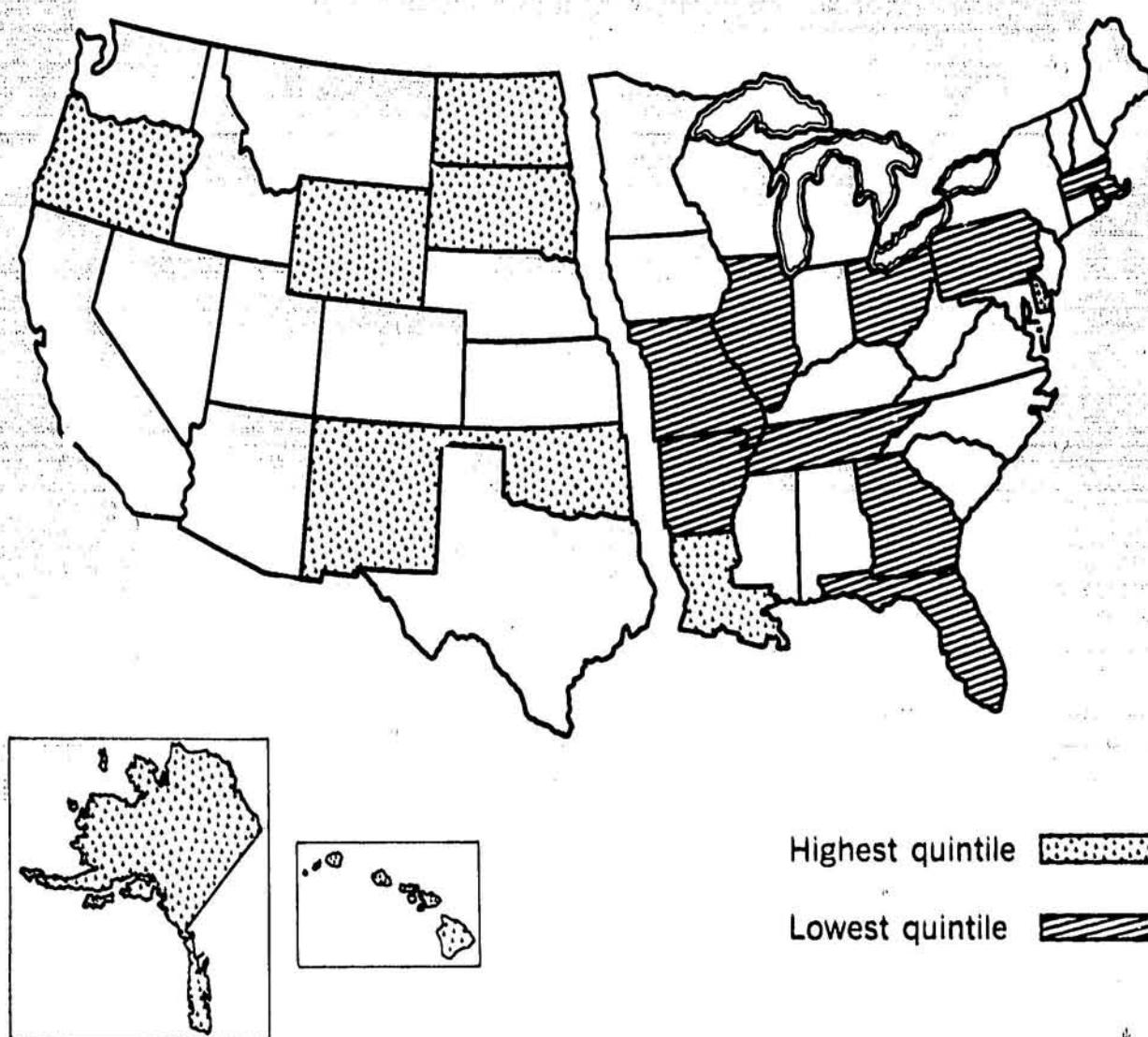
gested that in at least some dimensions, the use of nontax revenue may be related to a state's geographic position.

