

the use of public services, or perhaps even to a local income tax. It is unlikely to be a deterrent to consumption of housing; that is, to the expenditure of consumer income for housing.

For the central cities, this is not the case. Central cities provide a wide variety of services and tax a wide variety of property types. Individuals cannot reasonably assume that the prices of housing confronting them include an identifiable tax component which is in effect a charge for a preferred package of public services. What they do observe is that housing is expensive in the central city. It may *not* be any more expensive in the central city than in the suburbs. But an effective city-rebuilding strategy requires that the central cities encourage more private expenditure for housing, and this may in turn require that housing be much cheaper in the central city than in the suburbs.

Moreover, the suburban nexus between taxes and public services is likely not to be present in the central city for yet another reason—inevitable more of the new central city housing will be rental housing, rather than owner occupied. Therefore, the taxes *per se* will not be apparent to the central city housing consumer—only the rentals, which reflect a tax component. And, making the comparison still worse, property taxes paid through rents are not deductible in computing Federal income tax liability, as are taxes on owner-occupied properties.

URBAN DEVELOPMENT AND LAND USE

The argument thus far is that the property tax does have one important class of effects on urban development and land use: by reducing consumer demand for housing in central cities, it tends to retard central city rebuilding and may very well make suburban areas appear relatively more attractive for households in a position to choose suburban residential locations as an alternative to central city locations.

There are two other classes of effects: (1) central cities versus suburbs in respect to nonresidential land use; and (2) the pattern of land use in outlying parts of metropolitan areas.

CENTRAL CITY ECONOMICS

There has been much discussion of the effects of taxes on the location of economic activity in recent years. Most analysts have come up with negative findings, to the effect that State-local tax differentials have little impact on location, largely because tax differentials are so small, relative to the differentials in other costs of doing business, especially labor and transport costs.

However, most such studies have been done on a statewide or inter-regional basis, using States or regions as the units of observation. Nontax costs do differ greatly among widely separated locations, so the usual findings are not surprising. But within a single metropolitan area, nontax cost factors are likely to differ only slightly; indeed, in some cases, local taxes may be the only costs of doing business which differ among alternative locations. An analysis of tax differentials for manufacturing in the New York area in the late 1950's indicated very