A glance at Chart 1 shows a sharp East-West division in the per capita level of charges and miscellaneous revenue, with all of the bottom quintile located east of the 95th meridian, and all but one of the topmost quintile west of the 90th meridian. Chart 2 indicates a similar geographic division when charges and miscellaneous revenue are

computed as a fraction of personal income. It is interesting, however, that no geographic pattern appeared when the map was plotted for charges and miscellaneous revenue as a percent of total general revenue (chart not shown).

Per capita charges for the three major functions — higher education, toll highways, and hospitals — also were plotted. Chart 3 shows the two quintiles fall roughly into an east-west division, but with more exceptions than in Charts 1

Chart 1
Per Capita Total Charges and Miscellaneous Revenue
Fiscal 1966



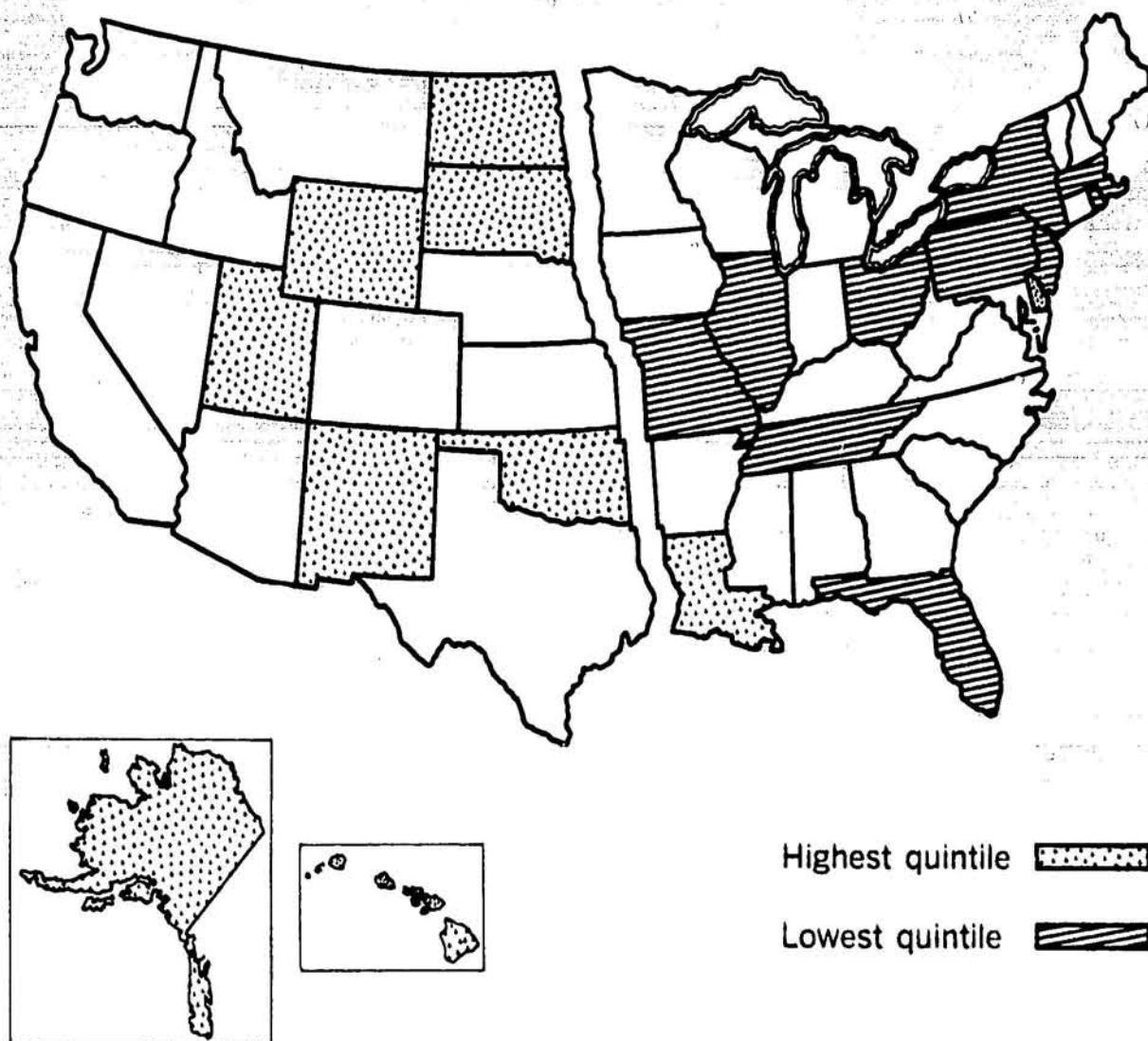
and 2. Per capita charges for toll highways also show geographic clustering, but in this case the highest quintile is found concentrated in the Northeast, with 20 states levying no charges (not shown). Charges for hospitals (not shown) followed no discernible geographic pattern.

Local Nontax Revenue

At the local level, current charges and miscellaneous revenue both increased by about the same percentage (131 and

125 percent) over the period of 1957-1966. However, Table 9 shows that the percent change in current charges was largest in the first third of the period and tapered off thereafter, while miscellaneous revenue reversed the pattern. Both major divisions of nontax revenue nonetheless increased throughout the period more rapidly than taxes; charges and miscellaneous revenue combined increased 129 percent over the ten year period, in contrast with an increase of 89 percent in local taxes. Only income

Chart 2
Charges and Miscellaneous Revenue per \$1,000 of Personal Income
Fiscal 1966



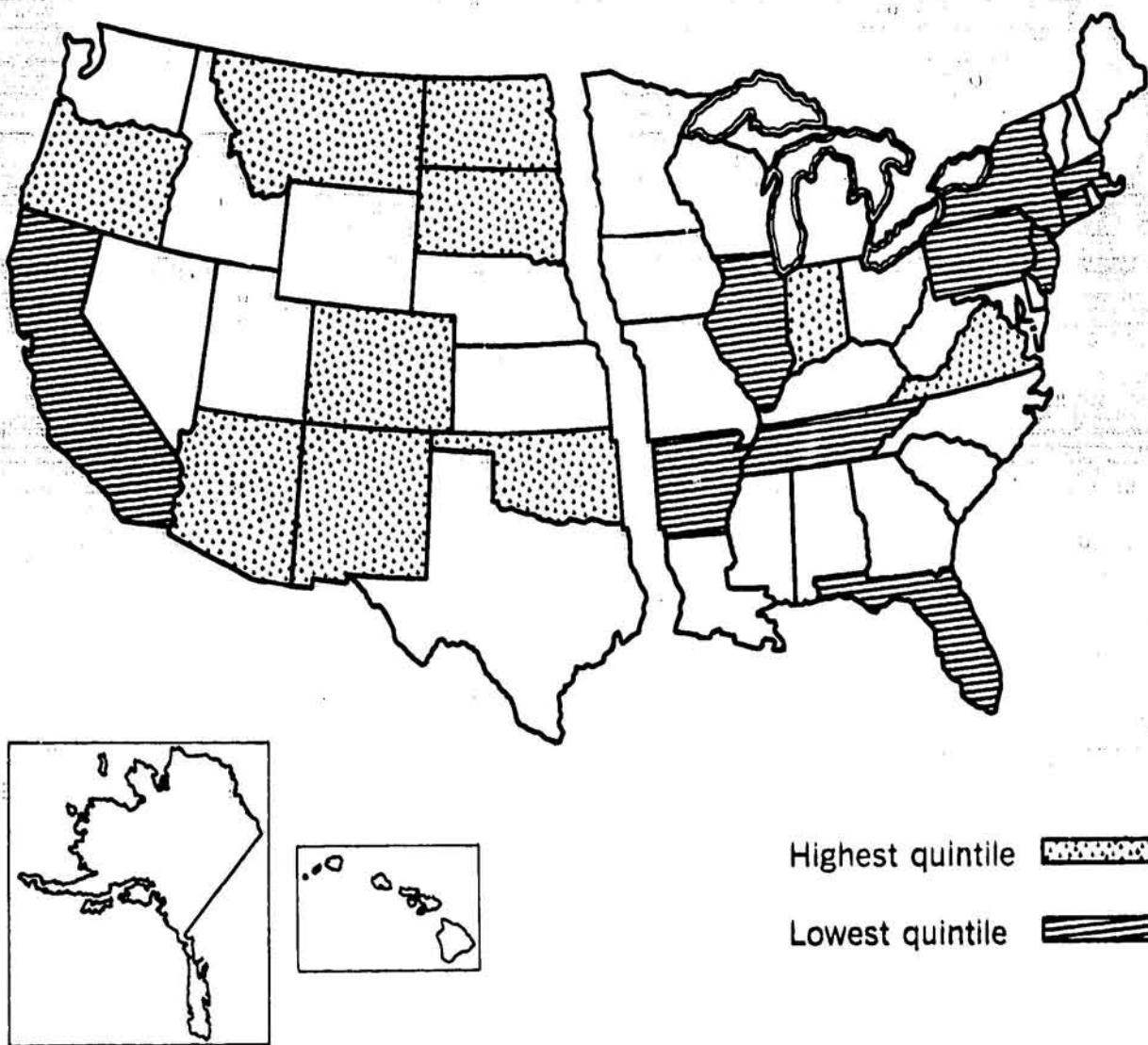
taxes increased by as large a percentage as nontax revenues.

Charges for some functions increased by large percentages. These include education (152 percent), hospitals (156 percent), sewerage and other sanitation (182 percent) and airports (207 percent). With the possible exception of hospitals, however, the increase in charges for these functions appears to be declining. It should be noted that hospitals represent a fairly important source

of receipts, accounting for 14 percent of total charges and miscellaneous revenue.

Two types of miscellaneous revenue increased by extremely large percentages: sale of property (264 percent) and interest earnings (296 percent). The former increased by a striking 193 percent in the first third of the period and then dropped to quite small percentages. Interest earnings show the largest percentage increase in the most recent third of the period, but exhibit a puzzling drop in the middle third.

Chart 3
Per Capita Charges for Higher Education
Fiscal 1966



Highest quintile

Lowest quintile

City Nontax Revenue

The largest cities also showed big increases in charges, though not nearly so large as the state increases, even allowing for the shorter time span. Unfortunately, patterns of change in the cities alone cannot be traced over so long a period as in the case of all types of local units as a group. City figures prior to 1960 cannot be compared with subsequent years, as a consequence of changes in the composition of the large-city group. On the basis of the two periods shown in Table 10, however, it would appear that the increase in city charges is slowing down. This general pattern of a decreasing rate of increase typifies

most of the specific services for which the cities impose charges, with the exception of highways and water transport. Nevertheless, the percentage increase generally exceeded the increase in collections for all taxes except income taxes in both periods shown in the table.

The search for factors related to the level of charges and miscellaneous revenue in the cities proved even more difficult and unrewarding than in the case of the states. Scatter diagrams and geographic plotting for variables similar to those considered for the states proved totally fruitless. The only meaningful variable at the city level appears to be city size, as indicated in Table 11. In

Table 9
Percent Change, Selected Items of Local Nontax Revenue
Fiscal 1957-1966

Item	Percent change				Percent of total charges and miscellaneous revenue, 1966
	1957-1966	1963-1966	1960-1963	1957-1960	
Charges and miscellaneous revenue	129%	26%	32%	38%	100%
Current charges	131	24	31	42	72
Education	152	33	31	45	20
Hospitals	156	34	25	52	14
Sewerage and other sanitation	182	25	50	51	10
Parks and recreation	111	31	28	26	2
Housing and urban renewal	69	1	33	25	6
Airports	207	24	54	61	3
Water transport and terminals	25	16	14	-6	2
Miscellaneous revenue	125	32	33	28	28
Special assessments	84	18	22	28	6
Sale of property	264	4	20	193	3
Interest earnings	296	85	26	70	9
Utility revenue	76	13	24	25	68
Taxes	89	23	23	25	-
Property	89	23	23	25	-
General sales	107	27	22	34	-
Income	130	51	23	24	-

Source: Bureau of the Census.

Table 10
Percent Change, Selected Items of City Nontax Revenue

**43 Largest Cities
Fiscal 1960-1966**

	Percent change			Percent of total charges and miscellaneous revenue, 1966
	1960- 1966	1963- 1966	1960- 1963	
Charges and miscellaneous revenue	47%	14%	30%	100%
Current charges				
Education	50	18	27	61
Highways	81	31	38	6
Hospitals	38	27	9	6
Sewerage and other sanitation	49	4	44	4
Parks and recreation	58	10	44	10
Housing and urban renewal	52	19	28	4
Airports	38	19	16	10
Water transport and terminals	109	26	66	7
Parking facilities	32	16	14	3
Misc. commercial activities	28	10	17	3
Other	— 2	— 6	4	1
Miscellaneous revenue	43	8	33	39
Special assessments	12	— 2	14	6
Sale of property	43	— 38	130	6
Fines and forfeits	46	17	24	9
Interest earnings	63	39	17	12
Utility revenue	25	19	6	94
Taxes	36	18	14	—
Property	30	15	13	—
General sales	32	11	19	—
Income	68	21	38	—

Source: Bureau of the Census.

general, the level of per capita charges is directly related to city size. For example, in fiscal 1966 per capita charges amounted to \$27 in cities with population of 1 million or more, but fell at the considerably lower figure of \$15 for municipalities with population less than 50,000. On the other hand, charges held a more important role in total city revenue in the smaller cities, accounting for 23 percent of general revenue from own

sources in the smallest municipalities but only 12 percent in the large metropolises.

Charges and Related Expenditures

Increases in receipts alone do not tell the full story, however. As indicated earlier in the discussion of trilevel receipts, the extent to which charges finance particular functions provides a valuable guide as to their importance.

Table 11
Current Charges, Per Capita and as Percent of General
Revenue from Own Sources, by City Size
Fiscal 1960 and 1966

City Size	Per capita charges		Charges as percent of general revenue from own sources	
	1966	1960	1966	1960
1 million or more	\$27	\$18	12%	11%
500,000 to 999,999	19	12	12	11
300,000 to 499,999	21	14	18	16
200,000 to 299,999	18	15	16	17
100,000 to 199,999	20	14	17	17
50,000 to 99,999	17	12	15	16
Less than 50,000	15	9	23	17
All municipalities	18	12	16	15

Source: Bureau of the Census.

Table 12 shows that in 1966 collections from charges amounted to about two thirds of associated expenditure in the case of non-highway transportation; about one third in the case of the four functions of institutions of higher education, hospitals, sewerage and other sanitation, and housing and urban re-

newal; from 11 to 15 percent for education in general, natural resources, and local parks and recreation. Except for housing and urban renewal and natural resources, these fractions represented increases in the reliance placed on charges, compared with the figures for 1957.

Table 12
State and Local Revenue from Selected Charges
as Percent of Direct Expenditures for Associated Function

Fiscal 1957 and 1966

Function	Charges as percent of expenditures		
	1957	1966	1966 minus 1957
Education	8.7%	11.1%	2.4%
Institutions of higher education	18.2	30.5	12.3
Hospitals	23.1	30.6	7.5
Sewerage and other sanitation	19.9	30.7	10.8
Local parks and recreation	14.2	14.7	0.5
Natural resources	14.5	12.7	- 1.8
Housing and urban renewal	58.3	32.5	- 25.8
Nonhighway transportation	47.9	64.4	16.5
Utilities	82.6	83.9	1.3
Liquor stores	126.6	125.0	- 1.6

Source: Bureau of the Census.

V.

Government Charges: Selected Economic Issues

Up to this point the implicit definition of a nontax revenue source has merely been that it is something which is not a tax, and the topic has been considered almost entirely from a revenue point of view. This chapter will attempt to take a closer look at the nature of nontax revenue sources: exactly how they differ from taxes, the reasoning behind their use, and how they can affect the economy.

With so heterogeneous a topic as nontax revenue sources, obviously not all ramifications can be covered in full detail, and the material which follows is necessarily selective. In general, the aim is to examine in some detail those facets of nontax revenue which might have common applicability to all three levels of government.

Nature of Nontax Revenue

Some nontax revenue sources present no problems of classification. No one would dispute that receipts from the sale of government property, or interest income, or royalties collected, are something other than a tax. In fact, most of the items traditionally listed under "miscellaneous general revenue" (as found, for example, in Table 3), offer clear cases of governmental receipts which would be quite difficult to confuse with a tax. Difficulty does arise in the cate-

gory of current charges, where the line between nontax and tax—especially the excise and license taxes—sometimes becomes extremely indistinct.

Fees, charges, and similar types of nontax revenue sources differ from taxes in two major ways: (1) the individual can exercise a considerable degree of *choice* as to whether to incur nontax liabilities, and (2) in return for payment he receives some *definite good or service*. People can avoid paying most types of taxes only by making drastic alterations in their life patterns. In contrast, many fees and charges involve areas of marginal importance to most people, or those in which commercial alternatives of slightly different quality or free government alternatives of lesser quality are available. For example, many people, feeling indifferent to the pleasures of outdoor living, easily and without deliberation avoid the fee for a camping permit in a national park. Public charges for higher education fall only on those who attend college, selecting a public institution rather than a private one. Highway tolls need not be paid if one is willing to use alternative routes which may take longer or provide less comfort, but nonetheless serve for reaching a destination. In each case, when the individual *chooses* to pay the specified fee, he receives *something definite* in return.

The line between tax and nontax revenue sometimes becomes very thin. For example, it can be contended that specific excise taxes may be avoided by abstention from certain types of consumption. But excise taxes fail the second part of the test; payment of the fee alone does not provide the payer with a definite "something" in return, unless one takes as a tangible good the privilege of spending yet more to buy the firearms, sugar, telephone call, or other taxed commodity. A more difficult problem of definition arises in the case of license taxes. Probably one could say that the voluntary element of license taxes does not loom very large. Still, an individual or firm does buy a definite privilege when he pays a license tax.

General Principles of User Charges

If people are willing to pay the government for some good or service, then one might contend that production of the item surely could be relegated to the private sector and in fact belongs there. Why, then, might a government engage in supplying anything but those public goods whose free provision benefits society generally? Why might government engage in quasi-business activities designed to serve various special and private ends?

Four major reasons underlie government provision of goods and services for a fee. These are: (1) the expectation of undesirable by-products if produced privately; (2) low profitability of the enterprise; (3) cost advantages related to joint products, one of which must be government provided; (4) tradition or historical accident.

Controlled-access tollroads provide an example of the application of the first

reason. While a private firm doubtless could construct and operate a similar highway, if it were governed primarily by a profit motive—as, indeed, would be its normal guide—then doubtless it could maximize returns by permitting billboards and assorted vendors along the course of the route. If most of the public considers such billboards and vendors socially or esthetically undesirable, then one way to avoid them lies in government construction and operation of the facility.¹ Charges, set at some level suitable for the recovery of costs, may closely approximate those which have been established by a private operator. There may or may not be an attempt to offset the loss of income resulting from the decision to exclude advertising and not commercialize use of the highway frontage.

Some urban renewal projects illustrate the case in which low profitability of the enterprise (in comparison to similar investment opportunities available to private firms) creates a situation in which the function probably would not be fulfilled unless government undertakes it.² Associated social gains may be expected. But they may not represent values for which a commercial builder can expect to be compensated. Because of such non-tangible benefits, the project may be attractive to the public body, even at a rate of monetary return lower than the market offers for somewhat similar activities of equal risk.

Economies related to joint products come into the picture when government, for reasons of public safety and the like, must maintain an inspection or regulation program. It can then happen that the capital equipment and personnel necessary for the inspection/regulation

1. Government regulation of the private firm's operation might provide another approach with similar product resulting.

2. Of course not all such projects fall into this category.